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THE INVISIBLE HAND OF CORRUPTION: WHAT MATTERS FOR ENTREPRENEURIAL DECISIONS ON INFORMALITY IN BULGARIA? (SUMMARY)

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SUMMARY

THE INVISIBLE HAND OF CORRUPTION: WHAT MATTERS FOR ENTREPRENEURIAL DECISIONS ON INFORMALITY IN BULGARIA?

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Principal Topic

Fighting against the invisible hand of corruption and reducing levels of informal economy have progressively become critical targets in many governments' political agendas, as the adverse effects of illegal business practices have been widely recognised in policymakers' discussion as well as in academic research. The past decade has witnessed a boom in the empirical economic literature on causes and consequences of corruption and shadow economy.

In this context, the objective of our study is to analyse: (1) Why some enterprises are more likely to incline towards corruption and/or non-compliance with certain regulations than others? (2) Why and when some shadow entrepreneurs decide to go formal? and (3) What is the relationship between corruption and other forms of non-compliance?

Method

The empirical analysis in the current paper is based on unique micro data consisting of 478 enterprises founded in Bulgaria. The data is collected by means of structured interviews conducted during April 2004 by Vitosha Research Institute, following the victimization surveys approach in order to overcome the so-called reliability bias.

Results and Implications

The main findings suggest that instead of tax rates, the administration of taxes explains corrupt behaviour. The probability for a firm to pay for tax-evasion is 2.34 times lower than to evade administrative sanctions and 1.9 times lower than to speed-up administrative service delivery. Entrepreneurs, who are not connected with business groups or politicians, tend to pay more bribes, than those connected with. More precisely, well developed social networks measured by participation in formal versus informal organisations increase the odds of engaging into non-compliant activities by a factor of 2.36. However, the impact of informal organisations on the willingness to go corrupt is even stronger (2.81).

The size of company impacts adversely the concealment of economic activities. Large firms, for instance, prefer licit business due to the risk of inside abuses and losses, external pressure over warranties, and after-sales services. In this context, we found that corruption is a major problem for small firms, a mechanism to stay in the shadow and to survive in the long run.

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