

Drugs and GDP: the Challenge of Measuring the Shadow Economy

By: Josh Zumbrun – Wall Street Journal, January, 2014

New methods of measuring economies sometimes raise eyebrows. Even more so when they involve drugs.

[The U.K. could add](#) as much as \$7.4 billion to the value of its GDP by including illegal drugs, by one estimate, enough to boost the size of its economy by 0.5%. Not to be outdone, Italy will include smuggling drugs. Both changes will begin later this year.

Other nations in Europe are also poised to fall in line with a European Union call to standardize and broaden GDPs. The EU is following a "best practices" directive laid out in 2008 by the United Nations.

Some economists question the merits—and methods—of measuring the shadows. Criminals go to great lengths to hide transactions usually conducted in hard-to-trace cash. Because the activity is beyond the easy reach of tax authorities, it isn't something that can bring in revenue to help a nation pay off its debts. All of which complicates measurement.

Claus Vistensen, chief euro-zone economist for Pantheon Macroeconomics, says there is "a trade-off between taking in as much information as you can, and accuracy." Weighing the underground economy, he says, could end up making GDP measures "less accurate."

The argument in favor is simple enough. If drug sales aren't counted in a place where people spend half their income on drugs, one could conclude, wrongly, that the population saved half its money.

The overall changes from adding illicit activity may prove small, as that is just one component of the statistical revisions sweeping Europe. The U.K., for example, has altered how it will measure nonprofit groups, a shift that will boost its GDP more than the drugs.

Some European countries have extra incentives to inflate the size of their economies. In addition to bragging rights, a higher GDP helps keep a nation's debt and deficits within the EU's prescribed targets.

If a nation's deficit must remain below 3% of GDP, a profligate government would want the largest possible estimate of GDP. For others, a higher GDP may end up costing governments more. The 28-nation bloc uses measures of GDP to determine how much each country contributes to the EU's collective budget.

The Bureau of Economic Analysis, which calculates U.S. GDP, has "no plans for now to include spending on illicit activities," according to spokeswoman Jeannine Aversa. U.S. GDP would expand by about 3% if all the changes being made in Europe were adopted, according to Eurostat estimates.

Seeking A Boost: Italy To Include Cocaine Sales In GDP Numbers

NPR - May 23rd, 2014

Faced with a weak economy and a need to improve Italy's debt ratio, Prime Minister Matteo Renzi's government will include illegal drug sales and prostitution when it figures the country's gross domestic product.

That's according to a report from Bloomberg News, which says:

"Renzi, 39, is committed to narrowing Italy's deficit to 2.6 percent of GDP this year, a task that's easier if output is boosted by portions of the underground economy that previously went uncounted. Four recessions in the last 13 years left Italy's GDP at 1.56 trillion euros (\$2.13 trillion) last year, 2 percent lower than in 2001 after adjusting for inflation."

A government spokesman wouldn't comment on the new plan, Bloomberg says.

Italian newspaper [Il Giornale](#) says the new GDP statistics will also include sales from smuggling alcohol and cigarettes. To derive the value of this shadow economy, the government will use estimates that are in line with rules set by Eurostat, the EU agency that [issues guidelines](#) on activities that are "economically productive."

Illegal Sex And Drugs Pay Off For Britain

December 26th, 2014

Normally we wouldn't give much thought to the fact that Britain has surpassed France as the world's fifth-largest economy. But this story caught our attention: It was the *way* in which Britain snagged the higher spot.

The amount that Britains spend on prostitutes and illegal drugs has boosted the country in the rankings, according to the independent forecasting group, the [Centre for Economics and Business Research](#). As a result of the new calculations — it is the first year the U.K. has included the figures — Britain's GDP rose to \$2.82 trillion in 2014, up from \$2.53 trillion the previous year.

France currently does not include the economic benefits of sex work and drug dealing in its calculations. If it did, it might have held on to its coveted 5th place standing, the Centre's report noted.

Britain decided to include the seedy side of its economic growth after the European Union changed accounting rules last September. Accountants, however, stress that it's mostly smoke and mirrors.

Eric Dubois, director of France's statistics office, the INSEE, told [the Telegraph newspaper](#) that such commercial activities were not voluntary, and therefore it will not comply with the new EU rules. He said that prostitution was the result of "Mafia networks and trafficking illegal immigrants."