

**Analyzing the Distribution of Income:
How to Account for the Underground Economy in the Household Income Micro Datasets**

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The report of the Commission on the Measurement of Economic Performance and Social Progress emphasised the importance of focusing on the household perspective (recommendation 2) and at the same time stressed the importance of giving prominence to the analysis of distribution of income, consumption and wealth (recommendation 2). In statistically developed countries information on households economic behaviour is provided by several data sources. Two main categories may be distinguished. On the one hand National accounts (NA) describe the economic performance of households from a macro perspective allowing economists to understand relationships between income, consumption and saving within a consistent and integrated framework. NA can only give account about average movement. This is particularly limiting for the analysis of income distribution especially during times of crises, when it is important to identify the most vulnerable groups of people. On the other hand, sample surveys on households provide insight on the economic behavior of single families but are not able to capture all the income components estimated by NA. In Italy, household income surveys fit well to NA for what concerns wages and salaries, household gross operating surplus and retirement income. On the contrary, surveys fall short comparing with mixed and property income. The main reason is that interviewed people under-report (or not report at all) the amount of earned income exactly as they do with fiscal authority. Not taking into account the underground economy can heavily affect the income distribution analysis, considering that in Italy underground economy accounts for about 17-18% of GDP.

The aim of this paper is to try to introduce the underground economy into the household income micro dataset, using the NA as benchmark. The results of this research would allow to analyse underground economy not only according to the characteristics of the enterprise (which is the point of view of Italian national accounts estimation procedure), but also by type of households and its impact on household income distribution.