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Explaining participation in the informal economy: an institutional incongruence perspective

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Abstract

Drawing inspiration from institutional theory, a small sub-stream of literature has proposed that participation in the informal economy arises from the lack of alignment of a society's formal institutions (i.e., its codified laws and regulations) with its informal institutions (i.e., the norms, values and beliefs of its population). To further advance this explanation, this paper reports a 2013 Eurobarometer survey involving 27,563 face-to-face interviews across 28 European countries. The finding is that there is a strong association between the degree to which formal and informal institutions are unaligned and participation in the informal economy. The greater is the asymmetry between the formal and informal institutions, the more likely is participation in the informal economy at both the individual-, population group- and country-level. A new policy approach for tackling the informal economy which focuses upon reducing this institutional incongruence is then discussed.

Keywords: informal sector; informal employment; undeclared economy; institutional theory; European Union

Introduction

Over the past decade or so, a burgeoning literature has drawn attention to the prevalence of the informal economy across the globe (ILO, 2013; Jütting and Laiglesia, 2009; Schneider and Williams, 2013) and its important role in helping people get-by (Round et al., 2010; Wallace and Latcheva, 2006; Williams et al., 2013). With some estimates suggesting that 60% of the global workforce have their main job in the informal economy (Jütting and Laiglesia, 2009), tackling the informal economy is now a key issue on the policy agenda of supra-national agencies and governments across the globe (European Commission, 2007; ILO, 2014; OECD, 2014; Williams, 2014a). This is not simply because of the resultant public revenue losses but also due to the poorer working conditions that exist in the informal economy as well as the unfair competition legitimate businesses face (Andrews et al., 2011; ILO, 2014; TUC, 2008).

In this paper, the intention is to advance a little discussed way of explaining and tackling the informal economy grounded in institutional theory (for exceptions, see Feige, 1997; Gërxhani, 2004a,b). All societies have formal institutions (i.e., codified laws and regulations) that define the legal rules of the game and informal institutions which are socially shared unwritten rules that express the wider norms, values and beliefs of the population (Baumol and Blinder, 2008; Helmke and Levitsky, 2004; North, 1990). The resultant proposition is that the greater is the non-alignment of these formal and informal institutions, the greater is the likelihood of participation in the informal economy. In this paper, the aim is to evaluate the validity of this institutional incongruence thesis as an explanation for the informal economy at the individual-, population group- and country-level, and to discuss the implications for tackling this sphere.

This paper thus advances understanding of the informal economy in three ways. From a theoretical perspective, we build upon the institutionalist theorisation of the informal

economy discussed by Feige (1997) and Gërkhani (2004a,b), but which has subsequently received little attention, by advancing the proposition that the greater is the asymmetry between formal and informal institutions, the greater is the likelihood of participation in the informal economy. From an empirical viewpoint meanwhile, we provide evidence of a strong relationship between the degree of institutional incongruence and the level of participation in the informal economy at not only the country- but also the individual- and population-group levels by reporting a fresh 28-country data-set. Finally, and from a policy perspective, we for the first time discuss the implications for policy of adopting this institutional incongruence explanation of the informal economy.

To do this, the next section briefly reviews previous explanations for participation in the informal economy along with how institutional theory provides a new lens for doing so that overcomes the limitations of previous approaches. To test the proposition that the propensity to participate in the informal economy is associated with the degree of institutional incongruence, the third section then introduces the data set used, namely a 2013 survey involving 27,563 face-to-face interviews in the 28 member states of the European Union (EU28), followed in the fourth section by the results. The fifth section then discusses the theoretical and policy implications of the findings before the final section summarises the consequences for explaining and tackling the informal economy.

At the outset however, the informal economy must be defined. Castells and Portes (1989: 15) define informal work as ‘a specific form of income generating production... unregulated by the institutions of society in a legal and social environment in which similar activities are regulated’. Although this defines the informal economy in relation to both the formal (‘legal’) and informal (‘social’) institutions in a society, it fails to recognise firstly, that although the informal economy is unregulated by formal institutions, it is regulated by the rules of informal institutions and secondly, that although the informal economy is deemed ‘illegal’ from the viewpoint of formal institutions, it is regarded as ‘legitimate’ from the viewpoint of informal institutions (Webb et al., 2009). Here in consequence, and mirroring the consensus in the literature, the informal economy is defined as socially legitimate activity which is formally legal in every respect except that it is not declared to the authorities for tax, social security and/or labour law purposes (European Commission, 2007; OECD, 2012; Schneider, 2008; Schneider and Williams, 2013). If an economic activity is not legal and legitimate in every other respect, it is not here deemed as belonging to the informal economy. For example, if activities are unpaid then they are part of the ‘unpaid economy’, and if both formally illegal and socially illegitimate, part of the wider ‘criminal’ economy (Williams, 2004). Of course, fuzzy edges exist such as when gifts or reciprocal labour are received instead of money. In this paper however, only paid activities are included in the definition of informal work.

Participation in the informal economy and institutional theory

Numerous recent studies chart the variations in participation in the informal economy not only across global regions (ILO, 2012), cross-nationally (Schneider and Williams, 2013) and across localities and regions (Kesteloot and Meert, 1999), but also by employment status (Leonard, 1994; Slavnic, 2010; Taiwo, 2013), gender (ILO, 2013; Leonard, 1994, 1998) and income level (Williams, 2004). This has resulted in a more contextualised understanding of participation in the informal economy (Pfau-Effinger, 2009).

To explain participation in the informal economy meanwhile, commentators have largely adopted one of two broad perspectives. On the one hand, and grounded in a structuralist perspective, participation in the informal economy is viewed to result from people’s ‘exclusion’ from state benefits and the formal labour market. Viewing the informal

economy as an inherent feature of contemporary capitalism and a direct result of employers seeking to reduce costs, such as by sub-contracting to businesses employing informal labour under ‘sweatshop-like’ conditions (e.g., Hapke, 2004; Ross, 2004) and the ‘precarious’ or ‘false’ self-employed, informal workers are characterised as marginalised populations conducting such work out of necessity and as a last resort (Davis, 2006; Roberts, 2013; Slavnic, 2010).

On the other hand, another view is that participation in the informal economy is driven more by a voluntary decision to ‘exit’ the formal economy, rather than a result of involuntary exclusion (Cross, 2000; Snyder, 2004). Conventionally, such commentators have depicted informal workers as heroes casting off the shackles of a burdensome state so as to avoid the costs, time and effort of formal registration (De Soto, 1989, 2001). More recently however, this ‘exit’ perspective has also been argued by a wider collection of both public choice scholars (for a review, see Gërxhani, 2004b) as well as critical, post-colonial, post-structuralist, post-development and post-capitalist scholars seeking to transcend the conventional ‘thin’ depiction of monetary exchange as universally market-like and profit-driven by adopting ‘thicker’ portrayals that unpack the messy logics of monetized transactions (Escobar 1995; Zelizer 2005). For example, this has been argued by those drawing attention to how informal work is often conducted for and by kin, neighbours, friends and acquaintances and for reasons other than purely financial gain (Persson and Malmer, 2006; Round and Williams, 2008; Williams, 2004; Williams and Round, 2008, 2010).

Rather than depict informal workers as either universally exit- or exclusion-driven, as is the case in these two conventional approaches, a second wave of thought has adopted a more nuanced understanding. This evaluates the ratio of exit-driven to exclusion-driven informal workers. Studies have found that ‘exclusion’ is more applicable to those engaged in waged informal employment and ‘exit’ to own-account informal workers (Chen, 2012; Perry and Maloney, 2007), exclusion more relevant in relatively deprived populations and exit in relatively affluent groups (Gurtoo and Williams, 2009), exit more relevant in developed economies and exclusion in developing countries (Gërxhani, 2004a; Maloney, 2004; Oviedo et al., 2009) and exclusion more relevant to women informal workers and exit rationales to men (Franck, 2012; Grant, 2013; Williams et al., 2013).

Although this second wave of thought transcends the universal hues of previous approaches, informal workers have continued to be seen as either exit- or exclusion-driven; exit and exclusion are portrayed as separate categories constituted via their negation to each other (i.e., doing so for exit rationales means that an informal worker is not doing so for exclusion rationales). However, a third wave of thought has begun to question this separateness of exit- and exclusion-drivers, revealing how a significant proportion of informal workers voice both exit as well as exclusion rationales when explaining their participation (Adom, 2014; Eurofound, 2013; Snyder, 2004; Williams et al., 2011, 2013). This has brought starkly into question the very relevance of differentiating participants according to whether they are driven by exit or exclusion. Given this, the intention here turns towards an alternative and so far little discussed way of explaining participation in the informal economy.

In institutional theory, institutions are often defined as the cognitive, normative and regulative structures that give stability and meaning to social behaviour (Scott, 1995). Institutions or governance mechanisms exist in every society (Baumol and Blinder, 2008; North, 1990). On the one hand, there are formal institutions, which are the codified laws and regulations. On the other hand, there are informal institutions, which are the ‘socially shared rules, usually unwritten, that are created, communicated and enforced outside of officially sanctioned channels’ (Helmke and Levitsky, 2004: 727); the norms, values and beliefs held by citizens which reflect their individual morality about what is right (Denzau and North, 1994).

The norms, values and beliefs of a society's informal institutions can be either 'complementary' if they reinforce formal institutions or 'substitutive' if the rules they prescribe are incompatible with the formal institutions (Helmke and Levitsky, 2004; North, 1990). When there is symmetry between the formal and informal institutions therefore, the informal economy will be largely absent since citizens will adhere to the legal rules of the game. The only reason informality will take place is because citizens unintentionally do so, such as due to the rules being not simple enough to understand or to complex too fulfil. However, if asymmetry exists between a society's formal and informal institutions, such as due to a lack of trust in government, the informal economy will be larger. As Feige (1997: 22) states, 'When formal and informal institutions clash, non-compliant behaviors proliferate'.

Indeed, since the turn of the millennium, numerous empirical studies of 'tax morale' have revealed not only a close relationship between attitudes and behaviours at the cross-national level (Alm and Torgler, 2006; Halla, 2010; Richardson, 2006; Torgler, 2011; Torgler and Schneider 2007) but also how participation in the informal economy is deemed more acceptable by men, single people, the unemployed and self-employed, and its acceptability reduces with religiosity, age, social status and income but increases with years spent in formal education (Alm and Torgler, 2006; Daude et al., 2013; Lago-Peñas and Lago-Peñas, 2010; Williams and Martinez, 2014). Until now however, with the exception of Gerxhani (2004a,b), no studies have recognised that the degree to which it is socially acceptable to participate in the informal economy is a measure of the level of institutional incongruence.

Here, therefore, the proposition to be tested is that the greater is the non-alignment of formal and informal institutions, the greater is the likelihood of participation in the informal economy. The next section outlines the methodology used in this paper to test this institutional incongruence thesis.

Methodology: data, variables and analytical methods

Data

This paper reports data from 27,563 face-to-face interviews conducted in 2013 across the 28 member states of the European Union (EU-28) about both participation in informal work and their views regarding the social acceptability of informal work. Interviews were conducted in the national language with adults aged 15 years and older. In every country, a multi-stage random (probability) sampling methodology was used (the number of interviews varying from 500 in smaller countries to 1,500 in larger nations). This ensured 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 employ the sample weighting scheme, as recommended in both the wider literature (Sharon and Liu, 1994; Solon et al., 2013; Winship and Radbill, 1994) and the Eurobarometer methodology which explicitly recommends usage of the weighting scheme to obtain meaningful descriptive results. For the multivariate analysis however, debate exists over whether such a weighting scheme should be used (Pfefferman, 1994; Sharon and Liu, 1994; Solon et al., 2013; Winship and Radbill, 1994). Given that the majority opinion in the literature suggests that the weighting scheme should not be used for multivariate analysis, this option was chosen.

The face-to-face interviews adopted a gradual approach in order to build rapport with the participants before asking sensitive questions. Firstly, questions were asked on whether participants had purchased goods and services on an informal basis, secondly, envelope wages, thirdly, whether respondents had engaged in informal work themselves and finally, their attitudes regarding the acceptability of participating in informal work. In this article, we

confine discussion to the questions on participation in informal work and their attitudes regarding the acceptability of participation.

Variables

To analyse the institutional incongruence thesis, the dependent variable is whether people participated in the informal economy. This is based on their response to the question: ‘Undeclared work is a relatively common and socially acceptable activity, and refers to activities which were not or not fully reported to the tax or social security authorities and where the person who acquired the good or service was aware of this. Apart from regular employment, have you yourself carried out any informal paid activities in the last 12 months?’. By including a definition of informal work, this question avoided participants defining the informal economy in different ways. Social desirability bias meanwhile, was reduced by firstly, putting this more sensitive question later after building rapport with the interviewer, secondly, using a ‘face-saving’ technique which framed the question as non-judgementally as possible by stating before asking that this type of activity is relatively common and acceptable within social norms, thus helping to ‘legitimise’ admission to certain behaviours and thirdly, through repeated reassurances of anonymity, reminding respondents of the commitment to confidentiality. Given that previous studies find participants openly discuss such activity with researchers (Ram and Williams, 2008), there is little reason to assume that participants will have hidden their informal work from the interviewer. This is reinforced examining interviewers’ responses regarding the perceived reliability of the interviews. In 88% of cases, interviewers reported good or excellent cooperation, in 10% fair cooperation and in only 2% bad cooperation. Nevertheless, the estimates of participation are perhaps best treated as lower-bound estimates.

To analyse the proposition that the uneven distribution of informal work is associated with the degree of institutional asymmetry, participants were asked to rate how acceptable they viewed six informal work behaviours using a 10-point scale where 1 means ‘absolutely unacceptable’ and 10 means ‘absolutely acceptable’. These are: a firm is hired by another firm and does not report earnings; a firm hires a private person and all or part of their salary is not declared; a firm is hired by a household and doesn’t report earnings; someone evades taxes by not or only partially declaring income; someone receives welfare payments without entitlement and a person hired by a household does not declare earnings when it should be declared. A tax morality index was then calculated using the mean score across these six attitudinal questions about the acceptability of participating in informal work.

Meanwhile, and as Table 2 below depicts, the independent variables held constant in order to investigate this, and to analyse which population groups are more likely to participate in informal work, included socio-demographic variables (gender, age, marital status, social class, age stopped full-time education, number of people in household, presence of children), socio-economic variables (employment status and whether they have difficulties paying household bills) and spatial variables (European region, area respondent lives). All these independent variables have been also shown in previous studies to influence the level of participation in the informal economy (ILO, 2013; Persson and Malmer, 2006; Pfau-Effinger, 2009; Williams, 2004).

Analytical methods

To analyse whether informal work is greater amongst individuals expressing lower levels of tax morality, and given the nonparametric nature of the data, a two-sample Wilcoxon rank-sum (Mann-Whitney) test is firstly used. Meanwhile, to examine whether the cross-national variations in informal work are associated with the cross-national variations in tax morality,

and again due to the nonparametric nature of the data, a Spearman's bivariate correlation is used to evaluate whether a statistically significant relationship exists. To further analyse whether this institutional asymmetry explanation for informal work holds when other socio-demographic, socio-economic and spatial variables are held constant, and also to analyse the population groups most likely to engage in informal work in order to understand who should be targeted, a logistic regression analysis is then conducted utilizing the hierarchical nature of the data (individuals within countries). Below we report the findings.

Findings

Across the EU-28, 3.8% (1 in 26) of the 27,563 participants report undertaking informal work in the year prior to the survey. Only 3% refused to answer or said that they did not know. Is it the case therefore, that the norms, values and beliefs of those engaged in informal work are less aligned with state morality than those who do not?

To evaluate this, we test whether the tax morality of individuals engaged in informal work is lower than the tax morality of those not engaging in informal work. Given that the distribution of tax morality is non-parametric, a Wilcoxon Rank Sum test, also known as the Mann-Whitney two-sample statistic, is used. The finding is a strong statistically significant difference in the median tax morality of those engaged in informal work, which is 3.5 (where 1 means the non-compliance activities are viewed as 'absolutely unacceptable' and 10 means they view them as 'absolutely acceptable') compared with those not engaging in informal work, whose median score is 1.83. Those engaging in informal work thus have a significantly lower tax morality than those not participating in informal work. This provides some initial support for the institutional incongruence thesis at the individual-level.

Is it also the case that those countries with a greater propensity to engage in informal work have a lower tax morality? To investigate this, Table 1 reports the cross-national variations in the level of participation in informal work across the EU-28 as well as the cross-national variations in the level of tax morality. This reveals not only the uneven participation in informal work across countries, ranging from 11% in Estonia, Latvia, and Netherlands to 1% in Malta, but also the cross-national variations in the level of tax morality, ranging from a mean composite score of 3.90 in Latvia to 1.49 in Cyprus. Largely however, and despite such differences, informal work is viewed as unacceptable in the EU-28. Evaluating the relationship between cross-national variations in the level of participation in informal work and tax morality, a simple Spearman's bivariate correlation reveals a value of $\rho=0.296$ and thus a strong significant ($p<0.001^{***}$) relationship. This provides further support for the institutional incongruence thesis.

INSERT TABLE 1 HERE

Turning to the variations across population groups in participation in informal work and tax morality, Table 2 reveals that men and younger age groups participate more than women and older age groups in informal work and also have a lower tax morality. Similarly, it displays on the issues of marital status and social class that those least likely to participate in the informal economy (i.e., married/remarried/widowed people and the middle/upper class) also have the highest tax morality. Moreover, the age education ended and level of affluence displays similar patterns. Those displaying higher levels of participation in informal work (i.e., those whose education ended between 16-19 years old and those still studying, and those who have difficulties paying the household bills most of the time, or from time to time) also have lower levels of tax morality. The clear intimation is that those population groups displaying a lower tax morality are more likely to engage in informal work.

INSERT TABLE 2 HERE

To determine whether this association remains when other characteristics are taken into account and held constant, Table 3 reports the results of a multilevel mixed-effects logistic regression analysis. The first row in models 1-3 reveals that the propensity of individuals to participate in informal work remains strongly associated with their level of tax morality, and that this remains the case whether socio-demographic, socio-economic or spatial characteristics are added and held constant. This therefore provides further support for the institutional incongruence thesis.

This regression analysis also identifies whether the above discussed socio-demographic, socio-economic and spatial variations regarding participation in informal work remain significant when the other factors are held constant. As Model 1 in Table 3 reveals, when other socio-demographic factors are held constant, men, younger age groups, the divorced/separate, people reporting themselves as working class and single person households are significantly more likely to undertake informal work than women, older age groups, married/remarried people, the middle or higher class and households with multiple adults respectively. However, the age education ended is not significantly associated with participation in informal work once other socio-demographic characteristics are taken into account.

INSERT TABLE 3 HERE

When Model 2 adds socio-economic factors, there are no major changes to the influence of the socio-demographic variables on participation in informal work. However, the additional finding is that the unemployed are significantly more likely to participate in informal work than those in formal employment, as are those who have difficulties paying the household bills most of the time. When spatial factors are added in Model 3, there are again no major changes to the significance of the socio-demographic and socio-economic characteristics that influence participation in informal work. However, although whether one is in an urban or rural area makes no difference, those living in the more affluent Nordic nations are more likely to participate in informal work than those living in Western Europe, and those living in Southern Europe less likely.

Discussion

Evaluating the validity of the institutional incongruence explanation therefore, this analysis of the 2013 Eurobarometer survey reveals a strong association between the level of participation in informal work and the degree of institutional incongruence. Not only is the likelihood of participation in informal work higher amongst those individuals whose beliefs regarding tax compliance are more at odds with the formal rules, but also amongst population groups and countries where the level of institutional incongruence is higher, even when other variables are introduced and held constant. Hence, the higher is the asymmetry between formal and informal institutions, the greater is the likelihood of participation in the informal economy. This institutional incongruence thesis is valid not only across individuals and population groups but also countries.

To tackle informal work therefore, it appears necessary to reduce this institutional incongruence. This requires a rather different policy approach towards informal work than so far pursued. Conventionally, governments have employed direct controls to ensure that the

cost of being caught and punished is higher than the pay-off from informal work, largely achieved by increasing the actual and perceived risks and costs associated with participation, such as by increasing the number of workplace inspections and probability of detection (see Allingham and Sandmo, 1972). More recently moreover, greater attention has begun to be given to making participation in formal work easier and more beneficial such as by simplifying compliance processes (Williams, 2014a). The above findings however, suggest that this is not the way forward.

What is instead needed is to focus upon decreasing the level of institutional incongruence. To achieve this, lessons can be learned from studies that have sought to elicit behaviour change in workers at the organisational level where there has been a shift from 'hard' to 'soft' human resource management (HRM), and from bureaucratic to post-bureaucratic management (Legge, 1995; Thompson and Alvesson, 2005; Watson, 2003). Here, a similar shift is advocated but at the societal level. Conventionally, the equivalent of a 'hard' HRM or bureaucratic management approach has been adopted by governments when tackling informal work. Compliance of the population and behaviour change has been sought through the use of tight rules, prescribed procedures, close supervision and monitoring and centralised structures within the context of a low trust, low commitment and adversarial culture in which a 'cops and robbers' approach is pursued. Following the lead of soft HRM and post-bureaucratic management at the organisation level however, what is here advocated at the societal-level is a high trust, high commitment culture that aligns the values of citizens with the formal institutions so as to generate internal or self-regulated control.

To achieve this symmetry between formal and informal institutions, changes in not only the informal institutions but also formal institutions are required. To change the socially shared rules that lead populations to flout the formal rules and engage in informal work, at least three policy initiatives can be pursued. Firstly, tax education is required to re-align their values with the formal rules and encourage greater self-regulation. Taxes, after all, are the prices Europeans pay for the public goods and services they receive. Until now, however, it has been rare in European societies for governments to inform their citizens explicitly of the public goods and services received for the taxes they pay (Saeed and Shah, 2011). Secondly, advertising campaigns can be used, which inform citizens of the costs and risks of informal work and/or benefits of formal work (OECD, 2012; Williams, 2014a). And third and finally, normative appeals to citizens can be employed such as signs stating 'your taxes paid for this' on roadsides, in hospitals and outside schools.

To improve the social contract between governments and citizens nevertheless, it is not just a case of persuading citizens to abide by the codified laws and regulations. Formal institutions need to change. Populations will not improve their tax morality if there remains a low level of trust in government and a widespread perception of public sector corruption, as is the case in many European countries (European Commission, 2014). A modernisation of government and governance is thus necessary. This requires at least three institutional reforms. Firstly, procedural justice must be improved, which in the instance of informal work refers to the tax authority treating citizens in a more respectful, impartial and responsible manner and a shift towards a service-oriented approach when dealing with them (Murphy, 2005). If they view governments as treating them in such a manner, then they will be more likely to engage in self-regulated compliant behaviour. Secondly, procedural fairness must be enhanced which refers to citizens believing that they pay their fair share compared with others (Molero and Pujol, 2012; Wenzel, 2006). Citizens who receive procedurally fair treatment will be more likely to trust the authorities and will be more inclined to accept its decisions and follow its directions. Third and finally, redistributive justice will need to be improved which relates to citizens believing that they receive the goods and services they deserve given the

taxes they pay (Kirchgässner, 2010). Citizens see themselves as more justified being non-compliant and breaking the social contract with the state, the less they perceive the system as just. To attain institutional symmetry therefore, the system should be perceived as just. Importantly, Table 3 identifies the population groups that such measures need to target, namely men, younger age groups, those who are divorced or separated, those defining themselves as working class, the unemployed, single-person households and those with difficulties paying the household bills.

It is not just the processes of formal institutions however, that need to change if institutional asymmetry is to be reduced and a high-commitment culture based on self-regulation is to be achieved. There is also a need to change the products of formal institutions by pursuing wider economic and social developments. Previous studies reveal that the informal economy is smaller in wealthier economies with stable high quality government bureaucracies and those with lower poverty levels, more equality, greater levels of social protection, more effective redistribution via social transfers and greater state intervention in the labour market to protect vulnerable groups (Vanderseyppen et al., 2013; Williams, 2013, 2014b; Williams et al., 2013a)¹. This displays therefore, that formal institutions need to not only change their processes but also their products if institutional asymmetry is to be reduced.

Conclusions

This paper has sought to advance a so far little discussed way of explaining and tackling informal work. Drawing upon institutionalist theory, it has proposed that the greater is the asymmetry between formal and informal institutions and thus the gap between state morality and individual morality, the higher is the propensity to engage in such practices both at the individual-, population group- and country-level.

To decrease the prevalence of informal work in consequence, a shift is required away from direct controls that seek to detect and punish these practices and towards eliciting a high trust high commitment culture so as to align the informal and formal institutions. On the one hand, this requires alterations in the informal institutions, using measures such as tax education, awareness raising campaigns and normative appeals. Indeed, this paper has identified the groups that need targeting, namely men, younger age groups, those who are divorced or separated, those defining themselves as working class, the unemployed, single-person households and those with difficulties paying the household bills. On the other hand, it also requires alterations in the formal institutions. Changes are required not only in the processes of formal institutions to improve trust in government by developing greater procedural and redistributive justice and fairness, but also changes in the products of these formal institutions. These include the pursuit of stable high quality government bureaucracies and lower poverty levels, more equality, greater levels of social protection, more effective redistribution via social transfers and greater state intervention in the labour market to protect vulnerable groups.

A limitation of this study is that it has not analysed how formal institutions vary across countries and how this influences the degree of institutional incongruence. It has only analysed the asymmetry between formal and informal institutions by examining the degree to which the attitudes (informal institutions) of different individuals and populations adhere to

¹ Although participation rates are higher in many countries displaying these characteristics (e.g., Nordic nations), this does not mean that the informal economy is larger. Participation in such nations is largely in the form of small one-off jobs for close social relations (e.g., baby-sitting) and for little pay resulting in small informal economies, whilst participation in other nations (e.g., in Southern and East-Central Europe) is more likely to be informal waged employment and higher informal incomes, and thus the informal economy is larger (Eurofound, 2013).

the legal codes and legislation (i.e., formal institutions). Future research could therefore usefully analyse how formal institutions vary across countries in order to identify the relationship between the nature of formal institutions and the degree of institutional incongruence.

The overarching finding of this paper nevertheless, is that an institutional incongruence perspective appears to be a fruitful way forward for both explaining and tackling the informal economy. If this paper thus stimulates further evaluations of the validity of this institutional asymmetry explanation at other spatial scales, such as within particular European countries and in other global regions such as developing countries where the informal economy is more prevalent and thus presumably institutional incongruence far greater than in Europe, then it will have fulfilled one of its intentions. However, if it also leads governments to recognise how informal work results from such institutional incongruence and encourages them to begin tackling this asymmetry by changing both informal and formal institutions, rather than continuing to simply detect and punish those engaged in informal work, then this paper will have achieved its broader intention.

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Table 1. Participation in informal economy in last 12 months, by EU member state, 2013

Region/ country	No. of respondents	% of population engaged in informal work	€ earned in informal economy (median)	Tax morality index
<i>EU-28</i>	27,563	3.75	300	2.29
<i>Nordic nations</i>	3,013	6	433	1.92
Denmark	1,004	9	533	1.96
Sweden	1,006	7	348	1.89
Finland	1,003	3	250	1.92
<i>East-Central Europe</i>	10,131	4	230	2.75
Estonia	1,003	11	200	2.86
Latvia	1,006	11	200	3.90
Lithuania	1,027	8	290	3.08
Croatia	1,000	7	382	2.16
Slovenia	1,017	7	250	2.32
Bulgaria	1,018	5	150	2.43
Slovakia	1,000	5	265	3.05
Czech Republic	1,000	4	195	3.06
Hungary	1,033	4	339	2.79
Poland	1,000	3	400	2.91
Romania	1,027	3	288	2.34
<i>Western Europe</i>	8,380	4	400	2.17
Netherlands	1,019	11	300	2.79
Austria	1,022	5	800	2.59
France	1,027	5	300	2.10
Luxembourg	505	5	500	2.26
Belgium	1,000	4	600	2.63
United Kingdom	1,306	3	502	1.98
Germany	1,499	2	150	2.10
Ireland	1,002	2	250	2.57
<i>Southern Europe</i>	5,039	3	300	2.23
Spain	1,003	5	225	2.00
Greece	1,000	3	500	2.00
Cyprus	505	2	150	1.49
Italy	1,016	2	1000	2.38
Portugal	1,015	2	1300	2.62
Malta	500	1	100	1.77

Table 2. Level of participation in informal economy in the EU-28: by population group

	% of population engaged in informal work	€ earned in informal economy (median)	% of population engaged in informal work	% of population	Tax morality index
All EU28	3.75	300	100	100	2.29
<i>Gender:</i>					
Men	5	379	60	48	2.37
Women	3	231	40	52	2.22
<i>Age:</i>					
15-24	7	232	29	14	2.67
25-34	6	300	26	15	2.47
35-44	3	300	16	17	2.34
45-54	4	250	17	18	2.31
55-64	2	500	9	15	2.11
65+	1	259	3	21	1.98
<i>Marital status</i>					
Married/ Remarried	2	300	32	52	2.19
Unmarried (cohabitating)	7	343	20	11	2.51
Unmarried (single)	6	262	34	21	2.51
Divorce/ Separated	5	370	10	7	2.27
Widowed/ Other	2	232	4	9	2.13
<i>Social class</i>					
Working class of society	4	300	50	44	2.32
Middle class of society	3	300	44	52	2.26
Higher class of society	3	100	2	2	2.38
Other/ None	9	350	4	2	2.56
<i>Education (age education ended):</i>					
<15	3	339	14	20	2.13
16-19	4	300	44	43	2.32
20+	3	348	25	28	2.25
Still Studying	7	230	17	9	2.67
<i>People 15+ years in own household</i>					
One	4	300	26	22	2.25
Two	3	348	38	47	2.25
Three	4	232	20	17	2.33
Four and more	4	207	16	14	2.48
<i>Children (at least one in household)</i>					
< 10 years old	5	339	19	15	2.29
10-14 years old	5	300	10	8	2.29
< 10 years old & 10-14 years old	4	232	6	5	2.37
No children	3	300	65	72	2.29
<i>Employment</i>					
Unemployed	4	250	50	51	2.26
Employed	4	350	50	49	2.33
<i>Difficulties paying bills</i>					
Most of the time	8	250	25	13	2.47
From time to time	4	300	32	28	2.51
Almost never/never	3	310	43	59	2.15
<i>Area</i>					
Rural area or village	4	300	34	34	2.36
Small or middle sized town	4	300	39	40	2.27
Large town	4	250	27	26	2.24

Table 3. Multilevel mixed-effects logistic regression of the propensity to engage in informal economy

VARIABLES	Model 1	Model 2	Model 3
Tax morality	0.385***(0.0169)	0.377***(0.0171)	0.375***(0.0171)
Gender (CG: Women):			
Men	0.688*** (0.0669)	0.756*** (0.0682)	0.757*** (0.0682)
Age (CG: 15-24):			
25-34	-0.268** (0.127)	-0.267** (0.127)	-0.262** (0.127)
35-44	-0.659*** (0.139)	-0.645*** (0.139)	-0.644*** (0.139)
45-54	-0.801*** (0.142)	-0.783*** (0.142)	-0.791*** (0.142)
55-64	-1.094*** (0.157)	-1.108*** (0.158)	-1.118*** (0.158)
65+	-1.974*** (0.182)	-2.012*** (0.190)	-2.023*** (0.190)
Marital status: (CG: Married/Remarried)			
Cohabiting	0.0894 (0.104)	0.0670 (0.105)	0.0659 (0.105)
Single	-0.0872 (0.115)	-0.136 (0.116)	-0.135 (0.116)
Divorced/Separated	0.326** (0.131)	0.247* (0.132)	0.249* (0.132)
Widowed	-0.231 (0.163)	-0.257 (0.165)	-0.259 (0.165)
Social class, self-assessment (CG: The working class of society)			
The middle class of society	-0.313*** (0.0723)	-0.166** (0.0754)	-0.154** (0.0757)
The higher class of society	-0.519** (0.237)	-0.283 (0.238)	-0.257 (0.239)
Other/none	0.0392 (0.227)	-0.132 (0.236)	-0.126 (0.236)
Age stopped full time education (CG: 15- years):			
16-19	-0.0654 (0.117)	0.0311 (0.119)	0.0217 (0.119)
20+	-0.0869 (0.128)	0.0715 (0.131)	0.0661 (0.131)
Still Studying	-0.176 (0.173)	-0.146 (0.180)	-0.142 (0.181)
Number 15+ years in household (CG:1 person):			
2 persons	-0.336***(0.106)	-0.329***(0.106)	-0.330***(0.107)
3 persons	-0.254** (0.117)	-0.220*(0.117)	-0.222*(0.118)
4+ persons	-0.340*** (0.128)	-0.302** (0.129)	-0.300** (0.130)
Number of children: (CG: No Children)			
Children < 10	-0.0239(0.0998)	-0.0771(0.101)	-0.0884(0.101)
Children 10-14	-0.0326(0.127)	-0.0741(0.128)	-0.0824(0.128)
At least one child<10 and at least one 10-14	-0.0273(0.153)	-0.110(0.155)	-0.136(0.155)
Employment (CG: Unemployed):			
Employed		-0.204** (0.0835)	-0.203** (0.0835)
Difficulties paying bills last year (CG: Most of the time)			
From time to time		-0.472*** (0.0930)	-0.484*** (0.0931)
Almost never/never		-0.856*** (0.0990)	-0.883*** (0.0991)
Area respondent lives (CG: Rural area or village):			
Small/middle sized town			-0.0774(0.0780)
Large town			-0.113(0.0859)
EU Region: (CG: Western Europe)			
Southern Europe			-0.747** (0.316)
East-Central Europe			0.0701(0.258)
Nordic Nations			0.768** (0.377)
Constant	-3.447*** (0.249)	-2.933*** (0.261)	-2.802*** (0.302)
Observations	24,173	23,920	23,905
Number of groups	28	28	28
Random-effects Parameters			
Identity: Country			
Variance (constant)	0.372***	0.440***	0.275***

Standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1