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# **Evaluating the Multifarious Motives for Acquiring Goods and Services from the Informal Sector in Central and Eastern Europe**

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# **Evaluating the Multifarious Motives for Acquiring Goods and Services from the Informal Sector in Central and Eastern Europe**

## **ABSTRACT**

The aim of this paper is to evaluate which consumers in Central and Eastern Europe are more likely to acquire goods and services from the informal economy and to unravel their multifarious motives for doing so. Analysing 11,131 face-to-face interviews conducted in 11 Central and Eastern European countries in 2013, a logit regression analysis reveals that some groups purchase from the informal economy to obtain a lower price, others for social or redistributive rationales, and yet others due to the failures of the formal economy in terms of the availability, speed and quality of provision. The implications for theorising and tackling the informal economy are then explored.

Keywords: informal economy; undeclared work; consumer behaviour; consumption; Central and Eastern Europe.

## **Introduction**

In the last few years, considerable advances have been made in unravelling the multifarious character of the informal sector across Central and Eastern Europe (Morris and Polese 2014, 2015; Polese 2014, 2016; Williams et al. 2013). Until now, however, these studies have largely focused upon those working in informal sector, analysing the diverse array of types of work conducted, ranging from exploitative waged employment through well-paid forms of self-employment to paid favours (Williams 2014, 2015a,b), the multifarious demographic and socio-economic characteristics of informal workers and businesses (Davies and Polese 2015; Kukk and Staehr 2014; Likic-Brboric et al. 2013; Lukiyanova 2015; Putniņš and Sauka 2015; Wallace and Latcheva 2006), and the diverse motives of those working in the informal economy (Morris and Polese 2014).

Few, if any, studies on the informal economy in the context of Central and Eastern Europe have until now focused upon the demand-side, examining those who acquire goods and services from the informal economy. Little, if anything, is known about the extent to which consumers purchase goods and services from the informal economy in Central and Eastern Europe, the characteristics of these consumers, or their motives for doing so. The aim of this paper, therefore, is to evaluate which consumers in Central and Eastern Europe are more likely to acquire goods and services in the informal economy and to start to unravel their multifarious motives.

To achieve this, the first section will briefly review a range of competing explanations for consumers acquiring goods and services in the informal economy. These variously view consumers purchasing from the informal economy firstly, as rational economic actors seeking a lower price, secondly, social actors doing so for social and/redistributive rationales and third and finally, as doing so due to the failures of the formal economy. To evaluate the validity of these competing theorizations and to identify the groups more likely to acquire goods and services informally for each of these reasons, the second section reports the data used, namely an 11-nation survey involving 11,131 face-to-face interviews. The third section reports the findings. This will reveal which consumers in Central and Eastern Europe are more likely to acquire goods and services in the informal economy, the extent to which each of these explanations prevail, and which groups are most likely to state which rationales. The final section then seeks to both advance theoretical understandings of the decision to purchase goods and services in the informal economy and discusses the policy implications of these findings.

Before commencing, however, what is meant by the informal economy needs to be clarified. The strong consensus among both academics and policy-makers is that the informal economy refers to remunerated exchanges that are unregistered by or hidden from the state, for tax, social security and/or labour law purposes but are legal in all other respects (European Commission 1998, 2007; Grabiner 2000; OECD 2002; Sepulveda and Syrett 2007; Williams 2004). If it is not legal in all other respects, it is not defined as the informal economy. If the goods or services acquired are illegal for instance (e.g., illegal drugs), then it is not part of the informal economy, but the wider criminal economy. It might be of course argued that the consumer will not know whether the supplier is declaring the income for tax, social security and/or labour law purposes, and thus whether the purchase is taking place in the informal economy. However, this is not a problem in this paper. This is because we here only examine exchanges where the consumer knowingly engages in, or deliberately initiates, the purchase of a good or service in the informal economy.

### **Explaining the acquisition of goods and services in the informal sector**

When examining participation in the informal economy both in Central and Eastern Europe and beyond, most literature has until now focused upon the supply-side, analysing those who work in the informal economy and developing policies to stem the supply of informal labour (Aliyev 2015; European Commission 2007; OECD 2012; Williams 2013). Little attention has been paid to the demand-side, analysing who purchases goods and services in the informal economy and how this can be tackled. The only known studies are at the level of the European Union (EU), and analyse the characteristics of those who purchase goods and services from the informal economy (Williams and Martinez 2014a,b) and their rationales for doing so (Williams 2008a,b). No known studies have been undertaken of who acquires goods and services in the informal economy, and why they do so, in Central and Eastern Europe. To start to fill this gap, therefore, we here draw upon these previous EU-level studies to outline three possible explanations for consumers in Central and Eastern Europe purchasing goods and services in the informal economy.

#### **Lower cost explanation**

A long-standing view has been that participants in the informal economy are rational economic actors pursuing financial gain. This derives from the seminal work of Allingham and Sandmo (1972) who represent informal workers and consumers as rational actors weighing up the rewards and risks of their actions and disobeying the law when the expected penalty and probability of detection are smaller than the profits to be gained. Since then, this utility maximizing view of the individual pursuing monetary gain has been widely adopted by both scholars and policy-makers. Not only are those working in the informal economy commonly viewed as rational economic actors doing so for the purpose of financial gain (Castells and Portes 1989; Davis 2006; Gallin 2001), but so too are consumers portrayed as purchasing goods and services in the informal economy simply because doing so is cheaper (Bajada 2002; Fortin et al. 1996).

The outcome is that the informal economy has been tackled by altering the cost-benefit ratio confronting suppliers and consumers. This has been achieved by concentrating on the cost side of the equation. A deterrence approach, adopted by most governments, has sought to increase the actual and perceived risks and costs associated with engagement in the informal economy by increasing firstly, the perceived or actual likelihood of detection and secondly, the penalties and sanctions for those caught (Grabiner 2000; Hasseldine and Li 1999; Richardson and Sawyer 2001; Sandford 1999). Recently, nevertheless, other explanations

have started to emerge that transcend this depiction of participants in the informal economy as rational economic actors motivated solely by monetary gain.

#### Social motives explanation

Instead of portraying those engaged in the informal economy as rational economic actors influenced by the cost/benefit ratios facing them, a more pro-social representation has recently emerged. A small corpus of critical, post-structuralist, post-colonial, post-development and post-capitalist thought has begun to more widely question the conventional “thin” portrayal of monetary transactions as always purely market-like and profit-motivated. Instead, “thicker” representations have been adopted which recognize the complex mix of logics, including social logics, underpinning monetary transactions (Bourdieu 2001; Escobar 1995; Gibson-Graham 2006; Leyshon et al. 2003).

Applying this to participation in the informal economy, a small literature has begun to draw attention to how informal work is often conducted for and by kin, neighbours, friends and acquaintances for social reasons rather than for pure market logics (Nelson and Smith 1999; Smith and Stenning 2006; White and Williams 2010; Williams 2004). Those purchasing goods and services in the informal economy are thus viewed more as social actors than rational economic actors. For example, they employ kin, friends, neighbours or acquaintances to do a task (e.g., a small repair task) so as to give them money (e.g., if the supplier is unemployed or short of money) in a way that avoids any connotation that charity is involved, which might prevent the recipient from accepting the money (Kempson 1996). These informal sector purchases are thus more akin to mutual aid than profit-motivated market-like transactions (Williams 2004). As Zelizer (2005) displays, introducing money into exchanges does not always depersonalize social interactions and turn them into market transactions. This view, therefore, has begun to challenge the view that participants in the informal economy are rational economic actors pursuing monetary gain.

#### Formal economy failure explanation

A third possible explanation for consumers purchasing goods and services in the informal economy is that such exchanges result from the failures of the formal economy. Just as informal workers are asserted to have voluntarily exited the formal economy due to the problems they witness in working formally, such as registering a business, the high tax levels, the demanding of bribes by corrupt state officials and the burden of regulations (Cross and Morales 2007; De Soto 1989; Maloney 2004; Small Business Council 2004), a similar argument can be made about consumers purchasing from the informal economy. These consumers do so due to the failures of the formal economy to deliver goods and services. In Central and Eastern Europe, these formal market failings might include firstly, the lack of availability and reliability of formal economy businesses (e.g., formal businesses may quite simply not exist to do various tasks or if they do exist, be unreliable), secondly, the speed of goods and services provision and third and finally, the quality of the goods and services provided. Here, therefore, “the real problem is not so much informality as formality” (De Soto 1989: 255), namely the availability, speed and quality of formal sector provision and unless these failings of the formal economy are resolved, consumers will continue to purchase in the informal economy.

Given that no known studies have evaluated who purchases goods and services from the informal sector and their rationales for doing so in Central and Eastern Europe, attention now turns to a study that evaluates who does so, why and how the reasons vary across populations. In doing so, we will begin to evaluate which, if any, of these contrasting explanations are relevant and to which groups in Central and Eastern Europe.

## **Methodology: purchasing from the informal sector in Central and Eastern Europe**

To understand who purchases goods and services in the informal economy and how they explain this, we here report the results of special Eurobarometer survey no. 402 undertaken in 2013, which involved 11,131 face-to-face interviews conducted in 11 CEE nations. This interviewed adults aged 15 years and older in the national language based on a multi-stage random (probability) sampling methodology, with the number of interviews varying from 500 in smaller countries to 1,500 in larger nations. The methodology ensures that on the issues of gender, age, region and locality size, each country as well as each level of sample is representative in proportion to its population size. Therefore, for the univariate analysis we employed sample weighting, as recommended in both the wider literature (Solon et al. 2013; Winship and Radbill 1994) and the Eurobarometer methodology, to obtain meaningful descriptive results. For the multivariate analysis however, debate exists over whether a weighting scheme should be used (Pfefferman 1993; Solon et al. 2013; Winship and Radbill 1994). Reflecting the dominant viewpoint, we decided not to use the weighting scheme.

The face-to-face interview schedule adopted a gradual approach to the more sensitive questions, firstly asking questions about participants' attitudes towards the informal economy and having established a rapport, questions regarding their purchase of goods and services in the informal economy in the last 12 months along with their reasons for doing so and finally, questions regarding their supply of informal work. Here, the focus is upon their responses as consumers. Participants were first asked "Have you in the last 12 months paid for any goods or services of which you had a good reason to assume that they included undeclared work (e.g. because there was no invoice or VAT receipt)?" If so, they were asked "What made you acquire it from a source involving undeclared income, instead of acquiring it on the open market?" (lower price; faster service; better quality; in order to help someone who is in need of money; as a favour amongst friends/relatives/colleagues; good or service is not or hardly available on the regular market).

To analyse first, who is more likely to purchase goods and services from the informal sector and second, the individual characteristics of those doing so for different reasons, a logit regression analysis was used. The first dependent variable is whether a person purchased goods and services from the informal sector in the prior 12 months. The additional dependent variables are the various motives for purchasing informally listed below:

Dependent variables:

- Lower price rationale – a dichotomous variable with recorded value 1 for persons who answered "yes" to the question "Lower price made you acquire goods or services from a source involving undeclared income, instead of acquiring it on the open market?", with recorded value 0 otherwise.
- Social and/ or redistributive rationale - a dichotomous variable with recorded value 1 for persons who answered "yes" to the question "Social and/ or redistributive reasons made you acquire goods or services from a source involving undeclared income, instead of acquiring it on the open market?" and with recorded value 0 otherwise.
- Lack of availability on regular market rationale – a dichotomous variable with recorded value 1 for persons who answered "yes" to the question "Lack of availability on regular market made you acquire goods or services from a source involving undeclared income, instead of acquiring it on the open market?" and with recorded value 0 otherwise.
- Faster/ better service on informal market rationale - a dichotomous variable with recorded value 1 for persons who answered "yes" to the questions "Faster/better service on informal market made you acquire goods or services from a source

involving undeclared income, instead of acquiring it on the open market?” and with recorded value 0 otherwise.

Independent variables:

- Tax morality: constructed index of self-reported tolerance towards tax non-compliance, where 1 represents higher tax morale and 10 lower tax morale. The reliability Cronbach’s alpha of the index is 0.87.
- Gender: a dummy variable with value 0 for females and 1 for males.
- Age: a continuous variable indicating the exact age of a respondent.
- Marital status: a categorical variable for the marital status of the respondent with value 1 for married/remarried individuals or living with partner, value 2 for single people, value 3 for those separated or divorced, and value 4 for widowed and for other form of marital status.
- Occupation: a categorical variable grouping respondents by their occupation with value 1 for unemployed, value 2 for self-employed, value 3 for managers, value 4 for other white collars, value 5 for manual workers, value 6 for house persons, value 7 for retired individuals, and value 8 for students.
- Difficulties paying household bills: a categorical variable for whether the respondent has difficulties in paying household bills with value 1 for having difficulties most of the time, value 2 for occasionally, and value 3 for almost never/ never.
- People 15+ years in own household: a categorical variable for people 15+ years in respondent’s household (including the respondent) with value 1 for one person, value 2 for two persons, value 3 for 3 persons, and value 4 for 4 persons or more.
- Children: a dummy variable for the presence of children up to 14 years old in the household with value 0 for individuals with no children and value 1 for those having children.
- Area: a categorical variable for the area where the respondent lives with value 1 for rural area or village, value 2 for small or middle sized town, and value 3 for large town.

In order to facilitate the interpretation of the main results of the multivariate analysis and better identify variations in consumer motives, predicted probabilities are used to construct a “representative” Central and East European consumer using the mean and modal values across the 11 Central and East European nations. This “representative” consumer is a retired man, 43 years old, (re-) married/living with partner with no children, lives in two persons household in a small or middle sized town, which never or almost never confront difficulties paying bills. Below, this “representative” consumer will be used to analyse and better specify the variations in motives driving purchasers into the informal economy.

Before examining the results, their reliability needs to be briefly evaluated, especially given the sensitive topic involved. The finding is that in 90% of the interviews conducted, the interviewers reported good or excellent cooperation from the participant and in 9% of the cases the cooperation was average. Cooperation was asserted to be bad in only 1% of cases and this poor cooperation was largely in relation to discussing their supply of work in the informal economy, not their purchase of goods and services in the informal economy. Given this, attention can turn to an analysis of the results.

### **Results: explaining the acquisition of goods and services from the informal sector**

Analysing whether participants in Central and Eastern Europe reported purchasing goods and services in the informal economy during the last 12 months, the finding is that 12% reported knowingly purchasing goods and services in this manner. Some 1 in 8 respondents, therefore,

have acquired goods and services from the informal sector in the past 12 months in Central and Eastern Europe. This, however, is not evenly distributed across countries. The propensity of participants to purchase in the informal economy ranges from 31% in Latvia to 5% in Poland.

Why, therefore, do consumers, acquire goods and services in the informal sector? Is it in order to pay a lower price? Is it for social or redistributive reasons? Or is it because of the failings of the formal economy in terms of the availability, speed and quality of the goods and services it provides? Analysing this, Table 1 reveals that the explanation that consumers purchase in the informal sector to pay a lower price is the sole motive for doing so in just 30% of cases, one of several rationales in 39% of cases and not cited as a rationale in the remaining 31% of cases. Rationales other than a lower price, therefore, prevail in 69% of cases where consumers made purchases in the informal economy. Adopting the rational economic actor explanation that consumers do so in order to achieve a lower price, therefore, fails to explain the vast majority of purchases in the informal sector.

#### INSERT TABLE 1 ABOUT HERE

Examining the extent to which informal sector purchases are explained in terms of social or redistributive rationales, meanwhile, the finding is that social and/or redistributive rationales are the sole motive in 8% of all cases and one of several rationales in a further 26% of cases. It is similarly the case with formal sector failure. Some 17% of purchases in the informal sector are explained solely in terms of poor formal provision and in 34% of all cases poor formal provision was cited alongside other rationales.

Across Central and Eastern Europe, therefore, the acquisition of goods and services in the informal sector cannot be explained using only one of these explanations. Instead, if consumers' motives are to be fully explained, then all these rationales need to be employed. It is important to recognize, however, and as Table 1 displays, that when explaining the acquisition of goods and services in the informal sector, the weight given to these different explanations varies across countries. For example, the rationale of a lower price is more prominent in Poland and Lithuania but less common in Slovakia and Romania. Similarly, social and/or redistributive motives more prominently explain purchasing from the informal sector in Croatia and Slovenia, but this is a less important rationale in Lithuania and Poland, whilst poor formal provision is more prominent in Bulgaria, Estonia and Romania but less important in Slovakia and Croatia.

It is not only across countries that there are variations in the propensity to purchase goods and services in the informal sector, and the motives for doing so. Reporting the results of a logit regression analysis, Table 2 investigates which types of Central and East European citizen display a greater propensity to purchase goods and services on an informal basis and which types of citizen are more likely to cite each rationale when explaining why they do so. Starting with who is more likely to purchase goods and services in the informal economy, model 1 in Table 2 reveals that the propensity to purchase goods and services in the informal sector is greater among men, younger people, those with a lower tax morality, and those in employment. Moreover, whether they have difficulties in paying the household bills, the number of people in the household, whether they have children and whether they live in an urban or rural area, has no significant influence on the propensity to purchase from the informal sector.

Turning to which groups are more likely to cite which motives, model 2 in Table 2 reveals that consumers more likely to cite the motive of a lower price, and who are thus more susceptible to alterations in the cost/benefit ratio, are men, younger people, those with a lower tax morality, and living in small or middle sized towns. Consumers statistically less



susceptible to changes in the cost/benefit ratio, meanwhile, are those who never or almost never face difficulties paying the household bills.

Analysing the consumers more likely to cite social or redistributive rationales, meanwhile, model 3 in Table 2 reveals that these tend to have a low tax morality, to live in larger households and to never or almost never face with difficulties in paying the household bills. Hence, those without financial difficulties are significantly more likely to purchase informally for social or redistributive rationales and significantly less likely to do so for financial gain.

Consumers more likely to acquire goods and services from the informal sector due to poor formal provision in the form of the lack of availability of the good or service on the regular market are those with higher tax morality and thus only purchase informally because of the absence of the good/service on the regular market, and to be divorced, separated or widowed/other, and living in larger households (see model 4 in Table 2). Turning to those more likely to purchase informally because of the faster or better quality service available on informal market, model 5 in Table 2 shows that it is more prevalent among those in formal employment than it is among the unemployed, suggesting that they are using the informal sector more for greater speed and quality. This might be because formal services are available only during working hours or the inability of formal services to tailor provision to exactly what they desire. Similarly, those having children are also more likely to purchase for this rationale, as are those living in large towns. However, the goodness of fit measures in Table 2 indicate that for models 3, 4 and 5, there are considerable unexplained factors beyond the characteristics considered that appear to affect the customer likelihood of choosing this particular motive and thus the results should be cautiously interpreted.

Given that model 1 in Table 2 reveals a strong statistically significant association between tax morale and the propensity to purchase informally, we here examine how the motives of the “representative” informal consumer vary according to their level of tax morality. Tax morality is here viewed as a measure of the extent to which consumers’ values, norms and beliefs adhere to the codified laws and regulations of the formal institutions regarding participation in informal sector (Williams and Horodnic 2015; Williams and Shahid 2016). As Figure 1 displays, as tax morale worsens (i.e., 1 represents high tax morale and 10 low tax morale), the representative informal consumer living in Central and Eastern Europe is more likely to cite the motive of lower price as their rationale for acquiring goods and services in the informal sector. It is similarly the case that as tax morale worsens the representative informal consumer is also more likely to cite the motive of social and/or redistributive reasons or the desire for a faster and/or better service. Those with higher tax morale are less likely to cite these as their reason, and more likely to cite the lack of availability of the good or service on the regular market as their reason for purchasing informally.

INSERT FIGURE 1 ABOUT HERE

## **Discussion and conclusions**

This paper has for the first time evaluated which consumers in Central and Eastern Europe are more likely to acquire goods and services in the informal economy, and their multifarious motives for doing so. Reporting the results of an 11-country survey, this has revealed that the propensity to purchase goods and services in the informal sector is greater among men, younger people, those with a lower tax morality, and those in employment. It has also revealed that no one explanation for purchasing goods and services informally suffices.

The conventional explanation that consumers purchase in the informal sector to pay a lower price is the sole motive for doing so in just 30% of cases, one of several rationales in 39% of cases and not cited as a rationale in the remaining 31% of cases. Rationales other than a lower price, therefore, prevail in 69% of cases where consumers made purchases in the informal economy. Social and/or redistributive rationales are the sole motive in 8% of all cases and one of several rationales in a further 26% of cases, whilst some 17% of purchases in the informal sector are explained solely in terms of poor formal provision and in 34% of all cases poor formal provision was cited alongside other rationales.

Across Central and Eastern Europe, therefore, the acquisition of goods and services in the informal sector cannot be explained using only one of these explanations. Instead, if consumers' motives are to be fully explained, all these rationales need to be employed. However, different types of Central and East European citizen are more likely to cite particular motives. Consumers more likely to cite the motive of a lower price, and thus consumers more susceptible to alterations in the cost/benefit ratio, are men, younger people, those with a lower tax morality, and living in small or middle sized towns. Consumers statistically less susceptible to changes in the cost/benefit ratio, meanwhile, are those who never or almost never face difficulties paying the household bills. Consumers more likely to cite social or redistributive rationales, meanwhile, have a low tax morality, live in larger households and never or almost never face with difficulties in paying the household bills. As might be expected, therefore, those without financial difficulties are significantly more likely to purchase informally for social or redistributive rationales and significantly less likely to do so for financial gain. Consumers likely to cite poor formal provision include those with higher tax morality who appear to purchase informally because of the absence of the good/service on the regular market, while those in employment and with children are more likely to purchase informally because of the faster or better quality service available on the informal market, suggesting that these relatively more affluent groups are using the informal sector for expediency and quality rationales.

These findings thus have implications for theorising consumer participation in the informal economy. They reveal that these are not rival competing explanations which are mutually exclusive. Rather, if the propensity to purchase goods and services in the informal economy is to be fully explained, then all of these contrasting explanations need to be employed. All three explanations are relevant, albeit with their relative importance varying socio-spatially with some more important in different contexts than others. Whether similar patterns regarding which groups cite which rationales prevail in other contexts could now be usefully investigated.

These findings also have important policy implications. The conventional approach, based on the rational economic actor model, has been to alter the cost/benefit ratio confronting participants by concentrating on the cost side and increasing the penalties and likelihood of detection (e.g., Grabiner 2000; Hasseldine and Li 1999; Richardson and Sawyer 2001; Williams 2008a,b). These deterrence measures have been supplemented in recent years by policy measures that either increase the benefits of, or provide incentives for, operating in the formal economy, including amnesties, voluntary disclosure measures, tax incentives and the provision of transition advice and support (European Commission 2007; Small Business Council 2004; Williams 2006a,b). The important finding of this study is that such policy measures to change the cost/benefit ratios confronting purchasers are unlikely to be everywhere and always effective. Purchasers of informal goods and services are not always rational economic actors swayed purely by the cost/benefit ratio confronting them. Such endeavour also arises due to the shortcomings of formal sector provision in terms of availability, speed, reliability and quality, as well as due to consumers pursuing social ends.

To deal with those purchasing goods and services from the informal economy, therefore, not only are improvements required in formal goods and services provision but also those purchasing for social ends needs to be addressed. Circumventing the shortcomings of formal sector provision will require a whole host of initiatives to improve the effectiveness of formal sector delivery, including local-level telephone hotlines, web-portals and one-stop shops for customers to find formal suppliers and where suppliers can advertise, along with the greater use of kite-marks to tackle the issue of reliability and quality. In relation to transactions for social ends, meanwhile, whether a “do nothing” approach might be adopted, whether regulations need to be changed, or whether new institutions are required so that citizens can conduct such paid mutual aid legitimately, such as Local Exchange and Trading Schemes (LETS) or time banks (Aldridge et al. 2001; Seyfang and Smith 2002), are all issues for future evaluation. However, it will also require the development of greater trust of citizens in the formal institutions (Williams and Franic 2016; Williams and Horodnic 2015). Given the strong statistically significant relationship between low tax morality and consumer participation in the informal economy, there is a need to transcend the “compliance” approach that changes the cost/benefit ratio and move towards a “commitment” approach that seeks to improve tax morality (Job et al. 2007; Kirchler 2007; Torgler 2007). Measures that might be explored include tax education initiatives such as publicity campaigns about the benefits of purchasing formally and costs of sourcing informally.

Moreover, different policy approaches will be required in different contexts. As displayed, changing the cost-benefit calculation will be effective more in those populations where the rationale of seeking a lower price is dominant, such as the persons facing difficulties in paying bills. As such, the emphasis given to each type of measure will vary across populations depending on the configuration of the motives. If this paper thus leads to a move beyond simplistic one-dimensional theorizations of consumer motives and towards a re-theorization that recognizes the diverse logics and drivers in different populations, then this paper will have fulfilled one of its major intentions. If this then leads to greater evaluation of how the acquisition of goods and services in the informal sector can be tackled, then the fuller intention of this paper will have been achieved.

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**Table 1.** Reasons Central and East European consumers purchase goods and/or services in the informal economy: by country

	Lower price alone	Social and/or redistributive reasons alone	Poor formal provision alone	Mixture of lower price & social and/or redistributive reasons	Mixture of lower price and & poor formal provision	Mixture of social and/or redistributive reasons & poor formal provision	Mixture of lower price, social and/or redistributive reasons & poor formal provision
East-Central Europe	30	8	17	11	19	6	9
Czech Republic	27	7	15	11	25	4	11
Estonia	27	9	21	13	21	3	6
Hungary	27	9	20	12	21	3	8
Latvia	36	4	17	8	20	6	9
Lithuania	47	3	16	6	15	5	8
Poland	59	4	12	10	11	0	4
Slovakia	17	9	7	17	25	4	21
Slovenia	19	11	13	14	20	8	15
Bulgaria	20	6	35	4	24	6	5
Romania	17	16	21	10	15	15	6
Croatia	24	11	10	13	20	7	15

**Table 2.** Logistic regression of the odds and reasons for purchasing goods and services in the informal economy in Central and Eastern Europe

	Purchasing informal goods and services (model 1)			Reasons:					
				Lower price (model 2)			Social and/ or redistributive reasons (model 3)		
	$\beta$	se( $\beta$ )	Exp( $\beta$ )	$\beta$	se( $\beta$ )	Exp( $\beta$ )	$\beta$	se( $\beta$ )	Exp( $\beta$ )
Tax morality	0.219 ***	0.014	1.245	0.174 ***	0.030	1.190	0.051 *	0.028	1.052
Gender (CG: Female)									
Male	0.321 ***	0.059	1.378	0.199 *	0.114	1.221	0.088	0.113	1.092
Age (exact age)	-0.010 ***	0.003	0.990	-0.010 *	0.006	0.990	0.005	0.006	1.005
Marital status (CG: (Re-)Married/ Living with partner)									
Single	-0.359 ***	0.100	0.698	-0.206	0.189	0.814	0.287	0.189	1.332
Divorced or separated	0.009	0.112	1.009	-0.052	0.217	0.949	0.270	0.218	1.310
Widow/other	-0.070	0.121	0.932	-0.146	0.223	0.864	0.183	0.224	1.201
Occupation (CG: Unemployed)									
Self-employed	0.672 ***	0.138	1.959	-0.081	0.259	0.923	0.326	0.262	1.385
Managers	0.709 ***	0.128	2.032	-0.383	0.243	0.682	0.044	0.251	1.045
Other white collars	0.302 **	0.127	1.353	0.146	0.248	1.157	0.145	0.247	1.157
Manual workers	0.208 *	0.113	1.231	0.262	0.227	1.300	0.146	0.225	1.157
House persons	0.102	0.167	1.108	0.269	0.339	1.309	0.025	0.334	1.025
Retired	0.112	0.136	1.118	-0.010	0.270	0.990	0.355	0.273	1.427
Students	0.207	0.155	1.231	-0.053	0.297	0.949	-0.005	0.298	0.995
Difficulties paying bills (CG: Most of the time)									
From time to time	0.021	0.088	1.022	-0.167	0.179	0.846	0.242	0.176	1.274
Almost never/ never	-0.083	0.086	0.921	-0.303 *	0.178	0.738	0.334 *	0.177	1.397
People 15+ years in own household (CG: One)									
Two	0.045	0.098	1.046	-0.057	0.188	0.945	0.121	0.192	1.129
Three	0.066	0.107	1.068	0.108	0.203	1.114	0.310	0.208	1.364
Four and more	0.031	0.113	1.031	0.340	0.227	1.405	0.369 *	0.224	1.447
Children (CG: No children)									
Having children	0.054	0.069	1.055	0.110	0.137	1.116	0.062	0.134	1.064
Area (CG: Rural area or village)									
Small or middle sized town	-0.007	0.069	0.993	0.227 *	0.134	1.255	-0.117	0.131	0.890
Large town	0.056	0.072	1.057	0.226	0.140	1.254	-0.290 **	0.140	0.748
Constant	-2.182 ***	0.219	0.113	0.349	0.428	1.418	-1.716 ***	0.430	0.180
N			9,361			1,566			1,566
Pseudo R <sup>2</sup>			0.0521			0.0492			0.0145
Log pseudolikelihood			-4006.8148			-970.8772			-976.0203
$\chi^2$			430.80			96.95			27.31
p>			0.0000			0.0000			0.1600

Notes:  
Significant at \*\*\* p<0.01, \*\* p<0.05, \* p<0.1 (Robust standard errors in parentheses).  
All coefficients are compared to the benchmark category, shown in brackets.  
We kept in the analysis the individuals for which data on each and every independent variable is available.



**Table 2.** Logistic regression of the odds and reasons for purchasing goods and services in the informal economy in Central and Eastern Europe - continued

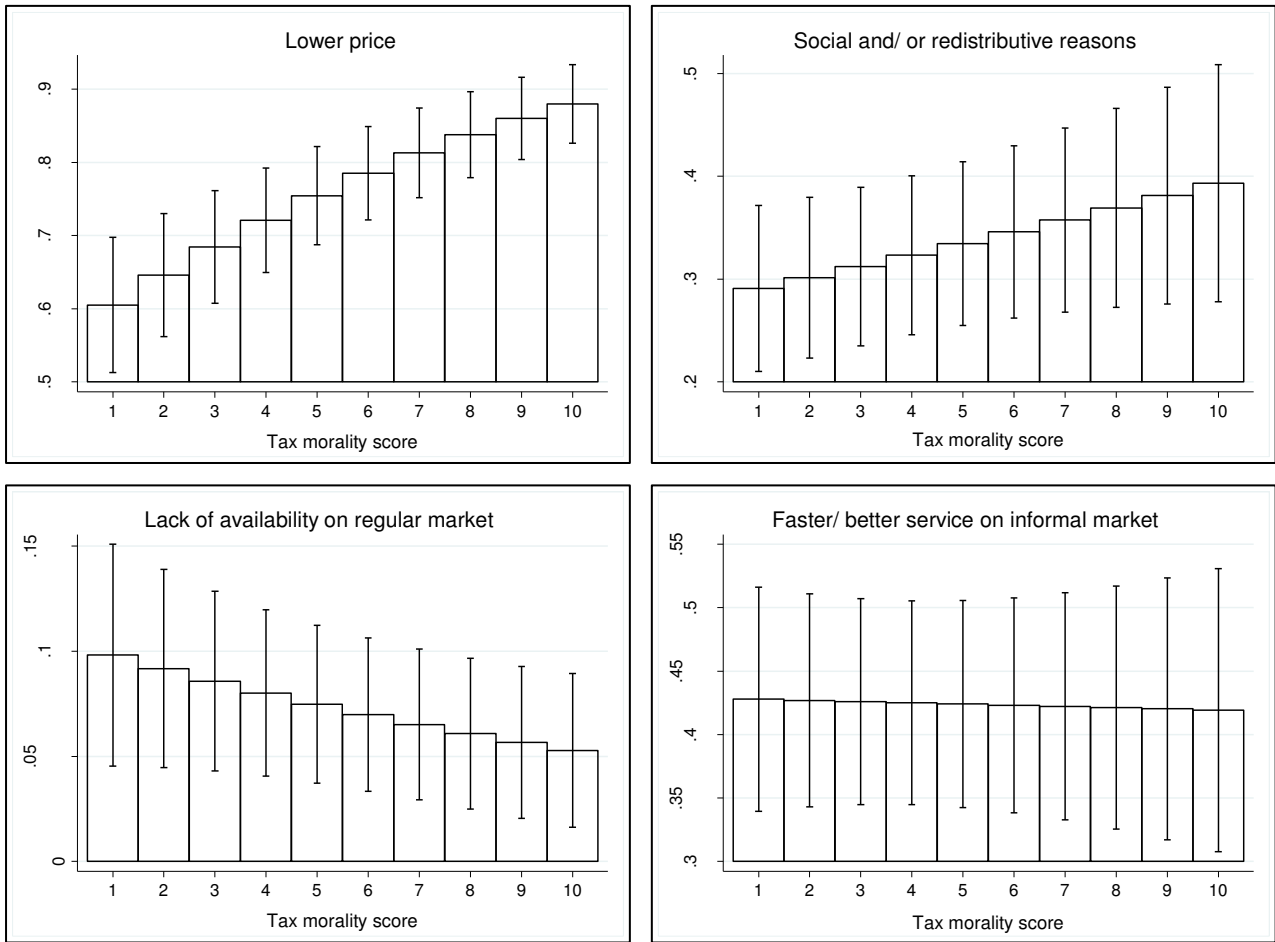
	Reasons:					
	Lack of availability on regular market (model 4)			Faster/ better service on informal market (model 5)		
	$\beta$	se( $\beta$ )	Exp( $\beta$ )	$\beta$	se( $\beta$ )	Exp( $\beta$ )
Tax morality	-0.074 *	0.043	0.928	-0.004	0.027	0.996
Gender (CG: Female)						
Male	0.059	0.163	1.061	-0.172	0.107	0.842
Age (exact age)	0.010	0.009	1.010	-0.004	0.006	0.996
Marital status (CG: (Re-)Married/ Living with partner)						
Single	0.137	0.306	1.147	-0.019	0.181	0.981
Divorced or separated	0.509 *	0.300	1.663	0.100	0.207	1.106
Widow/other	0.623 **	0.300	1.864	0.024	0.211	1.025
Occupation (CG: Unemployed)						
Self-employed	0.339	0.400	1.403	0.460 *	0.252	1.584
Managers	0.416	0.385	1.515	0.499 **	0.232	1.648
Other white collars	0.335	0.383	1.397	0.388 *	0.233	1.474
Manual workers	-0.050	0.353	0.951	0.526 **	0.212	1.691
House persons	-0.002	0.514	0.998	-0.024	0.315	0.977
Retired	0.047	0.418	1.048	0.410	0.261	1.506
Students	-0.360	0.492	0.697	0.082	0.280	1.085
Difficulties paying bills (CG: Most of the time)						
From time to time	0.161	0.266	1.175	0.182	0.163	1.199
Almost never/ never	0.079	0.273	1.082	0.104	0.164	1.110
People 15+ years in own household (CG: One)						
Two	0.574 **	0.280	1.775	-0.041	0.180	0.960
Three	0.552 *	0.299	1.737	0.001	0.194	1.001
Four and more	0.735 **	0.315	2.085	0.148	0.211	1.160
Children (CG: No children)						
Having children	0.140	0.190	1.151	0.208 *	0.126	1.231
Area (CG: Rural area or village)						
Small or middle sized town	-0.213	0.190	0.808	0.189	0.126	1.208
Large town	-0.327	0.204	0.721	0.292 **	0.133	1.339
Constant	-3.015 ***	0.607	0.049	-0.737 *	0.402	0.479
	N		1,566			1,566
	Pseudo R <sup>2</sup>		0.0231			0.0125
	Log pseudolikelihood		-537.6933			-1058.2320
	$\chi^2$		30.07			25.69
	p>		0.0906			0.2187

Notes:

Significant at \*\*\* p<0.01, \*\* p<0.05, \* p<0.1 (Robust standard errors in parentheses).

All coefficients are compared to the benchmark category, shown in brackets.

We kept in the analysis the individuals for which data on each and every independent variable is available.



**Figure 1.** Predicted probability of reasons for a ‘representative consumer’ purchasing goods and services in the informal economy in Central and Eastern Europe: by level of tax morality (with 95% CI).