

CRITICAL ASPECTS IN MEASUREMENT OF THE INFORMAL ECONOMY – METHODOLOGICAL APPROACH OF THE PHENOMENON

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Due to the nature of hidden or informal economic activity there is a specific dilemma when choosing the suitable methods for the research of the phenomenon. Structuring methods is a difficult scientific process because the different research methods varies depending on the chosen operational definition. In this study we intend to synthesize existing methodological approaches. The measurement of the informal economy has become very popular among economists, so there are a number of studies aimed to size of the informal economy based on different economic models as well. Castells, Portes and Benton (1989) identify quantitative methods to be horizontal, covering quantitative estimation of the size of the actual production and informal employment, and qualitative methods to be vertical for identifying joints between formal and informal. The purpose of this paper is on one hand the identification and presentation of the methods and techniques used to measure the informal economy, on the other hand is the synthesis of Romanian literature on used research methodology.

Keywords: informal economy, formal economy, measurement of informal economy, methodological aspects

Introduction

In the case of the informal economy (often labeled as unmeasurable phenomenon), together with the many theoretical aspects there are also various methodological approaches as well. Structuring the methods is a hardship because using the different research methods varies depending on the chosen operational definition. In this study we intend to synthesize existing methodological approaches. According to the need of more precisely measurement of the informal economy, the phenomenon and the research methodology has become very popular among economists as well. Castells, Portes and Benton (1989: 2) identify quantitative methods to be *horizontal*, covering quantitative estimation of the size of the actual production and informal employment, and qualitative methods to be *vertical* for identifying joints between formal and informal spheres. This study aims to synthesize the most popular methods used in estimating the size of the informal economy, relying on Ékes (1993: 103-118), Mungiu-Pippidi, Ionita & Mândruță (2000), Albu (2003, 2008), Easton

(2001), Andrei Oancea, Stancu, and Jacob (2009), Andre and Stelian (2008), Andrei Stefanescu and Oancea (2010), Ene and Hurduc (2010), Buziernescu, Nanu and Spulbar (2009), Belyó (2008) Covaci (2007) Covaci-Voicu (2008) etc.

To measure invisible earnings several methods have been developed based on different international conceptions of course each of his weaknesses which we will present. A general problem is that by any method only part of the informal economy can be studied, measured, there is no "international recipe" available that we could get a clear picture of the phenomenon. The methods used vary by time and space of the research, in more developed societies more advanced results are obtained. In a more developed society informal business and processes become more easily recordable, can be traced more easily and in more ways (Ékes 1993: 103-104).

From a technical point of view Belyó (2008: 63) distinguishes three types of methods: direct approach (survey, analyzing the statements of income), indirect (analysis of national accounts, analyzing statistics labor market approach, transactional method, individual input methods) and models (structural equation models – SEM, multiple indicators multiple causes model – MIMIC, and the dynamic multiple indicators multiple causes model – DYMIMIC); Ékes (1993: 103-118) describes six basic methods that can have subgroups, various schemes can be designed based on their methodology. The seven-mentioned methods are: the method of questioning, analyzing labor market statistics, monetary method, household statistics, estimation method (guesstimation) analysis of national accounts, fiscal method.

Questionnaires and interviews

Is the most used method in research of informal income, usually combined with other methods (mostly qualitative). The posed questions concern on one hand on the existing of informal incomes realized by the research subject, on the other hand if there were bought or not informal goods or services, which could provide informal income for others. This method can be implemented by questioning by post, which provides impersonality for subject, or by direct questionnaires, allowing interaction with research subjects. There is no consensus among researchers regarding application of direct or indirect questionnaires, those researchers who use direct questioning disprove the negative effects of face to face contact.

Interviewing is also a good research method, which ensures qualitative information about the investigated phenomenon, but when focusing on a macro-synthesis, interviewing is a costly method. Questionnaires should be designed very carefully in the case of the two above mentioned subgroups (interviewed individuals and secondary informal groups) because of the sensitivity of these subject. Researchers have to take into consideration, that informal incomes will not be declared, even ensuring total anonymity, using this research method we will not have a clear picture about the

under-declared informal incomes, because of fear of sanctions by authorities. Questioned people will not declare income from tax evasion, bribery, gratuity etc. Those who pay for informal goods and services, providing informal incomes of others, will not declare the actual amount, not wanting to cause trouble to others, anyway the informal incomes and outputs do not appear in separate position in household spending (tip given in a month, etc.). In the questionnaire appear only amounts clearly defined as informal or undeclared income.

It is recommended, to use this method, on parallel research samples with the same structure, that provides data control for later. This method can provide macro conclusions, offers a screening about the statistical size of the phenomenon, and if is needed a more sophisticated analysis about the researched informal niche, it is recommended the combination of the research methods (Ékes 1993: 104 -105; Covaci, 2007: 537).

Labour market statistic analysis

Another quantitative method, assumes that the registered unemployment rate is not real, the registered unemployment is not a "true" unemployment. Much of registered unemployed will not engage on the formal labor market because the state aid and undeclared informal incomes offer a higher income than would provide a single job on the formal sphere. Hiring illegal labour force is advantageous for employers as well. Thus, the increasing of the unemployment percentage indirectly means the development of the hidden economy. Compliance percentage of employees to total population shows the capacity and development of the hidden economy. The weakness of the method consists in several evidences: disregards that not only unemployed or former formal employees are participating in the informal economy, there are many who along with their status as formal employee carries out its work and earn informal incomes, an agent of the informal economy was not necessarily a formal employee, could not have participated ever in the formal labor market. Thus, in the period of stagnation or even increase the percentage of formal employment, we can talk about growth, development of the informal economy because the unemployed are not the only source of labour force for the informal market (Ékes 1993: 105-107).

Linked to labor market statistics and in particular regarding to unemployment registration we have to mention some remarks. Unemployed individuals, as persons without a job who are seeking a workplace and are available for work, represent a category affected by economic changes in Romania. This as social category needs a rigorous identification. The process requires a statistical approach of the issue of unemployment (and a rigorous statistical definition). On the interantional level, but also in Romania, defining this economic category has sparked numerous approaches.

According to the Labour Yearbook of the United Nations, unemployment's definition is based on the Resolution concerning statistics of the economically active population, employment,

unemployment and under-employment; so the unemployed are people over a certain age, without working place, currently available for work and looking for a job. The statistical indicators, through unemployment can be described, are determined by certain statistical methods, using different specific data sources.

The statistics of the United Nations identifies four major sources of information: labour force surveys, official estimates, social security statistics and labour offices statistics. The process for obtaining data approved by the UN is the survey, because the effective of unemployed so appreciated respect the criteria of the International Labour Office.

In Romania, according to Law no. 76/2001 on the insurance system for unemployment and stimulating labour force employment, from 1st March 2002 "registered unemployed is the person who fulfills the following conditions:

Is looking for a job above the age of 16 years and until to fulfill the conditions for retirement

Healthy, physical and mental abilities make him to be able perform a work

No working place, no legal incomes, lower legal incomes than the value of the reference social indicator of unemployment insurance and employment stimulation in force

If it would find a job it would be available to start work in the next period

It is registered at the National Agency for Employment"

In official statistics the definition of unemployment is a more rigorously process, to ensure the determination of relative and absolute statistical indicators of unemployment, and to ensure international comparability. In Romania the effective number of unemployed is determined and made public in two versions: registered unemployed and so called ILO unemployed, respecting International Labour Office criteria (Roman, 1999). „So there are justified differences in concepts and definitions that are used for the two categories of unemployment rates, in the measurement methods of calculation. National Institute of Statistics (NIS) provides quarterly ILO unemployment data based on information collected by statistical survey of labor force (AMIGO). In this case the sample size is 112,320 households annually, which represents a global fraction of survey of approximately 1.55% (namely the share of households in total population of about 7,25 million in Romania). INS rate shall be in accordance with European Parliament Council Regulation on the organization of a statistical survey on employment/unemployment. So according to ILO and NIS, unemployed are aged between 15-74 years.

National Agency for Employment (NAE) is guided by 76/2002 law, according to this, unemployed are aged between 15-65 years in case of men, respectively 16-60 for women. ILO unemployed are out of work, without working place and without any kind of economic activity realized in order to get income. Instead of this concept, the NEA takes into consideration those individuals as

unemployed, which realize authorized activities with lower income than the unemployment benefit they would be entitled under the law. The data provided monthly by the NEA do not include people who are not registered at the employment agencies, or those who have completed the period in which they received a form of social protection and get out from the records of these agencies. "(NIS, 2011)¹

Of the two ways of approaching the number of unemployed - registered unemployed, BIM unemployed - registered unemployment has a wider recognition in Romania, which produces a paradoxical situation. The explanation is that the number of registered unemployed is determined and published monthly since 1990, which allows identification of seasonal variations or a dynamic analysis on a longer time horizon. ILO unemployed is determined quarterly and only since 1994. Roman (1999) raises the question: are these arguments sufficient to justify widespread use and importance given the indicator "number of registered unemployed"? The answer will formulate concrete after a wide quantitative analysis, a statistical description of the informal economy in Romania, which we will apply in a future study. In this case the analytical intention was to approach the methodological weaknesses of the conceptualization of unemployment.

Monetary method

The basic idea of this method is that the informal money market means cash flow, so the analyzed amount of money in circuit can draw conclusions on the extent of informal income. The weakness of this method is that it can be used only in those countries where monetary movement checks are carried out through bank transactions rather than cash. In addition many factors affect the relation of cash and other financial sources: the opportunity cost of money, the credibility of the banking system, the extent of urbanization, the volume of taxes, the extent of criminality, the institutional condition etc.

There is no indication that the informal economy transactions are based only on cash and no checks or credit cards etc. In many cases when there is a large informal transaction the money is "saved" in foreign accounts, where resumes again in the national circuit by bank deposits already "washed" so by this do not grow sums of cash found in circulation, or if they grow it does not show the reality. Informal payments through bank transactions, use of credit cards, checks, or bank deposits affect exact opposite the used variables and their coefficient. Income derived from informal economic activity change the variables so it may look as a decrease of the informal economy.

This negative aspect is valid in the case of the nominal method of money. In addition this method does not take into consideration economic growth and inflation, even if these processes due to the

¹ Interview with the President of the National Institute of Statistics on May 4th, 2011 for economic publication Fin.ro. <http://www.insse.ro/cms/files/noutati%20homeINS/Presedintele%20INS.htm>.

composition of the money found in circulation - on different notes - change. Due to inflation some banknotes are withdrawn, others are issued, so changing banknotes used in circuit or more does not show undoubtedly changes of the informal economy (Ekes 1993: 107-110).

Household statistics or control sample method

Generally in the case of this method we are talking about surveys realized in households able to declare costs and not incomes. This method operates with two identical samples of households in terms of occupations, income, property, residence, family size and composition. The first sample is centered only on the magnitude of expenditure and the other only on income. The difference between this method and the statistic is that the questions raised by this method cover all expenses and incomes of that household. The difference between declared income and expenses (including savings) shows the possible extent of the hidden economy.

The method is problematic, because collected data are not punctual, it is not guaranteed that those questioned spending will declare larger amounts than those questioned about income. And on spending tends to hide certain aspects, and it is also logical, because can be identified the total revenue expenditure. Personal expenses, which not all household members know, does not appear, other expenses are unsupported or social convicted nor those do not appear or do not appear on the actual amount etc. So if in the panel questioned about spending many households do not declare their real costs, it means that the difference between revenues and expenses will not be relevant on the size of informal income. The method could be functional, but exactly those activities and income cannot be identified and measured exactly, that would be relevant for the informal economy (bribe, tip, tax evasion, etc.) (Ékes, 1993: 110-111).

Estimation method (guestimation)

The first step in using this method would be to look at the economy in terms of income, namely the sectors where it might be possible hidden or informal income. The next step after identifying minimum and maximum income is averaging. It is difficult the likelihood estimation, about how those, receiving informal income, would be the percentage of the total income generating population. Therefore, having a standard measure to identify these people, apart from toddlers all the population appears as a potential beneficiary of informal income. And this percentage estimate is based on practical presumptive. By multiplying the estimated average and the estimated number of informal income generators can achieve the measure of different informal incomes.

By macroeconomic aggregation of these amounts we reach the estimated level of informal income in economy. The weakness of this method is the following: it is very difficult to appreciate the income generator spheres of the informal economy, because inventiveness is unlimited. The degree

of difficulty in identifying the absolute number of those who earn informal income, is very high. Estimates based on some “empirical situations” deviate from reality (Ékes, 1993:112). However, taking into account the weaknesses of the method, it can be used in the context of Romania in achieving macro-analyses that reflect the proportion of informal income in various economic spheres

Analysis of National Accounts

The method can be used in those states, where is calculated the deficiency residual of the GDP. The starting hypothesis is that informal incomes appear underestimated in calculating GDP, but these amounts are spent and appear in total national expenditure. There are differences between the total national income and expenditure, which refers to the size of the hidden economy. So the bigger the difference between those two amounts shows the higher proportion of the informal economy. This method can be used only in those statistical systems, which are calculating the residual deficiency. In many states, however, these shortcomings are “placed” in national statistics, “corrected” data resulting a balance between revenue and expenditure, so hidden economy does not appear in the statistics.

Participants in the informal economy, in the production of goods and services depend on each other, buying and selling goods and services to each other, these purchases remain undeclared (if an entrepreneur buys labor informally will not declare any cash offered, so get rid of taxes, also the entrepreneur will not declare the informally supplied goods, these will be converted into informal, invisible, unreported revenue). On the other hand there is a revenue side, which is extending the GDP as well, coming from the informal economy and becoming formal income through money laundering. These proceedings reduce the differences between national income and expenditure.

Regarding this method should be take into consideration that in the national accounts are more difficult to calculate costs for various reasons. The first estimates come from different taxing institutions, because expenses are calculated based on these data, so money spent on various goods and services, taxes, production etc. Differences between revenues and expenditures might reflect rather register the attitude of these institutions and not the size of the informal economy (Ékes, 1993:112-114).

The methodology of the National Institute of Statistics operates with definitions and international requirements in estimating the gray economy in the national accounts. Thus unobserved, economy includes all economic activities hidden from the statistical observation, including hidden, illegal, informal activities, and other activities missed due to deficiencies of primary data collection program. To establish the size of the underground economy it is necessary to define the conceptual framework illustrating the phenomenon discussed. According to the European System of Accounts

(ESA) production is defined as an activity in which inputs are used to produce outputs. Entries are represented by labor, capital, goods and services, and the outputs consist of goods and services. Economic analysis based on SEC production is limited to “economic output”, performed under the control and responsibility of institutional units².

Making estimates of unobserved economy aimed at improving the comprehensiveness of national accounts, so the quality of the provided data improves. A particular interest is given to research and developing country-specific methodologies. In this case, Eurostat adopted a general framework for the definition and estimation on non-completeness marked from N1 to N7:

N1: manufacturers who must register but they do not do it, to avoid taxes and obligations to pay social security contributions;

N2: not registered illegal producers;

N3: Producers who are not required to register as they do not have production for market; Specifically, these are non-market manufacturers involved in the production of goods for consumption (households)

N4: registered legal entities which are not included in the statistics (eg. the register system of the companies is out of date or updating procedures are not adequate);

N5: Registered entrepreneurs not included in the statistics (eg. administrative source with lists of registered entrepreneurs does not provide the statistical offices the updated lists in full form);

N6: misreporting of the manufacturer (eg. under-reporting the achieved gross output or over-reporting the intermediate consumption in order to avoid (or reduce) the payable tax on income, added value tax or social security contributions);

N7: Statistical deficiencies in the data; exp. data that are incomplete or not collected cannot be collected directly; also are included incorrectly handled, processed or collected data, by statisticians.

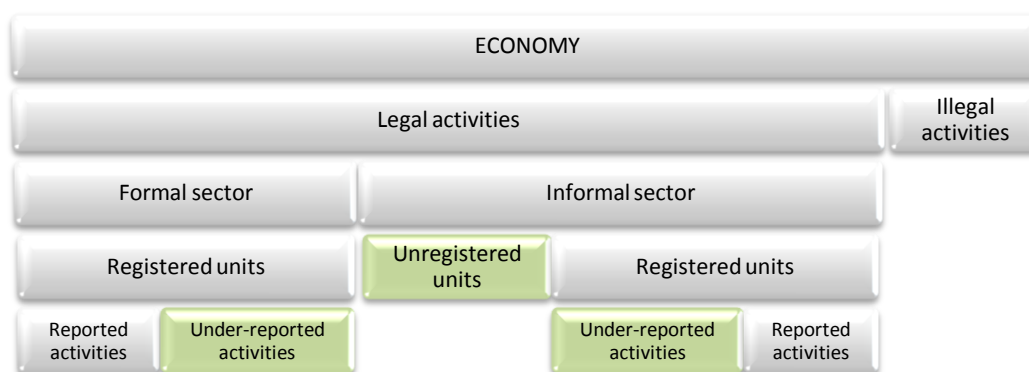
² NIS is operating with the forthcoming definitions: *Hidden economy* activities are carried out legally, but are purposely hidden from public authorities for various reasons such as nonpayment of taxes and social security contributions; avoid administrative procedures, such as completing statistical forms or other administrative action. (Hidden economy consists of: all activities hidden intentionally in order to reduce production costs, disregarding administrative standards, that is hidden from economically point of view and those activities which are not registered due to deficiency in the statistical system.) *Illegal production* includes the production of goods and services whose sale, distribution or possession is prohibited by law and production activities which are usually legal but become illegal when their implementation was carried out by unauthorized producers (ie. Unlicensed doctors). The most important illegal activities are the production and trade in drugs, prostitution, and production of pornography, gambling unlicensed production and trade on copying movies, cassettes, books and software without paying royalties, smuggling, embezzlement, bribery and extortion. For practical reasons and shortage of data, it is not typically included in the estimation of national accounts. *The informal sector* includes, as defined by the International Labour Organization, production units with a low level of organization, with little capital or labor-capital relations and demarcation, work mostly based on kinship, relationships and less on formal contracts. These units are part of the household sector. The owners of these establishments are entirely responsible for all financial and non-financial obligations imposed by the production process. If the activity of these units is intentionally hidden, in economic terms they fall within the hidden economy. (www.insse.ro)

The methods used to estimate the gray economy in the Romanian statistics take into account existing data sources and estimation practice on unnoticed part of the economy. The methods used by the National Institute of Statistics have been improved year by year according to available new data sources. Since 1996 there is stability in data sources, the methodology allows comparability of data. The estimation of the gray economy, aimed at improving the comprehensiveness of national accounts in Romania, is reflected in the GDP assessment by three methods: production, expenditure and income approach. Production, primary income and expenditure directly observable phenomena are related to the following:

- The absence of economically active units from recorded statistics;
- Evasion of taxes and / or social security contributions;
- Evasion of the obligation to submit information to the tax and social authorities.

The estimation of gray economy in Romania is done both by industrial and institutional sector. Economic aggregates of all branches of activity are adjusted to improve completeness. Among institutional sectors, only non-financial corporation's sector and the household sector are affected by the adjustments. Regarding the government sector, it is considered that, by definition it is comprehensively covered by the data sources. For the financial corporation's sector and non-profit institutions serving households data sources are entirely administrative, namely the consolidated financial statements considered exhaustive. To date no adjustments were made for completeness illegal economy, due to lack of harmonized methodology and volatile data sources. The described coverage of the gray economy can be observed on Figure 1. due to the methodology taken from the INS.

Figure 1. Unobserved economy in national accounts in Romania



Note: green boxes represent unobserved economy in the national accounts

Source:

<http://www.insse.ro/cms/files/aplicatie/Metodologii%20CAM/Conturi/EC.ASC.%20in%20RO.pdf>
accessed on 09.06.2011

Fiscal method

The method is similar to the above presented: starting premise is that those who earn income, partly hide them from fiscal authorities. Thus the declared income will be lower than the total national income calculated based on national input-output accounts. This difference between income calculated on the basis of national accounts and the data declared by institutions shows the hidden income. This method can be used in those states, where actors of economy must declare any income, but for this reason appears the problematic dimension of the method because data for calculating national income are coming precisely from these charging and taxation institutions, so in theory there is no difference between these two statistics (Ékes, 1993:114).

Electricity consumption method

The method was developed by Kaufman and Kaliberda³ and aims to estimate the hidden economy in relation to national energy consumption compared to the growth rate of GDP. This method compares the growth of electricity consumption and GDP growth. This can determine the difference between the estimated growth from electricity consumption and real GDP growth. According to researchers estimated growth deviation to real GDP growth is actually black economy. The surplus production that can be justified by energy consumption takes place in the informal economy, therefore do not appear in the national accounts and are not reflected in the calculation of GDP. The method has been criticized because electricity consumption differs from many other factors that were not taken into account (structural changes in a country's economy, affecting production).

This problem was corrected by Lackó (2000), by the method of electricity consumption of households. By this method the author has estimated the size of the informal economy in transition countries. (Lackó's skepticism toward Kaufman's and Kaliberda's calculations come precisely from the fact that they have not experienced an increase of the informal economy precisely in countries like Romania, with all that in other transition countries was a significant increase). The results of this method reflect production in households and all the production and unregistered service that

³ Source: http://gazdasagkifeherites.uni-corvinus.hu/index.php/SC_-_A_h%C3%A1ztart%C3%A1si_%C3%A1ramfogyaszt%C3%A1son_alapul%C3%B3_becs%C3%A9si_m%C3%B3dszer accessed on 09.06.2011.

requires electricity. Such analysis does not take into consideration those activities and incomes which not consume electricity (tip, bribery, smuggling). Also the author mentions that it was supposed that in those countries where the informal economy linked to electricity consumption is significant, perhaps the other activities of the hidden / black economy acquire significant size as well.

The premise of the model is that in every country part of household electricity consumption (in individual households) is used in the informal economy. It therefore considers that the electricity consumed by households in a given country is determined not only by obvious causes such as population size, standard of living, the geographical location of the country, the relative price of electricity or access to other sources of energy, but also depends on the extent of underground economy. On the other hand a significant percentage of unregistered businesses operating in the households, obtains income from there indirectly.

In this model economy is represented by three variables: the percentage of taxes in gross national product, the ratio between the active and inactive population, and social public expenditure in relation to gross national product. The first two variables represent obvious relations: the higher this percentage is, the greater is the amount of underground economy. A high level of taxes causes more economic activities to move to informal/underground sphere, high levels of inactive population leads to a larger supply on informal labor market economy. Regarding the third indicator, since it is bigger state shall take action to collect taxes, which will reduce the size of the informal economy.

The model has three parts. The first part is estimating electricity consumption in households. Among the variables of the model appears the size of the hidden economy per capita, which is expected with a separate model. Model variables to estimate the size of the hidden economy is read as follows:

Increasing taxes affecting labor, stimulates black labor market

Increasing taxes affecting capital, influences the decision whether to start a business in the formal or informal economy

Explanatory variable “output decline after 1989” market economies in transition countries justifies hidden production, which is not reflected in the official GDP

Inflation: in periods of economic downturn the inflation rate is also an important factor in purchasing decisions of households, because in the context of living conditions exacerbated by inflation, cheaper goods produced in the hidden economy are becoming attractive

Public expenditure has double impact on the hidden economy: the exclusionary effect increase the size of the black economy; increased public spending allow greater expense to the monitoring, preventing individuals to participate in the black economy

In the next step the author states that the hidden economy rate per capita affects electricity consumption of the population. The result is divided by the total electricity consumption of the population, so, it can be calculated the contribution of the hidden economy to the increase of total consumption. In the last step by relying on the method of Frey and Weck (in Lackó, 2000), the author choose a basis country, for which, using previous research findings, determine the share of black economy of that country's GDP. This black economy/GDP index is divided by the percentage of the electricity consumption of households in the black economy (consumption of electricity in the informal economy/consumption of electricity total population). This is the base index. By multiplying the indexes of electricity consumption in each country with the base index we will find the percentage of hidden economy in GDP (Lackó, 2000:126).

Informal economy approach by models

All the methods described so far are designed to estimate the size and development of the informal economy, considering only one indicator, which should capture all the effects of the informal economy. It is obvious, however, that such effects occur simultaneously in production, employment, money markets. An important criticism is that the causes that determine the size of the informal economy are taken into account only those who link to the monetary approach (Schneider, 2002).

Structural equation models (SEM) take into account the multiple causes that determine the appearance and expansion of the informal economy and its multiple effects over time. Such models, based on the statistical theory of unobserved variables, are composed of two parts linking unobserved variables (latent) with manifest indicators. This type of modeling has been used in almost all social sciences, from sociology to economics and marketing. One of the pioneers of these models is Goldberger (in Macias & Cazzavillan, 2008).

A special case of structural equation models is the Multiple Indicator Multiple Causes Model (MIMIC). Frey and Weck-Hannemann⁴ (in Macias & Cazzavillan, 2008) were the first who applied in estimating the MIMIC-model in estimation of the informal economy. This model considers the size of the hidden economy a latent variable, connected on the one hand, to the number of observable indicators (reflecting changes in the size of the informal economy) and on the

⁴Frey, B. – Weck-Hanneman, H (1984) *The Hidden Economy as an Unobservable variable* European Economic Review, 26(1), pp. 33-53.

other hand, to a set of observable causal variables that are considered determinants of unreported economic activity.

The latter therefore requires the existence of a set of conditions and a set of indicators that are influenced by the size of the underground economy, their reliance being used to predict future changes in the size of the underground economy. The explanatory variables (causes) are: fiscal targets/GDP; individuals taxes/GDP; taxes on production and imports/GDP; corporate income tax/GDP; contributions to social security schemes/GDP; unemployment insurance/GDP; unemployment rate; self-employment/civil active population; bureaucracy index. The indicators are: real gross domestic product index; the rate of active population; M1/M2 - the growth rate of money supply in circulation. The identification procedure starts with the general model specification and continues eliminating the variables that were not significant parameters of statistical terms.

The Dynamic multiple-indicators multiple-causes model (DYMIMIC) is a dynamic version of the MIMIC model, considering multiple causes, determining the appearance and expansion of the informal economy and its multiple effects in time. The method is based on the statistical theory of unobserved variables, having two parts which interconnect unobserved variables with observable indicators. In this case the only unobserved variable is the size of the informal economy. The method involves a series of causes and a set of indicators that are influenced by the size of the informal economy, overcoming structural dependence of underground economy on these variables, this dependence is used for forecasting future changes in the underground economy. (Buziernescu, Nanu, & Spulbar, 2009), (Schneider, 2002), (Schneider & Klinglmair, 2004)

Conclusions

With this short review of possible methods using in the estimation of the size of the informal economy the goal was to underline the importance of the methodological approach in the case of this concept. In an earlier study we discussed about the obstacles regarding the conceptualization of the informal economy. As many conceptual barriers and questions as many methodological answers can we found in the literature. The presented methodological framework is not exhaustive, talking about the size of the informal economy, the presentation was focusing on screening the statistical or quasi statistical methods, and to underline the methodological discrepancies in statistical data recording and measurement problems of this economical phenomenon in an international and national context.

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