The informal sector in transition: Tax evasion in an institutional vacuum

Gerxhani, K.

Citation for published version (APA):
The Tinbergen Institute is the Institute for Economic Research, which was founded in 1987 by the Faculties of Economics and Econometrics of the Erasmus Universiteit Rotterdam, Universiteit van Amsterdam and Vrije Universiteit Amsterdam. The Institute is named after the late Professor Jan Tinbergen, Dutch Nobel Prize laureate in economics in 1969. The Tinbergen Institute is located in Amsterdam and Rotterdam. The following books recently appeared in the Tinbergen Institute Research Series:

212. L.D. MEIJERS, *Ruimtelijke netwerken van de zakelijke dienstverlening.*
218. E. VAN GAMEREN, *The internal economics of firms. An investigation into the labour mobility within firms.*
223. B. VAN DER KLAAUW, *Unemployment duration determinants and policy evaluation.*
231. C.F.A. VAN WESENBEECK, *How to deal with imperfect competition: introducing game-theoretical concepts in general equilibrium model of international trade.*
242. S. Van Velzen, *Supplements to the economics of household behavior.*
244. E. Kuiper, *The most valuable of all Capital. A gender reading of economic texts.*
245. P. Klunsmitt, *Voluntary corporate governance disclosures; An empirical investigation of UK practices.*
251. E. Peek, *Discretion in financial reporting and properties of analysts' earnings forecasts.*
255. C.S. Bos, *Time varying parameter models for inflation and exchange rates.*
256. A. Heyma, *Dynamic models of labour force retirement; An empirical analysis of early exit in the Netherlands.*
263. H.C. Van der Blonk, *Changing the order, ordering the change. The evolution of MIS at the Dutch railways.*
This thesis discusses the informal sector, mainly focusing on the study of tax evasion. Individuals' decisions whether or not to evade taxes are the core of the studies presented here. The role of institutions in this individual decision is considered to be of crucial importance. As a natural consequence, the research is predominantly micro-economic. Two empirical methods are used to study the compliance decision. The first is the experimental method and the second consists of a large field survey based on written questionnaires and personal contacts. Focusing on two cases, Albania (a country in transition) and the Netherlands (a developed country), an important outcome is that there are significant country and group differences with respect to tax compliance. This supports one of the main arguments in this thesis, which is that the informal sector in a developed country differs in many significant ways from the informal sector in a country in transition. The distinct relationship between formal and informal institutions is argued to be an important element in these country differences. Given that differences in institutions in Albania and the Netherlands are controlled for in the experiments and tax evasion outside of the laboratory is higher in Albania, this book provides evidence that the different levels of tax evasion in the two countries are not attributable to different tax norms and attitudes, but to different formal institutions (e.g., tax institutions) and their 'informal use' by individuals.

Klarita Gërzhani graduated with an M.A. degree in Marketing at the Faculty of Economics, University of Tirana, Albania in 1996. After graduation, she worked as a research fellow at the Albanian Center for Economic Research (ACER) and later as a Marketing Specialist at the Albanian Social Marketing Association (ASMA) in Tirana. In the period 1997-2001, she completed her Ph.D. studies at the University of Amsterdam. She is currently affiliated with the Faculty of Social Sciences at the University of Amsterdam in a Post-doc position on institutions, trust and network formation.