

# The Cost of Informality: A structural barrier to growth — France

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Sources: Medina & Schneider (IMF, 2018); World Economics QIES; national statistical agencies.

## 1 The Issue

France operates one of the most expansive welfare states in the OECD, with public expenditure exceeding 57% of GDP. This creates both the motive and the means for informal economic activity: high payroll taxes, complex regulatory requirements, and a large VAT burden push a meaningful share of economic activity off the books — particularly in labor-intensive sectors and among self-employed workers.

France's informal economy is estimated at approximately 13% of official GDP, representing roughly 498 billion EUR in unrecorded economic output. While modest by global standards, this figure is significant in absolute terms given the size of the French economy. It also carries a specific fiscal consequence: France's general government deficit reached 5.4% of GDP in 2024, above the EU's 3% ceiling, partly driven by a structural shortfall in tax revenues.

The French shadow economy has proven resilient despite decades of policy effort. INSEE estimates place non-observed economic activity (NOE) within a range of 4–14% of GDP depending on methodology; academic estimates using IMF MIMIC models converge around 11–13%. Key sectors include construction, household services, catering, and the gig economy — where the line between formal and informal work is increasingly blurred.

## 2 Key data by sector

Sector / Indicator	Estimated Rate	Key Impact
Construction & renovation	~15–20%	Undeclared labor; VAT fraud
Household services (cleaning, care)	~20–25%	Wages paid in cash; no contributions
Catering & food services	~10–15%	Cash revenues underreported
Domestic & personal services	~70%	Gender-disproportionate; largely women
Gig economy & freelance	~8–12%	Misclassification; incomplete declaration
Agriculture (seasonal)	~10%	Undeclared seasonal workers

Table 1: Informality by Sector in France

### 3 Comparative Context

Informality is not unique to any single country, but its scale, drivers, and costs differ significantly. The table below places this brief in the context of CERI's three founding member countries.

Country	Informal Economy (% GDP)	Informal Workforce (%)	Est. Annual Tax Gap
Colombia	~36%	~58%	~\$10–14B USD
France	~13%	~11%	~\$80–100B EUR
USA	~7%	~7%	~\$600B+ USD

Table 2: Informality and Tax Gap: Cross-Country Comparison

### 4 Why it matters

The fiscal cost of France's shadow economy is direct and measurable. The estimated annual tax gap of 80–100 billion EUR represents foregone revenues that constrain the government's capacity to sustain its social model without deficit financing. France's fiscal position is under pressure: with public debt exceeding 110% of GDP and a deficit above EU limits, every percentage point of informality has compounding consequences for fiscal sustainability.

Beyond fiscal impacts, informality in France creates a competitive distortion. Formal businesses operating under full tax, labor, and regulatory compliance are structurally disadvantaged relative to informal competitors, particularly in labor-intensive sectors. This undermines investment, wage growth, and the long-term health of formal labor markets. France also illustrates a key principle: informality is not exclusively a developing-country problem — it persists even within advanced economies under conditions of high regulatory burden.

## 5 Policy Recommendations

- **Introduce Sector-Specific Compliance Pacts:** In construction and household services, offer simplified declaration pathways in exchange for reduced audit exposure, creating an accessible formalization channel for employers and workers operating at the margins of compliance.
- **Complete and Accelerate Mandatory E-Invoicing:** France's phased mandatory e-invoicing rollout is already underway; the priority is ensuring full implementation extends to micro-enterprises without administrative exemptions, specifically to reduce cash-based under-reporting in hospitality and services.
- **Expand and Simplify the Auto-Entrepreneur Regime:** Reduce administrative barriers within the micro-entrepreneur regime to capture gig and freelance workers currently operating informally. Simplification of registration, declaration, and contribution processes is the primary lever.
- **Strengthen Cross-Agency Data Matching Between DGFIP and URSSAF:** Increase systematic data matching between tax and social contribution authorities to identify undeclared employment in high-risk sectors, including construction, hospitality, and domestic services.
- **Pursue EU-Level Coordination on Cross-Border Informality:** Engage at the EU level to address cross-border informality among seasonal agricultural workers and digital platform workers operating across member states, where national enforcement alone is structurally insufficient.

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