Index

Act on the Contractor’s Obligations and Liability when Work is Contracted Out 174, 175, 176, 180
active briefing of partners 161, 163
Africa 55, 139
age
firm age 80, 87
self-employed people 96, 99–109
Ahumada, H. 181
Algina, J. 39
alliances to counter corruption 160, 162, 163
Allingham, M. 204, 207–9
allocation of budget to work with authorities 160, 161, 163, 166
Alm, J. 211
amnesties 208, 210, 216
Amorós, J.E. 13
annual surveys of entrepreneurs 3, 60, 61–3
anti-corruption strategies 160–66
Apressyan, R.G. 151
area of residence 98, 99–109
Armenia 184, 185, 193–6, 197
Asea, P . 25
attitudes 79, 80–81
Australia 217
awareness-raising campaigns 208, 212–13, 216
Azerbaijan 184, 193–6
B2B business model 156–7, 166
‘bad equilibrium’ 1, 5
bailiffs 141
Baltic countries 3, 60–88, 169–70, 173, 179–80
attitudes 79, 80–81
determinants of shadow activity 78–80, 87–8
Shadow Economy Index 68–76
survey of entrepreneurs 3, 60, 61–3
Banerjee, A.V. 24
Bastrykin, A. 141
Baumol, W.J. 11, 119
beliefs 208, 211–13
benchmarking procedures 40–41, 46–7
beneficial impacts of shadow entrepreneurship 202–6
benevolent indifference approach 26
bills, difficulties in paying 97, 99–109
Black Economy – Black Future campaign 169, 179
Boettke, P. 24
Bollen, K.A. 38
bonuses 153–5
Box–Cox transformation 15
Braithwaite, V. 217
Brazil 197
breeding ground for the micro-enterprise system 202, 203, 205
Breusch, T. 40
bribery 75, 76, 77; see also corruption
Brill, L. 94
Buehn, A. 193
‘buffer’ strategy 161, 163, 166
business failure 145
business freedom 32, 41–6
business income, unreported, see unreported business income
business legislation, satisfaction with 79
business model 156–7, 166
capitalist exploitation 92
cash transactions 176, 180
cash wages, see off-the-books wages
Cassar, A. 39–40
Entrepreneurship and the shadow economy

Caucasus and Central Asia (CCA) 5–6, 184–98
- conceptual framework 185–6
- data 187–90
- empirical methodology 186–7
- model estimation results 190–92
- policy recommendations 196–7
- size of the informal economy 185, 193–6

Central Asia 41–4, 45; see also
- Caucasus and Central Asia (CCA)
- centralized collective bargaining 188–9
- charity donations 212
- children 97, 99–109
- Chung, J. 213

Cities
- corrupt governance 131
- types of and firm location 156–7, 166
- class, social 96–7, 99–109
- codes of corporate behaviour 160, 161, 163
- collective bargaining, centralized 188–9
- company funds’ use for personal gain 154, 155, 156–7, 158–9
- compliance 214, 218
- deterrence approach to non-compliance 207–9
- simplification of 208, 210
- voluntary and enforced 218–19
- confirmatory factor analysis 35, 40
- conscription 189
- construction sector
  - Baltic countries 76, 78, 80, 82, 84
  - Finland 172, 175, 176, 180–81
  - Russia 134, 135, 136–7, 146
- consumption goods retail 136
- context dependency 124–6
- contract value, and bribery 75, 76, 77
- contractors 139–40, 143, 146
- core and periphery workers 132–3, 143–4
- corruption
  - bribery in the Baltic countries 75, 76, 77
  - control of 189
  - Russia 131, 137–42
  - Ukraine 151, 153–66
- courts, use of 162, 163
- covariance matrices 37–8

Coyne, C. 24
- criminal activity 63, 86, 90, 121, 137–8
- Cristi, O. 13
- currency
  - depreciation 143
  - held outside depository corporations 190–92, 196
- MIMIC approach 33, 41–6
- currency demand approach 170
- customers
  - impact of shadow entrepreneurship on 203, 206
  - relations to in Russia 134–7
  - customs officials 137–8

De Beer, J. 206
De Castro, J. 12
De Soto, H. 9, 10, 12, 13–14, 25, 120
- defining the shadow economy 11, 30–31, 90–91, 120–21, 151, 171, 174
- deleterious impacts of shadow entrepreneurship 202–6
- Dell’Anno, R. 40, 46
- demand-side incentives 208, 210–11
- Denisova-Schmidt, E. 157
- Denmark 173
- Home-Job Plan 210–11
- deregulation of the legitimate economy 204
- detection probability
  - Baltic countries 78, 79, 84, 87
  - policy approaches 204–5, 208, 209, 216
  - Russia 140
- determinants of the shadow economy 31–4, 185–6
  - Baltic countries 78–80, 82, 84, 87–8
  - deterrence measures 207–9
  - developing countries 41–5
- development
  - economic, see economic development
  - human 10, 12, 14–26
  - informal sector role 2, 9–29
  - social 208, 215–16
- difficulties paying bills 97, 99–109
- direct controls 110, 207–11, 219–20
- joining up indirect controls and 216–19
**Index**

<table>
<thead>
<tr>
<th>Term</th>
<th>Page(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>direct measurement approaches</td>
<td>184</td>
</tr>
<tr>
<td>direct taxes</td>
<td>31, 41–6</td>
</tr>
<tr>
<td>discrepancy function (CMIN)</td>
<td>192</td>
</tr>
<tr>
<td>Djankov, S.</td>
<td>25</td>
</tr>
<tr>
<td>domestic ownership</td>
<td>156, 157</td>
</tr>
<tr>
<td>domestic sales</td>
<td>156, 157</td>
</tr>
<tr>
<td>Donbas region</td>
<td>153, 157</td>
</tr>
<tr>
<td>government positions dominated by people from</td>
<td></td>
</tr>
<tr>
<td>Duflo, E.</td>
<td>24</td>
</tr>
<tr>
<td>Easterly, W.</td>
<td>13</td>
</tr>
<tr>
<td>Eastern European countries</td>
<td>41–4, 45</td>
</tr>
<tr>
<td>economic crisis</td>
<td>153</td>
</tr>
<tr>
<td>economic development</td>
<td>208, 215–16</td>
</tr>
<tr>
<td>modernization thesis</td>
<td>91, 123–4, 215–16</td>
</tr>
<tr>
<td>shadow economy, institutions and</td>
<td>2, 9–10, 10–11, 14–26</td>
</tr>
<tr>
<td>economic freedom</td>
<td>17–24, 32, 41–6</td>
</tr>
<tr>
<td>Economic Freedom Index</td>
<td>17, 32</td>
</tr>
<tr>
<td>economic globalization</td>
<td>91–2</td>
</tr>
<tr>
<td>education</td>
<td>181</td>
</tr>
<tr>
<td>about tax</td>
<td>208, 212</td>
</tr>
<tr>
<td>age when full-time education ended</td>
<td>97, 99–109</td>
</tr>
<tr>
<td>Egypt</td>
<td>197</td>
</tr>
<tr>
<td>electronic payments</td>
<td>180</td>
</tr>
<tr>
<td>employees</td>
<td></td>
</tr>
<tr>
<td>firing</td>
<td>188, 189</td>
</tr>
<tr>
<td>hiring</td>
<td>130–34, 143–4, 188</td>
</tr>
<tr>
<td>number of</td>
<td>70, 72, 73</td>
</tr>
<tr>
<td>remuneration, <em>see</em> off-the-books wages; salaries/wages</td>
<td></td>
</tr>
<tr>
<td>employer obligations</td>
<td>175, 176</td>
</tr>
<tr>
<td>enforced compliance</td>
<td>218–19</td>
</tr>
<tr>
<td>Enste, D.H.</td>
<td>11, 39, 170, 186, 205</td>
</tr>
<tr>
<td>enterprise culture</td>
<td>202, 203, 205</td>
</tr>
<tr>
<td>entrepreneurial employees</td>
<td>124, 125</td>
</tr>
<tr>
<td>entrepreneurial spirit</td>
<td>13–14</td>
</tr>
<tr>
<td>‘envelope’ wages, <em>see</em> off-the-books wages</td>
<td></td>
</tr>
<tr>
<td>eradication of shadow entrepreneurship</td>
<td>204–5, 206</td>
</tr>
<tr>
<td>established shadow entrepreneurs, incentives for</td>
<td>208, 210–11</td>
</tr>
<tr>
<td>Estonia</td>
<td>3, 60, 61–3, 68–84, 173</td>
</tr>
<tr>
<td>ethnic restaurants</td>
<td>181</td>
</tr>
<tr>
<td>ethnicities, mix of</td>
<td>80, 84</td>
</tr>
<tr>
<td>Eurobarometer survey</td>
<td>95–6</td>
</tr>
<tr>
<td>European Union (EU)</td>
<td></td>
</tr>
<tr>
<td>involvement of the self-employed in the shadow economy</td>
<td>95–110</td>
</tr>
<tr>
<td>regions</td>
<td>98, 99–109</td>
</tr>
<tr>
<td>structural funds</td>
<td>109</td>
</tr>
<tr>
<td>exclusion perspective</td>
<td>93</td>
</tr>
<tr>
<td>exit perspective</td>
<td>93</td>
</tr>
<tr>
<td>exploitation</td>
<td>92</td>
</tr>
<tr>
<td>exploratory factor analysis</td>
<td>55–6</td>
</tr>
<tr>
<td>export-oriented firms</td>
<td>156</td>
</tr>
<tr>
<td>fairness, procedural</td>
<td>208, 214</td>
</tr>
<tr>
<td>financial system</td>
<td>151; <em>see also</em> corruption</td>
</tr>
<tr>
<td>Feige, E.</td>
<td>184</td>
</tr>
<tr>
<td>financial market regulation</td>
<td>185, 186, 190–96, 197</td>
</tr>
<tr>
<td>Finland</td>
<td>5, 169–83</td>
</tr>
<tr>
<td>estimated size of informal sector</td>
<td>170–73</td>
</tr>
<tr>
<td>preventive measures</td>
<td>173–6</td>
</tr>
<tr>
<td>results of</td>
<td>176–9</td>
</tr>
<tr>
<td>firing</td>
<td></td>
</tr>
<tr>
<td>cost of dismissal</td>
<td>189</td>
</tr>
<tr>
<td>regulations</td>
<td>188</td>
</tr>
<tr>
<td>firm age</td>
<td>80, 83, 87</td>
</tr>
<tr>
<td>firm size</td>
<td>80, 83, 156</td>
</tr>
<tr>
<td>fiscal freedom</td>
<td>31, 41–6</td>
</tr>
<tr>
<td>formal institutions</td>
<td>208, 213–15</td>
</tr>
<tr>
<td>products of</td>
<td>208, 213, 215–16</td>
</tr>
<tr>
<td>formalization</td>
<td>91, 109, 123</td>
</tr>
<tr>
<td>and relations with customers</td>
<td>135</td>
</tr>
<tr>
<td>Fraser Index</td>
<td>188–9</td>
</tr>
<tr>
<td>freelancing</td>
<td>144</td>
</tr>
<tr>
<td>Frey, B.</td>
<td>26, 156</td>
</tr>
<tr>
<td>Gatti, R.</td>
<td>197</td>
</tr>
<tr>
<td>GDP</td>
<td>9, 30</td>
</tr>
<tr>
<td>approaches to measuring</td>
<td>63</td>
</tr>
<tr>
<td>NIHDI</td>
<td>14–16</td>
</tr>
<tr>
<td>observed and non-observed components</td>
<td>86</td>
</tr>
<tr>
<td>shadow economy as percentage of</td>
<td></td>
</tr>
<tr>
<td>162-country study</td>
<td>47</td>
</tr>
<tr>
<td>Baltic countries</td>
<td>68–70, 82, 83, 169–70, 173</td>
</tr>
<tr>
<td>CCA</td>
<td>185, 193–6</td>
</tr>
<tr>
<td>Finland</td>
<td>169–70, 170–71, 172, 173</td>
</tr>
<tr>
<td>Nordic countries</td>
<td>169–70, 173</td>
</tr>
<tr>
<td>GDP per capita</td>
<td>14, 33, 34, 41–6</td>
</tr>
<tr>
<td>growth rate</td>
<td>34, 41–6</td>
</tr>
</tbody>
</table>
Entrepreneurship and the shadow economy

gender 96, 99–109
generalized least squares (GLS) estimator 56
generalized method of moments (GMM) distance statistics ‘C’ test 19
Gens, G. 146
Georgia 193–6
Gerxhani, K. 62
gifts 90–91
Giles, D.E.A. 39
Gimpelson, V. 121
global economy 91
Global Entrepreneurship Monitor (GEM) project 16, 17, 122
globalization 91–2
Goldmark, L. 16
Gollin, D. 9, 16
government
  effectiveness 32–3, 41–6, 189
  funds allocated to combat the shadow economy in Finland 178–9
  impacts of shadow entrepreneurship on 203, 205, 206
  officials, see state/public officials
  satisfaction with 62, 79, 83
  size of 31, 41–6
  support for entrepreneurs 79
  trust in 126, 218–19
Government Platforms 169, 179, 181
‘gradual’ approach in surveys/interviews 62, 96
Grey Economy Information Unit (GEIU) 169, 171, 174, 175, 177, 178, 179, 180
Grossman, G. 151

Hanousek, J. 62
Hart, K. 151
Hausman test 22
Helberger, C. 40
Heritage Foundation
  Economic Freedom Index 17, 31, 32
  Labour Freedom Index 196
  high income OECD countries 41–4, 45, 55
  hiring of personnel
    regulations 188
    Russia 130–34, 143–4
Hirvonen, M. 172
Home-Job Plan, Denmark 210–11
hospitality industry 172, 175, 176, 181
hours regulations 189
household expenses tax credit 181
household size 97, 99–109
Huber, M. 157
human development 10, 12, 14–26
Human Development Index (HDI) 14, 18–19
illegal activity 63, 86, 90, 121, 137–8
immigrant workers 131, 132
impacts of shadow entrepreneurship 202–6
in-kind reciprocal favours 90–91
incentives
  misaligned individual and public 12
  policy approach 55, 207, 208, 209–11
income approach to GDP measurement 63
indirect controls 110, 207, 208, 211–16, 219–20
  joining up direct controls and 216–19
indirect measurement approaches 184–5
indirect taxes 31
inflation rate 33, 41–6
informal institutions 208, 212–13
institutions 124–6
  formal 208, 213–15
  products of 215–16
  informal 208, 212–13
  institutional quality 185, 186, 189, 190–96
shadow economy, development and 2, 10, 11–12, 13–14, 17–24, 25
International Labour Organization (ILO) 16, 92, 206, 215
  interviews
    Eurobarometer survey 95–6
    Russia 126–9
job candidates, kickbacks from 154, 155, 156–7, 158–9
Johnson, S. 32
justice
  procedural 208, 213–14
  redistributive 208, 214–15
Entrepreneurship and the shadow economy

off-the-books wages
Baltic countries 63, 64, 70, 72, 74, 82
Finland 177, 178, 179
Russia 130–34, 143–4
Ukraine 153–5, 156–7, 158–9
official economy 33, 41–6
need to improve the attractiveness of 55
state of 33, 41–6
Olympic games projects 146
‘On the Spot’ initiative, Portugal 210
openness 33, 41–6
opportunity costs 25
optimal size of the informal sector 26
oral agreements
  with customers 134, 135–7
  with employees 131
Palda, F. 62
path dependency 123
payment arrears 143, 146
penalties for detection 204–5, 208, 209, 216–17
  Baltic countries 78, 79, 83, 87
perception of corruption 156, 157–60
periphery workers 132–3, 143–4
Perry, G. 13, 17
personal factors 124, 125
policy 6, 201–26
  complementarity of formal and informal activities 25–6
direct controls 110, 207–11, 219–20
  Finland 173–82
hypothetical policy choices 202–7
indirect controls 110, 207, 208, 211–16, 219–20
joining up direct and indirect controls 216–19
Latvia 82–4
making official economy work more attractive 55
recommendations
  for the Baltic countries 83–4
  Caucasus and Central Asia 196–7
  for Russia 142–5
  for the self-employed 109–10
polytomous universal model (PLUM) procedure 155
pooled OLS 22, 23
Portugal 210
positive externalities 181–2
post-socialist societies 121, 122–3,
  124–6; see also Eastern European countries; Russia; Ukraine
post-structuralist perspective 123–4
power 218–19
printing and publishing 136
proactive proposals to regional authorities and regulatory agencies 160, 161, 163, 166
procedural fairness 208, 214
procedural justice 208, 213–14
procurements 143, 144, 146
product market regulation 185, 186, 190–96, 197
products of formal institutions 208, 213, 215–16
profits, veiled distribution of 177, 179
proposals for debiting 177, 178–9
provincial cities 156, 157
psychological contract 211
public officials, see state/public officials
public sector services 32–3, 41–6
Putniņš, T.J. 60, 61, 62, 63, 169
random effect model 22, 23–4
receipts with incorrect content 177, 178
redistributive justice 208, 214–15
regional authorities, proactive proposals to 160, 161, 163, 166
regional capital cities 156, 157, 166
regulation 11, 12, 55
  Caucasus and Central Asia 185, 186, 190–96, 197
  Finland 174–6, 179–81
  intensity of regulations 31–2, 41–6
  proactive proposals to regulatory agencies 160, 161, 163, 166
  regulatory quality 17–24, 32, 41–6, 189
  responsive 217–18
  satisfaction with business legislation 79
reinforcement thesis 4, 89, 90, 94–5, 99–103, 104–9
rent-seeking behaviour 126, 137–8
responsive regulation 217–18
retail 78, 135, 136
reverse value added taxation 175, 176
Index

root mean square error of approximation (RMSEA) 192
rule of law 189
Russia 4–5, 119–50
data and methodology 126–9
informal entrepreneurial activity
and informal entrepreneurship 120–26
informal practices 129–37
hiring of personnel and 130–34, 143–4
relations to customers and 134–7
relations with state officials 137–42, 145
policy recommendations 142–5

salaries/wages
cash payments in Ukraine 153–5, 156–7, 158–9
Finland 175, 176, 177, 178, 179
minimum wage 188
Russia 130–34, 143–4
underreported in the Baltic states 63, 64, 70, 72, 74, 82
Sandmo, A. 204, 207–9
Sauka, A. 60, 61, 62, 63, 169
scale invariance 39
Schneider, F. 11, 17, 39, 46, 121, 170, 173, 180, 186, 193–4, 198, 205
seed-bed for enterprise culture 202, 203, 205
self-employment 144
CCA 190–92, 196
participation in the shadow economy 3–4, 89–116
in the EU 95–110
marginalization thesis 4, 89, 90, 93–4, 95, 99–103, 104–9, 110
reinforcement thesis 4, 89, 90, 94–5, 99–103, 104–9
personal factors influencing 124, 125
shadow economy, development and institutions 16–24
semi-structured interviews 126–9
Shadow Economy Index 60–88
calculation 63–8
for the Baltic countries 68–76
example 65–8
development, institutions and 16, 17–24
survey of entrepreneurs 3, 60, 61–3
shadow production 63, 64–8
shadow proportion 64–8
Shane, S. 9
Shekshnia, S. 153
Shleifer, A. 13
silent money lenders 124, 125
simplified tax regimes 133, 135
Sipilä government 179
slippery slope framework 218–19
Smith, P. 30
social class 96–7, 99–109
social concerns 12
social development 208, 215–16
social norms 79, 208, 211–13
social security contributions 31, 41–6, 172–3
socialist past, legacy of 123
socio-demographic variables 96–7, 99–109
socio-economic variables 97, 99–109
solo entrepreneurs 133
solo owners 124, 125, 133
Solomon, O.H. 46
Soviet Union 151; see also Russia; Ukraine
spatial variables 98, 99–109
staff training 162, 163
start-ups 95, 123
incentives for 208, 210
state procurement 143, 144, 146
state/public officials
allocation of budget to work with 160, 161, 163, 166
bribery in the Baltic countries 75, 76, 77
corruption in Ukraine 160–66
formal approaches to as anti-corruption strategy 162, 163
relations with in Russia 137–42, 145
Stigler, G.J. 25
street entrepreneurship 121
structural equation models (SEMs) 39–41
structuralist thesis 123–4, 215–16
subcontractors 130, 143
sub-Saharan Africa 55
subsistence economy 122
Entrepreneurship and the shadow economy

suppliers, kickbacks from 154, 155, 156–7, 158–9
supply-side incentives 208, 210
surveys of entrepreneurs 3, 60, 61–3
Swaminathan, H. 39
Sweden 173
systemic transition 122–3
Tajikistan 193–6
Takala, K. 170, 172
take no action approach 202, 203, 206
Tanzi, V. 171
tax 55
  awareness-raise campaigns 213
direct taxes 31, 41–6
  education about 208, 212
  Home-Job Plan tax deduction scheme in Denmark 210–11
indirect taxes 31
knowledge of how taxes are spent 212, 214–15
reverse value added 175, 176
Russia 133–4, 135, 137
satisfaction with the tax system in the Baltic countries 79, 83, 84
tax audits 177–8
tax avoidance 173–9
tax burden 11
  Caucasus and Central Asia 185, 186, 188, 190–96, 197
  Finland 172–3, 180
  MIMIC approach 31, 41–6
  Tax Debt Register 174, 176
tax evasion 79–80
tenure of entrepreneurs’ attitudes to 81
  Finland 173–9
tolerance of 75–6, 87, 126
tax morality index 97, 103–9, 110
  tax number 174, 175, 176
  Tedds, L.M. 39
tendering procedures 153, 154, 155, 156–7, 158–9
  Thomas, J.J. 40
  Thirik, R. 19
  Tokman, V. 13
tolerance of tax evasion 75–6, 87, 126
  Torgler, B. 156
total labour force growth rate 34
  trade (openness) 33, 41–6
  training 162, 163, 181
transaction costs 25
transformation of shadow entrepreneurship into legitimate entrepreneurship 205–6, 206–7, 219
transitional countries 121, 122–3, 124–6; see also Eastern European countries; Russia; Ukraine
Transparency International 151
Trivedi, V.U. 213
trust in the state/authorities 126, 218–19
typical cases approach 126–45
Ukraine 5, 151–68
  anti-corruption strategies 160–66
  corruption 151, 153–66
  perception of corruption 156, 157–60
underreporting 62, 63, 64, 70–73, 74
unemployment 98
  rate 33, 41–6
unethical informal tools 154, 155, 156–7, 158–9
unfair tender procedures 153, 154, 155, 156–7, 158–9
United Kingdom (UK) 202, 213
unobserved variables theory 35
unproductive entrepreneurship 126
unregistered businesses 62–3, 75–6, 77, 78, 82, 86
unregistered employees 70, 72, 73
unreported business income
  Baltic countries 63, 70–72, 82, 86
  Russia 144
unreported production 63, 64–8
unweighted least squares (ULS) estimator 56
use of company funds etc. for personal gain 154, 155, 156–7, 158–9
use of unethical informal tools 154, 155, 156–7, 158–9
values 208, 211–13
Van Stel, A. 19
veiled distribution of profits 177, 179
violent entrepreneurs 121
Viren, M. 170, 172, 173
Visa 180
voluntariness 13
voluntary compliance 218–19
voluntary disclosure schemes 208, 210, 216
Vuletin, G. 186, 194, 198

wages, see off-the-books wages; salaries/wages
Wahl, I. 219
Webb, J. 11, 12
weighted average of shadow production 64–8
Welter, F. 124, 126
Wenzel, M. 214
wholesale sector 76, 78
Williams, C.C. 123, 202, 204, 206, 211, 215–16
Windebank, J. 206

women 10, 94, 95; see also gender
World Bank
   Doing Business 188, 189
   World Development Indicators 184
   Worldwide Governance Indicators 17, 32, 189
World Economic Forum
   Global Competitiveness Indicators 196
   Global Competitiveness Report 65, 188–9, 190

Yamada, G. 12
Yeltsin, B. 142
Yevtushenko, V. 142
Zudina, A. 121