



You are cordially invited to

UCLouvain Economics Seminar

On Thursday February 22, 2018, from 12:45 to 14:00
Doyen 22, Place des Doyens, 1

Harris Dellas
(University of Bern)

Will give a presentation on
Fiscal Policy with an Informal Sector

Abstract

Macroeconomic models that omit the shadow economy systematically mis-forecast and mis-measure the effect of fiscal - in particular tax - policy on economic activity and tax revenue. We add an informal sector to the Bank of Greece DSGE model and use the actual package of fiscal consolidation implemented in Greece over the period 2010-2015 to evaluate the role of the black economy. In the data, official Greek GDP declined by about 26%, budget deficits proved larger and more persistent and tax rates increased by much more and tax revenue by much less than predicted. The model replicates the official output decline but implies a true output decline that is less than two thirds of that in recorded output. The discrepancy is even more pronounced for employment. The model also implies that the size of fiscal adjustment and the drop in economic activity could have been considerably milder had the informal sector been curtailed (it instead increased by about 50%). The underground economy seems to have been a key factor in Greece's failure to achieve orderly debt consolidation while avoiding economic depression.

Information:

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