

Explaining Consumers' Motives for Purchasing from the Informal Economy: Some Lessons from a Study of Bulgaria, Croatia and FYR of Macedonia

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Acknowledgements

This paper is an output of the European Commission's Framework 7 Industry-Academia Partnerships Programme (IAPP) grant no. 611259 entitled "Out of the shadows: developing capacities and capabilities for tackling undeclared work in Bulgaria, Croatia and FYR of Macedonia" (GREY). The authors would like to thank the funders for providing the financial support to enable this to be written. The usual disclaimers apply.

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Summary

This paper evaluates which consumers in Southeast Europe are more likely to purchase goods and services in the informal economy and their reasons for doing so. Conventionally, it was assumed that consumers were simply rational economic actors motivated by a desire to

achieve a lower price. However, in recent years, it has been suggested that they may be also motivated to purchase from the informal economy due to either the failures of the informal economy and/or for social or redistributive rationales. Reporting 6,019 face-to-face structured interviews conducted in Bulgaria, Croatia and FYR of Macedonia in 2015, consumers are found to purchase from the informal economy to obtain a lower price in only 57.1% of cases. In nearly half of cases, therefore, this is not cited as a rationale. In 48.9% of cases, formal economy failures are cited as a rationale, with 27.4% stating that it is to receive a faster service, 23.7% to receive a better quality good or service, and 10.3% because the good or service is no/hardly available on the regular market. Social or redistributive rationales prevail in some 25.1% of cases. The paper then identifies how the reasons for purchasing from the informal economy vary across countries and population groups. The theoretical and policy implications are then explored.

Key words: informal economy; undeclared work; consumer behaviour; consumption; Southeast Europe.

JEL Classification: H26, J46, K42, O17, P2, P37

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1. Introduction

In the past decade or so, there have been significant advances made in understanding the characteristics of the informal economy in Southeast Europe (Baric et al. 2016; Bejaković 2016a,b; Dzhekova et al. 2014; Franic 2016; Williams 2010a,b, 2012). Until now, however, these studies have largely focused upon the supply-side of the informal economy, analysing who works in the informal economy in terms of their demographic and socio-economic characteristics (Hudson et al. 2012; Williams and Franic 2015, 2016a,b; Williams and Horodnic 2015a,b) and their diverse motives for working in the informal economy (Baric 2016; Williams et al. 2012, 2013, 2014). Few, if any, studies of the informal economy in Southeast Europe have focused upon the demand-side, examining the purchase of goods and services from the informal economy. The result is that little is known about whether it is common for citizens to purchase goods and services from the informal economy in Southeast Europe, the characteristics of these consumers, and their motives for doing so. In consequence, and to fill these lacunae, the aim of this paper is to evaluate which consumers in Southeast Europe are more likely to acquire goods and services in the informal economy and their reasons for doing so.

To do so, the first section will review various competing explanations for consumers purchasing goods and services in the informal economy. These portray consumers who purchase from the informal economy firstly, as rational economic actors seeking a lower price, secondly, social actors engaging in such purchases for social and/redistributive rationales and third and finally, as doing so due to the failings of the formal economy. To evaluate the validity of these alternative theorisations and to pinpoint population groups more likely to acquire goods and

services informally for each of these motives, the second section reports the data used, namely a survey involving 6,019 face-to-face interviews conducted in Bulgaria, Croatia and FYR of Macedonia. The third section reports the findings. This will reveal which consumers across these three Southeast European countries are more likely to acquire goods and services in the informal economy, the degree to which each of these explanations prevail, the groups most likely to state which rationales, and which policy measures might reduce such a propensity. The final section then outlines how these findings advance theoretical understandings of the decision to purchase goods and services in the informal economy and the implications for policy.

At the outset, nevertheless, 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 (Dzhekova and Williams 2014; European Commission 1998, 2007; Franic and Williams 2014; Grabiner 2000; OECD 2002; Sepulveda and Syrett 2007; Williams 2004). If a remunerated exchange is not legal in all other respects, then it is not defined as the informal economy. If the goods or services acquired are illegal for instance (e.g., illegal drugs), then this purchase 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.

2. Explaining consumer purchases in the informal economy

Most literature examining engagement in the informal economy both in Southeast Europe and beyond has until now focused upon the supply-side, evaluating who works in the informal economy, their motives, and assessing the policies to stem the supply of informal labour (Aliyev 2015; European Commission 2007; OECD 2012; Schneider and Williams 2013; Williams 2013). Little attention has been paid to the demand-side, evaluating who purchases goods and services in the informal economy, their motives, and how this can be tackled. The only known studies analysing the characteristics of those who purchase goods and services from the informal economy and their rationales for doing so are at the level of the EU28 (Williams 2006, 2008a; Williams and Martinez 2014a,b) and East-Central Europe (Williams and Horodnic 2016). No known studies have been undertaken of who acquires goods and services in the informal economy, and why they do so in Southeast Europe. To start to fill this gap, therefore, we here draw upon these previous EU-level and East-Central European studies to outline three possible explanations for consumers in Southeast Europe acquiring goods and services in the informal economy.

Lower cost explanation

The conventional explanation for participation in the informal economy is that participants are rational economic actors pursuing financial gain. This has its roots in the classical work of Allingham and Sandmo (1972), who portray informal workers and consumers as rational utility-maximising actors who weigh up the rewards and risks of their actions and flout the law when the expected penalty and risk of detection are smaller than the profits to be gained.

Indeed, this utility maximizing view of the individual pursuing monetary gain is now widely adopted by both scholars and policy-makers. Those working in the informal economy are commonly represented as rational economic actors engaged in market transactions for the purpose of financial gain (Castells and Portes 1989; Davis 2006; Gallin 2001), and consumers represented as purchasing goods and services from the informal economy simply because they are lower cost (Bajada 2002; Fortin et al. 1996).

The resultant policy approach has been to tackle the informal economy by altering the cost-benefit ratio confronting suppliers and consumers. Most governments have adopted a deterrence approach which seeks to increase the actual and perceived risks and costs associated with engagement in the informal economy by increasing firstly, the perceived risks of detection and secondly, the penalties for those caught (Grabiner 2000; Hasseldine and Li 1999; Richardson and Sawyer 2001; Sandford 1999). Recently, however, as understanding has improved of how multifarious motives exist for participation in the informal economy, alternative explanations have begun to emerge. These transcend this simplistic depiction of participants in the informal economy as operating according to a single universal logic, namely as rational economic actors motivated purely by financial gain.

Social motives explanation

Rather than portray those purchasing in the informal economy as always and everywhere rational economic actors influenced by the cost/benefit ratios confronting them, a more pro-social representation of participants has begun to emerge. A small corpus of post-structuralist, post-development, critical, post-colonial, and post-capitalist scholarship has started to question the traditional "thin"

depiction of monetary transactions as always solely market-like and driven by the motive of financial gain. Rather, "thicker" portrayals of monetary exchange have started to emerge that draw attention to the complex mix of logics, including social logics, underpinning paid transactions (Bourdieu 2001; Escobar 1995; Gibson-Graham 2006; Leyshon et al. 2003).

A small body of scholarship has applied this to participation in the informal economy, displaying how work in the informal economy is often conducted for and by kin, neighbours, friends and acquaintances for social reasons rather than for solely market logics (Nelson and Smith 1999; White and Williams 2010; Williams 2004). Those acquiring goods and services in the informal economy are consequently portrayed more as social actors rather than rational economic actors. For example, they are asserted to employ kin, friends, neighbours or acquaintances to do tasks (e.g., decorating a room) in order to provide them with money (e.g., where the supplier is unemployed or struggling financially) but in a manner which avoids any connotation that charity is involved, which might lead the recipient to refuse accepting their money (Kempson 1996). These informal economy purchases are thus seen as a form of mutual aid rather than as profit-driven market-like transactions (Williams 2004). As Zelizer (2005) has shown, the use of money in exchanges does not naturally and inevitably mean that they are market transactions and depersonalise the social relations involved. This social motives explanation, in consequence, directly contests the view of participants in the informal economy as rational economic actors pursuing financial gain and instead depicts them as engaging in such transactions for social and/or redistributive rationales.

Formal economy failure explanation

A third and final explanation for consumers acquiring goods and services in the informal economy is to view such exchanges as arising due to the failures of the formal economy. Informal workers are viewed in this approach as voluntarily exiting the formal economy not only due to the problems they witness in working formally, such as registering a business, what might be perceived as 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), but also because citizens norms and values differ to those of the laws and regulations (Williams and Horodnic 2015a,b,c).

In this view, formal institutions (i.e., laws and regulations) are the legal rules of the game, and informal institutions are the "socially shared rules, usually unwritten, that are created, communicated and enforced outside of officially sanctioned channels" (Helmke and Levitsky 2004: 727). The informal economy thus arises from formal institutional failings that result in the laws and regulations of formal institutions not being in symmetry with the norms, values and beliefs that constitute the informal institutions (Webb and Ireland 2015; Webb *et al.* 2009; Williams and Horodnic 2015a). Indeed, the higher the level of asymmetry, the greater is the level of engagement in the informal economy (Williams *et al.* 2014). In recent years, moreover, it has been proposed that it is not just the lack of vertical trust (i.e., formal/informal institutional asymmetry) that leads to work in the informal economy, but also the lack of horizontal trust that other citizens are operating in a compliant manner (Baric 2016; Williams *et al.* 2017).

A similar argument can be made about consumers purchasing from the informal economy. These consumers can be argued

to do so due to the failures of the formal economy to deliver goods and services. In Southeast 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 market provision. Unless these failings of the formal economy are resolved, and the lack of vertical and horizontal trust is resolved, consumers will continue to purchase in the informal economy.

Given that no known studies have evaluated who acquires goods and services from the informal sector and their reasons for doing so in Southeast Europe, attention now turns to a study that evaluates who does so and why. In doing so, we will begin to evaluate which, if any, of these contrasting explanations are relevant and to which groups in Southeast Europe, along with the policy implications.

3. Methodology

To understand who purchases goods and services in the informal economy and how they explain this, we here report the results of a survey undertaken in Bulgaria, Croatia and FYR of Macedonia involving some 2,000 face-to-face interviews in each country (i.e., 6,019 interviews in total) conducted in late 2015. These countries were selected because they have some of the largest informal economies in Europe (Williams and Schneider 2016). Individuals were interviewed aged 16 years and older in the national language based on a multi-stage random (probability) sampling

methodology. This ensured that on the variables of gender, age, region and locality size, each country and also each level of sample, was representative in proportion to its population size. Hence, for the univariate analysis, sample weighting was used, as recommended in the broader literature (Winship and Radbill, 1994), when obtaining the descriptive results. For the multivariate analysis however, there is an ongoing debate concerning whether to use a weighting scheme (Pfefferman 1993; Solon et al. 2013; Winship and Radbill 1994). Reflecting majoritarian opinion, the decision was taken not to use the weighting scheme.

The interview schedule adopted a gradual approach to the more sensitive questions. To commence, that is, participants were asked about their attitudes towards the informal economy and having established some rapport, questions were then posed about their purchase of goods and services in the informal economy in the 12 months prior to interview, along with their reasons for doing so and finally, the most sensitive questions regarding their supply of informal work. Here, the focus is upon their responses as consumers. Firstly, respondents were 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 economy and second, the individual characteristics of those doing so for different reasons, and the policy

approaches required, a logit regression analysis provides a suitable technique and the following variables are analysed. The independent variables here included are derived from previous studies of the informal economy at a European and East-Central European level which identify the variables that determine participation in the informal economy (Williams and Horodnic 2015a,b).

Dependent variables:

- *Informal purchaser:* a dichotomous variable with recorded value 1 for persons who answered "yes" to the question "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)?", and recorded value 0 otherwise.
- *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.
- *Formal economy failure rationale* – a dichotomous variable with recorded value 1 for persons who answered "yes" to the question "Lack of availability on regular market, faster service and/or better quality good or service 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:

- *Gender:* a dummy variable with value 0 for men and 1 for women.
- *Age:* an interval variable indicating the exact age of the respondent.
- *Marital status:* a categorical variable with value 1 for (re)married, value 2 for cohabiting, value 3 for single, value 4 for divorced/ separated, and value 5 for widowed.
- *Employment status:* a categorical variable with value 1 for employed, value 2 for self-employed, value 3 for unemployed, value 4 for retired, and value 5 for student and inactive.
- *Financial situation:* a categorical variable with value 1 for struggling, value 2 for maintaining, value 3 for just comfortable, and value 4 for no money problems.
- *Type of locality:* a categorical variable with value 1 for rural area or village, value 2 for small or middle-sized town, value 3 for large town.
- *Perceived detection risk:* a categorical variable with value 1 for a very small risk, value 2 for fairly small risk, value 3 for fairly high risk and value 4 for very high risk.
- *Expected sanctions:* a categorical variable with value 1 for those asserting that the normal tax or social security contributions would be due, value 2 for those stating that the normal tax or social security contributions due, plus there would be a fine or value 3 for imprisonment.
- *Asymmetry index:* an interval variable was used by constructing an index of attitudes towards the acceptability of participating in the informal economy based on a 10-point Likert scale. This was constructed by evaluating on a 10-point scale where "1" means that

you find it absolutely unacceptable and "10" means that you find it absolutely acceptable their views of: (1) someone receives welfare payments without entitlement; (2) an individual is hired by a household for work and s/he does not declare the payment received to the tax or social security authorities even though it should be declared; (3) A firm is hired by a household for work and it does not declare the payment received to the tax or social security authorities; (4) a firm is hired by another firm for work and it does not declare its activities to the tax or social security authorities; (5) a firm hires an individual and all or a part of the wages paid to him\her are not officially declared and (6) someone evades taxes by not declaring or only partially declaring their income. Collating the responses to these six questions, and giving equal weighting to each response, an aggregate 'asymmetry index' is constructed for each individual. The higher the index value, the greater is asymmetry between the formal institutions (laws and regulations) and the informal institutions (social norms, values and beliefs regarding the acceptability of working in the informal economy).

- *Estimated share*: a categorical variable for the estimated proportion of the population engaged in undeclared work with value 1 for less than 5 per cent, value 2 for 5 to 10 per cent, value 3 for 10 to 20 per cent, value 4 for 20 to 50 per cent, and value 5 for over 50 per cent.
- *Country*: a categorical variable with value 1 for of Macedonia, value 2 for Bulgaria and value 3 for Croatia

Given that there were a large number of missing values and inconclusive answers (i.e., refusal and 'don't know') across the dependent and independent variables, multiple imputation was used to predict

the values. This is done using a system of chained equations for each variable with missing values, with 25 imputations simulated for each missing value. Furthermore, population weights are applied based on age and gender to correct for under- and over-representation in the sample.

Before turning to the results, and given that the informal economy is a sensitive subject, a comment is required on the reliability of the answers. In 93 per cent of the interviews, the interviewers reported good or excellent cooperation from the participant, and average cooperation in 6 per cent of cases. Cooperation was found to be poor in only 1 per cent of cases. Below, we report the findings.

4. Results: explaining consumer purchases in the informal economy

Evaluating whether consumers in Southeast Europe reported purchasing goods and services in the informal economy during the year prior to the survey, the finding is that 22.1% reported knowingly purchasing goods and services in this manner. As Table 1 reveals, however, this propensity is not evenly distributed across countries, ranging from 25.7% of respondents in Croatia, through 23% in Bulgaria to 17.7% in FYR of Macedonia.

Why, therefore, do consumers purchase in the informal economy? Is it solely 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? Table 1 reveals that consumers purchase in the informal economy to pay a lower price in just 57.1% of cases, meaning that it is not cited as a rationale in the remaining 42.9% of cases. Adopting the rational economic actor explanation that consumers do so in order to achieve a

Table 1. Propensity to, and reasons for, purchasing in informal economy in FYR of Macedonia, Bulgaria and Croatia

	Purchased from informal economy in past year (%)	Reasons for purchasing in informal economy (%)			
		Lower price	Social and/or redistributive reasons	Formal economy failures	Other\ refusal\ do not know
Gender:					
Male	25.2	57.4	24.0	48.1	9.3
Female	19.1	56.7	26.4	49.8	8.1
Age groups:					
15-24	20.1	56.6	25.8	39.6	7.7
25-39	25.6	59.4	24.9	46.5	9.5
40-54	23.9	58.7	21.4	49.9	9.6
55-64	22.8	56.8	27.8	52.1	8.0
65+	16.1	49.8	28.5	56.5	7.7
Marital status:					
(Re)Married	22.3	56.9	24.4	49.9	8.8
Cohabiting	29.9	68.3	20.9	49.3	4.4
Single	20.9	57.5	25.5	44.1	9.1
Divorced/Separated	28.9	62.0	22.8	54.9	5.1
Widowed	15.2	39.7	31.6	51.9	15.1
Employment status:					
Employed	24.9	55.3	24.1	52.6	8.7
Self-employed	33.7	58.7	17.4	50.9	7.9
Unemployed	23.4	65.2	28.6	34.7	7.2
Retired	17.5	52.6	26.4	54.4	8.5
Student and inactive	16.5	59.1	25.3	44.1	13.2
Financial situation:					
Struggling	22.0	60.2	24.6	44.8	9.4
Maintaining	21.1	55.6	24.4	48.3	8.6
Just comfortable	24.4	54.7	26.6	54.8	8.2
No money problems	26.7	63.3	33.4	55.7	6.6
Type of locality:					
Rural area or village	23.0	56.5	24.4	46.2	7.7
Small or middle sized town	26.8	61.1	23.7	56.2	6.5
Large town	18.6	54.5	26.6	46.0	11.9
Detection risk:					
Very small	28.2	54.2	25.4	49.9	11.9
Fairly small	24.6	56.4	25.6	51.0	7.2
Fairly high	18.0	56.7	24.9	45.6	7.9
Very high	19.9	65.5	23.7	42.2	5.6
Expected sanctions:					
Normal tax or social security contributions due, but no fine	23.5	56.3	26.6	52.2	7.1
Normal tax or social security contributions due, plus a fine	22.4	57.4	24.0	44.7	9.7
Prison	15.9	58.4	11.2	31.8	10.2
Estimated share working informally					

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less than 5%	9.8	64.3	18.5	42.2	15.0
5 to 10%	13.3	45.3	30.3	56.4	10.8
10 to 20%	18.9	60.6	29.1	39.8	8.9
20 to 50%	26.0	57.1	26.7	50.4	7.2
50% or more	32.9	58.0	17.6	50.4	10.9
Asymmetry index:					
<2	19.5	53.2	25.1	46.7	10.8
2 to 4	25.5	62.1	26.8	53.2	7.0
4 to 6	23.3	59.9	22.9	48.6	3.6
6 to 8	37.4	61.3	18.9	49.4	11.1
8 to 10	25.5	58.4	41.0	44.5	8.4
Country:					
Macedonia	17.7	57.2	24.4	29.6	11.4
Bulgaria	23.0	51.4	16.6	56.6	10.1
Croatia	25.7	62.1	33.1	55.2	5.8
Total	22.1	57.1	25.1	48.9	8.8

Source: Authors' own calculations based on the representative survey of 6,019 individuals in FYR of Macedonia, Bulgaria and Croatia

lower price, therefore, fails to explain a large proportion of purchases in the informal economy.

Examining the extent to which informal sector purchases are explained in terms of formal economy failure, meanwhile, just under half (48.9%) of respondents state this as a rationale. Indeed, breaking this down, some 27.4% state that it is to receive a faster service, 23.7% to receive a better quality good or service, and 10.3% because the good or service is no/hardly available on the regular market. Third and finally, social or redistributive rationales are cited as a motive in a quarter (25.1%) of all cases.

In these Southeast European countries, in consequence, the purchase of goods and services in the informal economy cannot be fully explained using only one of these theoretical explanations. Rather, if consumers' motives are to be more fully explained, then all these rationales need to be employed. It is important to recognise, however, that the propensity to cite these different explanations varies across countries. For example, the rationale of a lower price is more prominent in Croatia but less common

in FYR of Macedonia. Similarly, social and/or redistributive motives are more commonly cited in Croatia but this is less common as a rationale in Bulgaria, whilst poor formal provision is more common in Bulgaria but much commonly cited in FYR of Macedonia.

It is not only across countries that variations exist in the propensity to buy goods and services in the informal economy, and the reasons for doing so. As the descriptive statistics in Table 1 reveal, the propensity to purchase in the informal economy is lower among women, those aged 65 years old and older, widowed people, the retired, students and inactive, those struggling financially, and living in larger urban areas. It is also lower among those who perceive the penalties and risk of detection as higher, and also among those who perceive a smaller share of the population to participate in the informal economy and whose norms and values are more in symmetry with the laws and regulations.

Examining those who purchase in the informal economy to pay a lower price, the finding is that this is unsurprisingly especially more common among those cohabiting and divorced/separated, the unemployed, and

those struggling financially. Social and/or redistributive rationales, meanwhile, are more common among older age groups, the unemployed, employed and retired, those with no money problems. Formal economy imperfections are more common among older age groups, the employed and retired, and those with fewer money problems.

To evaluate which types of Southeast European citizen display a greater propensity to purchase goods and services in the informal economy and which types of citizen are more likely to cite each rationale, when other variables are taken into account and held constant, Table 2 reports the results of a logit regression analysis. Commencing with who is more likely to purchase goods and services in the informal economy, the first column of data in Table 2 reveals that the propensity to purchase goods and services in the informal sector is greater among men, the divorced/separated, the self-employed, and those living in a rural area or village. Importantly, for policy solutions, it is also lower among those who perceive the penalties and risks of detection as higher, and also among those who have greater horizontal trust (i.e., they perceive

a smaller proportion of the population to be engaged in the informal economy) and greater vertical trust (i.e., their norms and values are more in symmetry with the laws and regulations).

Turning to which groups are more likely to cite which motives, the second column of data in Table 2 reveals that consumers more likely to cite the motive of a lower price include the unemployed compared with the employed, and those cohabiting. Interestingly, however, consumers who cite the motive of a lower price are not more susceptible to alterations in the cost/benefit ratio; there is no significant association either with the perceived penalties or risks of detection. However, there is a significant association with vertical trust (i.e., those adhering to the laws and regulations are less likely to purchase in the informal economy due to a lower price) and also a weak but significant association with horizontal trust (i.e., those perceiving a larger number to operate informally are more likely to purchase informally to pay a lower price)

Analysing the consumers more likely to cite social or redistributive rationales, meanwhile, the third column of data in Table 2 reveals

Table 2. Logit regressions of propensity to, and reasons for, purchasing from informal economy in FYR of Macedonia, Bulgaria and Croatia

	Purchased from informal economy Coef.(S.E.)	Reasons for purchasing in informal economy		
		Lower price Coef.(S.E.)	Social and/or redistributive reasons Coef.(S.E.)	Formal economy failures Coef.(S.E.)
Female	-0.266 (0.070)***	-0.018 (0.121)	0.034 (0.139)	0.094 (0.123)
Age	-0.004 (0.003)	0.004 (0.006)	0.004 (0.007)	0.016 (0.006)***
Marital status (RC: (Re)Married)				
Cohabiting	0.228 (0.128)*	0.482 (0.222)**	-0.107 (0.269)	0.017 (0.218)
Single	-0.095 (0.111)	-0.029 (0.192)	0.039 (0.216)	0.221 (0.199)
Divorced/ separated	0.495 (0.160)***	0.239 (0.267)	-0.141 (0.301)	0.048 (0.260)
Widowed	-0.124 (0.147)	-0.701 (0.255)***	0.305 (0.277)	-0.181 (0.259)
Employment status (RC: Unemployed)				

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Employed	0.146 (0.101)	-0.325 (0.176)*	-0.281 (0.196)	0.562 (0.180)***
Self-employed	0.593 (0.172)***	-0.210 (0.276)	-0.654 (0.349)*	0.639 (0.281)**
Retired	-0.180 (0.139)	-0.288 (0.245)	-0.383 (0.282)	0.267 (0.254)
Student and inactive	-0.249 (0.142)*	-0.174 (0.252)	-0.232 (0.283)	0.470 (0.265)*
Financial situation (RC: Struggling)				
Maintaining	-0.130 (0.083)	-0.169 (0.143)	0.027 (0.163)	0.089 (0.147)
Just comfortable	0.099 (0.099)	-0.225 (0.168)	0.102 (0.195)	0.422 (0.171)**
No money problems	0.419 (0.276)	0.164 (0.446)	0.623 (0.499)	0.442 (0.458)
Type of locality (RC: Rural area or village)				
Small or middle sized town	0.061 (0.088)	0.211 (0.155)	-0.039 (0.174)	0.144 (0.153)
Large town	-0.268 (0.081)***	0.068 (0.143)	0.034 (0.168)	-0.115 (0.148)
Detection risk (RC: Very small)				
Fairly small	-0.183 (0.090)**	0.011 (0.148)	-0.158 (0.171)	0.071 (0.152)
Fairly high	-0.501 (0.101)***	0.032 (0.175)	-0.220 (0.203)	0.080 (0.182)
Very high	-0.395 (0.126)***	0.339 (0.210)	-0.256 (0.245)	0.032 (0.218)
Expected sanctions (RC: Normal tax or social security contributions due, but no fine)				
Normal tax or social security contributions due, plus a fine	-0.073 (0.077)	0.082 (0.135)	-0.082 (0.150)	-0.308 (0.141)**
Prison	-0.395 (0.184)**	0.163 (0.332)	-0.715 (0.524)	-0.561 (0.323)*
Estimated share (RC: 50% or more)				
less than 5%	-1.506 (0.226)***	0.221 (0.418)	-0.047 (0.522)	-0.198 (0.378)
5 to 10%	-1.198 (0.142)***	-0.509 (0.278)*	0.562 (0.314)*	0.221 (0.296)
10 to 20%	-0.795 (0.121)***	0.091 (0.208)	0.522 (0.245)**	-0.448 (0.208)**
20 to 50%	-0.411 (0.090)***	-0.037 (0.152)	0.423 (0.192)**	0.002 (0.157)
Tax morale	0.114 (0.019)***	0.069 (0.032)**	0.022 (0.035)	0.005 (0.032)
Country (RC: of Macedonia)				
Bulgaria	0.147 (0.092)	-0.305 (0.165)*	-0.475 (0.199)**	1.094 (0.175)***
Croatia	0.251 (0.092)***	0.218 (0.161)	0.407 (0.180)**	0.945 (0.168)***
Const	-0.358 (0.213)*	0.181 (0.375)	-1.351 (0.438)***	-1.944 (0.402)***
Number of observations	6,019	1,321	1,321	1,321
Number of imputations	25	25	25	25
Prob > F	0.000	0.003	0.004	0.000

Significance: * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Source: Authors' own calculations based on the representative survey of 6,019 individuals in FYR of Macedonia, Bulgaria and Croatia

that this rationale is not significantly more associated with any population groups, with the exception of those who lack horizontal trust and perceive a large proportion of the population to participate in the informal economy. The fourth column of data examines consumers significantly more likely to acquire goods and services from the informal economy due to the failures of formal economy provision. These include older age groups, the employed and self-employed, and those who are not struggling financially. Those purchasing from the formal economy due to formal economy failures are not significantly more likely to do so when they view the penalties and risks of detection as higher, but are significantly more likely to be those who lack horizontal trust.

5. Discussion and Conclusions

This paper has for the first time evaluated the consumers in Southeast Europe more likely to acquire goods and services in the informal economy, and their motives for doing so. Reporting the results of 6,019 face-to-face interviews in Bulgaria, Croatia and FYR of Macedonia, the propensity to purchase goods and services in the informal economy is revealed to be significantly greater among men, the divorced/separated, and those living in larger urban areas, who perceive the penalties and risks of detection as lower, and who to a greater degree lack vertical trust (i.e., their norms, values and beliefs differ to the laws and regulations) and horizontal trust (i.e., they perceive a higher proportion of the population to engage in the informal economy).

Analysing consumers' motives for purchasing from the informal economy, the finding is that no one explanation for purchasing goods and services from the informal economy suffices. The conventional explanation that consumers purchase in the informal sector to pay a lower price is a motive in just 57.1% of cases, meaning that it is not cited as a rationale in the remaining

42.9% of cases. Social and/or redistributive rationales prevail in 25.1% of cases and formal economy failings in just under a half (48.9%) of cases. Across Southeast Europe, therefore, the acquisition of goods and services from the informal economy 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 Southeast European citizen are more likely to cite particular motives. Consumers more likely to cite the motive of a lower price include the unemployed and those lacking horizontal and vertical trust. These consumers are also more likely to cite social or redistributive rationales. Consumers displaying a propensity to cite formal economy failings, meanwhile, include older age groups, the employed and self-employed, those who are more comfortable financially, but who again lack horizontal and vertical trust, and perceive the expected sanctions as lower. This suggests that relatively more affluent groups are using the informal economy to overcome supply blockages in the formal economy and for expediency and quality rationales, whilst for less affluent social groups it is more about seeking lower cost goods and services, and to help out others.

Theorising consumer participation in the informal economy, the consequent implication of these findings is that they reveal that these are not competing explanations; they are not mutually exclusive. Instead, if the propensity of consumers to purchase goods and services in the informal economy is to be more fully explained, all these rival explanations are required. Even if the *homo oeconomicus* view that consumers are rational economic actors seeking a lower price is particularly prevalent, this paper reveals that it does not explain some half of consumers' purchases in the informal economy and at best, is only a partial explanation. A

quarter of purchases involve social and/or redistributive rationales, meaning that consumers are also social actors doing so for social needs purposes, and some one half of all consumer purchases from the informal economy are explained in terms of the failings of the formal market economy. All three explanations are therefore relevant, although some population groups display a greater propensity to cite some explanations and not others. Future research now needs to evaluate whether similar patterns prevail in relation to the prevalence of each rationale, and whether similar groups cite each of these rationales in other contexts.

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 2008b). The important finding of this study is that these deterrence measures, although significantly correlated with a lower prevalence of purchases in the informal economy, need to be supplemented by policy measures that deal with the lack of vertical and horizontal trust, and failings of the formal economy.

On the one hand, consumers display a greater propensity to purchase from the informal economy when they believe that many others do so (i.e., there is a lack of horizontal trust) and also when their norms, values and beliefs are not in symmetry with the laws and regulations (i.e., when there is a lack of vertical trust). Indeed, for those citing lower cost as a rationale, it is particularly vertical trust that needs to be dealt with, and for those citing social and/or redistributive rationales as well as formal economy failures, it is more horizontal trust that needs to be addressed. This requires

the use of policy measures to alter the norms, values and beliefs regarding both the extensiveness of the informal economy and the acceptability of participation. Such measures thus involve marketing and education campaigns to raise awareness about both the limited extent of participation as well as the benefits of formality and costs of operating in the informal economy. On the other hand, however, improvements are also required in formal goods and services provision. 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 quality assurance labelling to tackle the issue of reliability and quality.

It also requires the development of greater trust of citizens in formal institutions (Williams and Franic 2016; Williams and Horodnic 2015a). This will necessitate not only education and awareness raising campaigns but also changes in the formal institutions to resolve the deficiencies which result in a lack of vertical trust. On the one hand, this requires a modernisation of the formal institutions and quality of governance, by which is here meant pursuing improvement in the view of citizens that there is procedural and redistributive justice and fairness in how formal institutions operate (Molero and Pujol, 2012; Murphy, 2005). On the other hand, policy initiatives are also needed to change the macro-level economic and social conditions which previous studies show are associated with informality, including the level of welfare benefits and expenditure on social protection (Autio and Fu, 2015; Horodnic 2016; Thai and Turkina 2014; Williams and Horodnic 2015a,b).

If this paper therefore results in a move beyond simplistic one-dimensional theorisations of consumer motives and

towards a re-theorisation that recognises the different logics and drivers in different populations, then this paper will have fulfilled one of its major intentions. If this recognition then results in wider research on, and a more nuanced 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. What is certain, however, is that consumers can no longer be argued to purchase goods and services in the informal economy simply to get a lower price, and neither can it be assumed that the conventional deterrence approach is everywhere and always appropriate for tackling this realm.

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