

Unproductive Entrepreneurship, Institutional Change, and the Informal Economy: Entrepreneurial Potential in Moldova

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Abstract

Entrepreneurship is often ubiquitous in developing countries, and many entrepreneurs operate in the informal economy and are often involved in unproductive activity. While entrepreneurs seek to maximize their returns given the existing institutions, they also respond to the level of state capacity and the supporting structures of national and regional governance. We tackle the question of governmental legitimacy given that entrepreneurs in Eastern Europe operate in states with weak governance institutions. We test the degree to which the standard maximization of private returns decision holds by surveying informal entrepreneurs in the Republic of Moldova. The institutions that determine high versus low state capacity motivate entrepreneurs toward a productive or unproductive use of resources and the capacity of government also impacts their pursuit of private returns resulting in higher social costs. We find that Moldovan entrepreneurs evade taxation for reasons beyond simple maximization rules.

Keywords: entrepreneurship, talent, informal economy, development, tax compliance, institutions, Unproductive Entrepreneurship, state capacity

JEL Codes: O52, P26, L26

1. Introduction

Developing countries rely heavily on entrepreneurial behavior for economic progress and increases in standards of living. This entrepreneurial behavior takes many forms and is driven by the institutions that frame individual incentives. William Baumol (1990) wrote about this phenomena analyzing from a historical perspective the behavior of entrepreneurs since Ancient Rome, and he concludes that entrepreneurial behavior is not driven by some “spirit of entrepreneurship” that either exists or not within a specific society. Rather, it is not a lack of entrepreneurship that impedes economic development but a skewed reward structure that drives this behavior toward unproductive activity. The institutions within the countries of the former Soviet Union are still evolving, as democratic forms of government and market activity struggle to take hold after decades of communism. Entrepreneurs find themselves at a point in this evolution where the choice still exists whether to choose a productive versus unproductive use of their resources, and this choice has profound implications for the

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future of economic development.

In addition to Baumol's seminal research, Murphy et al. (1991) and Acemoglu (1995) find that the rewards that exist in a particular context determine how talented individuals will utilize their resources. One example of entrepreneurial effort described as unproductive by Baumol is the means by which entrepreneurs engage in tax evasion and avoidance. This effort represents a drain of resources away from productive uses, and it also pushes economic activity into the informal economy. Both of these uses of resources, tax avoidance and efforts to operate in the underground economy, are problems that plague developing countries. The "black" economy exists for many reasons due to, lack of adequate jobs in the formal sector, lack of skills and education to seek employment in the formal sector, and ease of entry, to name a few; yet, the incentives are broader and are driven by the overall institutional framework and state capacity in these countries. In some countries with low state capacity, specifically those transitioning countries of Eastern and Central Europe, lack of trust in government pushes entrepreneurs into the informal economy as well (Wallace & Latcheva, 2006). This informal economy operates both illegally and with governmental sanction, but the entrepreneurs often choose this path for reasons specific to perceived governmental legitimacy.

Since the collapse of the Soviet Union, countries in Central and Eastern Europe have transitioned from command style economic and political systems to those more market-based and democratic. This path of transition has occurred at varying rates within these countries, and the institutions that both support this change and that are necessary for this change to occur dramatically impact resource allocation within these countries. North (1990) explains how these institutions, the formal and informal rules that govern economic activity, can encourage entrepreneurial activity and also constrain it given the opportunities and incentives that exist. Thus, as the institutions evolve and civil society deepens the trust relationships between individuals, the market, and the state; entrepreneurs will utilize their resources differently (Fukuyama, 1996). This is a complex system of relationships, and many times the institutional framework pushes (or pulls) entrepreneurs into the informal (underground, black) economic sector due to weak institutions.

The decisions for entrepreneurs to utilize their resources for productive versus unproductive means is a crucial one. As North explains, entrepreneurs are the agent of change and they are both guided by the existing institutions in which they operate, but they are also agents that help institutions evolve and strengthen. Since the process of change is "overwhelmingly" incremental, it is necessary for entrepreneurial decisions to lead toward productive outcomes.

In this paper we analyze this informal sector in the Republic of Moldova in order to understand how individual entrepreneurs view paying taxes, their rationale for tax avoidance, and their perceived trust in institutions. In this post-Soviet economy, a question that hinders development is whether the problem of tax avoidance is embedded in the decision to invest in the informal economy or are there other institutional factors which direct entrepreneurial resources away from formally reporting income. One solution might be following the trend of several Eastern Europe economies that have adopted a flat income tax system, and previous research indicates that this simplification of the tax code has improved compliance thus lessening evasion

(Ivanova, Keen, & Klemm, 2005).

In order to investigate the problem of tax avoidance in Moldova we survey entrepreneurs in the informal sector, questioning their behavior toward taxation and the reasons behind their decisions. It is believed that institutions make the difference in how entrepreneurs utilize their resources, but that this choice is not simply one of profit maximization. There is a much deeper incentive toward unproductive uses of resources that catalyzes entrepreneurs to use their talents in activities that ultimately hinder the effectiveness of government and the development of civil society.

Recently, Weitzel et al. (2010) analyzed the allocation of entrepreneurial talent determining whether the institutional incentives drive these entrepreneurs to the highest private returns regardless of the activity. In experimental testing they find that the type of entrepreneur, creative versus business talent, explains the differences in productive, unproductive, or destructive entrepreneurship. In short, they find that the more business talented (and less creative) the entrepreneur, the more likely they will pursue the highest private return regardless of the social cost. We find evidence that supports this experimental analysis, yet the institutional incentives are more complex than this research or previous research suggests. Specifically, tax evasion represents a social cost and previous models of entrepreneurial choice indicate that the highest private returns, regardless of social returns, determine entrepreneurial decisions (Murphy et al., 1991). We find this to be true to a point, but trust in the ability of government to use resources for socially optimal outcomes significantly impacts the decision to evade. The institutions that determine high versus low state capacity motivate entrepreneurs toward a productive or unproductive use of resources and the capacity of government also impacts their pursuit of private returns resulting in higher social costs.

What follows is an analysis institutional change in transition economies and an examination of the informal economy in Moldova (to what extent does entrepreneurial activities elude government reporting). In addition, we tackle the question of how these entrepreneurs utilize their resources given that they operate in a state with weak governance institutions. Is their decision to avoid formal reporting and subsequent tax laws due to a simple calculation of maximizing private returns, or are these entrepreneurs also considering the social cost of their decisions? Thus, we report on a survey of entrepreneurs operating in the informal economy in order to better answer how the institutional framework of Moldova incentivizes unproductive entrepreneurial behavior. We conclude with policy recommendations that are targeted at improving the allocation of entrepreneurial resources.

2. Institutional change

Institutions are an essential component of the market process and subsequent entrepreneurial activity. Economists define institutions as the rules of the game in society or the “humanly devised constraints that shape human interaction” (North, 1990, p. 3). Institutions allow people to interact and transact in a market because of the establishment of trust and the reduction of uncertainty. These constraints on people's choices can be formal in that they are written down, or they can be informal, tacit rules that are difficult to articulate (Harper, 1998). Institutions consist of governing laws, contracts, property rights, and other legal and operational codes that provide

predictability. In post-Soviet transitioning economies, institutions are evolving and the pace of economic transition in the countries of Eastern Europe depends on the rapidity of institutional change. Since the remnants of an institutional framework that developed under communism still abounds in these countries, the entrepreneurial opportunities that exist are shaped by incentives that may not lead to productive market-based development and change.

A problem that plagues entrepreneurs in these countries is a lack of trust in the enabling institutions that structure entrepreneurial opportunities. So, one means of analyzing the current institutional framework is to analyze the behavior of entrepreneurs that operate in a post-Soviet economy. Economies at varying stages of transition since the collapse of communism can be a useful environment to study institutional change, and focusing on entrepreneurial decisions in these countries helps to more clearly understand the strength of the existing institutions. For example, a predictable and efficient regulatory regime helps to facilitate economic development by promoting productive entrepreneurial decisions (by reducing transactions costs and uncertainty), but inadequate and corrupt institutions constrain growth and encourage unproductive behavior. In Moldova, Welter and Smallbone (2011) note the example of a minibus driver who sought to start a transportation business. It took several months for her to obtain a license at a cost of bribing each agent she was forced to meet with, and once she began her route she was forced to bribe the police and the State Traffic Inspectorate in order to remain in business.

Institutional change takes time, and the informal institutions which are embedded in society often change more slowly than the formal ones. Also, institutional change does not mechanically affect entrepreneurial behavior because of the lasting presence of communist identity which constrains the informal changes even as formal change occurs (Chavance, 2008; Welter & Smallbone, 2011). Entrepreneurial decisions provide a particularly insightful picture as to the level of both formal and informal institutional strength of a transitioning economy, because these local business owners have a realistic picture of the strengths and weaknesses of the current environment. As indicated above, the extent to which decisions are made to engage in unproductive entrepreneurship (evading both taxation and operating in the formal economy) are a strong indication of the strength (weakness) of the existing institutions.

As this process of institutional change transpires, entrepreneurs are both drivers and responders to these evolving patterns which structure their incentives. Entrepreneurs are often viewed as responders to the rules of the game, but they also may play a role as change agents that help improve institutional deficiencies (Frank & Shockley, 2011; Kalantaridis, 2007). In post-socialist economies, the transparent institutional weaknesses are well documented, namely corruption within the government, yet the struggle to develop strong informal institutions is a primary part of the economic development struggles in these countries. An analysis of entrepreneurial behavior in the informal economy highlights this dual role of entrepreneurs both responding to the existing institutions and making decisions that alter the existing institutional framework.

3. The informal economy in Moldova

The informal economy is a broad term referring to economic activity that exists

outside of formal government regulation. This activity may consist of the “black” economy, household production, or other economic activity that hidden from the formal sector (such as unreported economic activity that may have a loose formal structure). The existence of the informal economy is, to a degree, common among all nations. Yet, in developing countries or those transitioning in Central and Eastern Europe the informal sector is in part a legacy from the collapse of communism. After the fall of the Soviet Union, entrepreneurs began to utilize new opportunities for profit in the burgeoning market economy that followed political change. As the institutions have evolved in these post-communist countries, so have the incentives that catalyze opportunities for entrepreneurs. Countries with more rapid transition from communism have seen a predominance of economic activity in the formal sector, while others that have taken a slower path to change maintain a large percentage of informal economic activity.

According to World Bank data, Moldova is the poorest country in Eastern Europe with a GDP per capita of \$1,631 in current dollars (2010). Only Tajikistan, Kyrgyzstan, and Uzbekistan have a lower GDP per capita of the former Soviet countries. As with many countries with low GDP per capita figures, there is considerable evidence that a significant portion of economic activity goes undeclared. In Moldova, much of the previous research has put the size of the informal economy averaging between 45 percent and 50 percent of GDP (Schneider, 2005; Schneider & Buehn, 2009). In 2009 it is estimated that 30% of the Moldovan labor force maintained an informal job. Recent research for European Union (EU) countries suggests that the driver of this labor force location decision is not what earlier research has indicated. When analyzing all 27-nations in the EU, just 16% of undeclared workers admit that participating in such work is due to lack of employment opportunities in the formal sector (Williams, 2009). A study of this magnitude has not occurred in former Soviet economies; yet entrepreneurial location choice is much more complex than simple marginalization from the formal labor market.

One driver of entrepreneurial behavior in the informal economy is the level of state capacity. Specifically, to what degree have governmental institutions evolved since economic and political transition in post-Soviet countries? State capacity is measured, in part, by the degree of corruption (actual and perceived), governmental effectiveness, regulation, and rule of law. One measure, the Corruption Perceptions Index (CPI), annually ranks countries by their perceived levels of corruption, as determined by expert assessments and opinion surveys. According to the CPI for 2010 (see table 1), Moldova scored 2.9 corresponding to the rank of 105th among the 178 countries scored (the last rank held by Somalia). Also, several studies show that countries with more regulation of their economies have larger informal economies. For example, among 84 developing, transition, and advanced economies, a one point increase in the regulation index (ranging from 1 to 5) is associated with a 10 percent increase in the informal economy.

Table 1. Corruption Perceptions Index of Select Countries

Country	Corruption Perceptions Index score & world rank		
	1999	2009	2011
New Zealand	9.4 (#3)	9.4 (#1)	9.5 (#1)
Finland	9.8 (#2)	8.9 (#6)	9.4 (#2)
Denmark	10.0 (#1)	9.3 (#2)	9.4 (#2)
Sweden	9.4 (#3)	9.2 (#3)	9.3 (#4)
Singapore	9.1 (#7)	9.2 (#3)	9.2 (#5)
Estonia	5.7 (#27)	6.6 (#27)	6.4 (#29)
Georgia	2.3 (#84)	4.1 (#66)	4.1 (#64)
Romania	3.3 (#63)	3.8 (#71)	3.6 (#75)
Moldova	2.6 (#75)	3.3 (#89)	2.9 (#112)
Belarus	3.4 (#58)	2.4 (#139)	2.4 (#143)
Russia	2.4 (#82)	2.2 (#146)	2.4 (#143)
Ukraine	2.6 (#75)	2.2 (#146)	2.3 (#152)
Uzbekistan	1.8 (#94)	1.7 (#174)	1.6 (#177)

Source: www.cpi.transparency.org

In general, but more specifically in transitioning countries, individuals are highly mobile between the official and the informal economy, and as wages in the formal economy rise, this shifting between sectors is lessened. The process of transition in Moldova's labor market followed from a reduction in both wages and employment in the public and quasi-public sectors, and at the same time there has been only a slow increase in private sector employment. Although many are employed in the formal sector, they may not make adequate income at their official job. One contributing factor has been government regulations which substantially raise the cost of labor to firms in the formal sector; such as license requirements, labor market regulations, trade barriers, and labor restrictions for foreigners. Employers in the formal economy shift most of the associated costs onto their employees giving them a strong incentive to move into the informal economy.

An additional measure of regulation is the World Bank governance indicator of regulatory quality. This index captures perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development. As institutions evolve, a primary role of government is to establish a framework where economic activity operates in a transparent and stable environment. Markets have a difficult time thriving in a country where regulation causes unpredictability and burdensome hurdles for entrepreneurs to contend with. Table 2 shows the ranking and governance score for countries in Central and Eastern Europe, and as indicated, Moldova is still struggling to weed out both corruption and the corresponding regulatory burden that often plagues weak states.

Table 2. Regulatory Quality in Select Central and Eastern European Countries

Country	Percentile Rank (0-100)	Governance Score (-2.5 to +2.5)
Estonia	91.9	1.45
Czech Republic	85.2	1.24
Hungary	81.8	1.05
Poland	79.4	0.97
Romania	74.2	0.66
Bulgaria	71.8	0.61
Georgia	70.8	0.58
Armenia	58.4	0.28
Moldova	49.3	-0.12
Russia	38.3	-0.39
Ukraine	32.5	-0.55
Belarus	9.6	-1.17
Uzbekistan	3.8	-1.59

Source: www.info.worldbank.org/governance/wgi/index.asp

4. Taxation and the informal economy

Previous research has found strong evidence that the tax regime influences the informal economy. In Austria, the burden of direct taxes (including social security payments) has been the biggest influence on the growth of the informal economy, followed by the number of regulations affecting firms and workers, and the complexity of the tax system. Other studies show similar results for the Scandinavian countries, Germany, and the United States. In the United States for example, analysis shows that as the marginal federal personal income tax rate increases by one percentage point, other things being equal, the informal economy grows by 1.4 percentage points.

In developing and transitioning economies the data reveals a similar trend, which is simply that the tax regime does influence both compliance and the size of the informal economy. But, the size of the informal economy and the level of tax compliance has more to do with the overall trust in government in these countries (Wahl, Kastlunger, & Kirchler, 2010). While the size and scope of the informal economy may depend on the tax burden faced by entrepreneurs, in developing countries this sector is more heavily influenced by overall trust in public institutions. A self-fulfilling system results in that less trust and more corruption leads to tax evasion (Joulfaian, 2009), and more evasion leads to government fiscal problems, and thus new and sometimes complex systems of taxation result in order for government to acquire revenue. Additionally, the result is also a more complex tax system and this complexity hinders compliance as well. As mentioned above there is evidence that a simplification of the income tax system, such as a flat tax common in Eastern Europe, does improve compliance.

Thus in many European countries, including Moldova, other sources of tax revenue have become crucial for the fiscal needs of the state. The value-added tax (VAT) has been the largest contributor to tax revenue in Moldova in recent years. Between 2004 and 2005 it produced nearly 50% of total consolidated budget revenues with over 87% coming from the VAT collected on imports. In 2011, VAT and excise taxes comprised approximately 70% of the total revenue, while corporate and personal income taxes each supply only about 10% of fiscal revenues. The government has aimed to broaden the tax base and increase revenues coming from direct taxation and reduce tax rates. Since 2001, the corporate tax rate has been reduced from 28% to 20% in 2004 and currently has fallen to 15%; and for personal income taxes the highest marginal rate declined from 32% to 25% and is currently 18% on all income over 25,200 MDL (\$2,136 USD) and 7% on income up to 25,200 MDL. Additionally, a corporate tax amnesty was in effect from 2008-2012 that has just recently ended.

Once again there is still an effort to deal with the fiscal needs of the public sector, while trying to establish legitimacy within the government, thus the need for alternate sources of tax revenue. With so little revenue generated by income taxation, partly due to evasion, and such a high percentage of revenue gleaned from VAT taxes, the Moldovan government has limited policy options. As mentioned, the tax amnesty is a policy tool used to give evaders an opportunity to voluntarily pay their tax obligation without penalty. The impact of this recent Moldovan amnesty program is not yet documented, but past research indicates that firms are unlikely to participate unless significant tax system changes are enacted. The evidence of any significant system-wide change is not currently being reported.

5. Allocation of entrepreneurial resources in the informal economy

In order to measure the level of tax avoidance and the rationale for operating in the informal economy, we surveyed entrepreneurs in open urban markets within Chisinau the capital city of Moldova. Chisinau is the business and population center of Moldova with about one-third of the country's 3.5 million residents. As in many developing countries, Chisinau is a city of contrasts with large business and industrial centers adjacent to areas with a sizable presence of informal entrepreneurs. There are several open markets and street vendors throughout the city, and these areas are arranged into more formally defined areas to various street merchants establishing a business on the sidewalk.

We surveyed two open markets, one located just outside the city center in one of the five main regions of the city and the central market in the heart of the downtown region. A randomized sample of entrepreneurs operating in varying parts of the retail goods sector was surveyed. The survey sample included entrepreneurs who produced their own goods from growing agricultural products to making other food items, to importers of household goods and clothing, to sellers of goods purchased from national wholesalers. Of those surveyed, seventy-nine percent were female entrepreneurs and just under half (47%) sold agricultural goods. One-third of the sample sold clothing leaving twenty percent that sold household goods or other items. Additionally, just over forty percent reported that they purchase their goods from national wholesalers about one-third either import their goods or do a combination of importing and buying local. The remaining, approximately twenty-five percent, produces the goods that they sell.

Part of the survey was designed to get a picture of how these entrepreneurs view and subsequently treat their obligation to pay taxes and comply with the existing laws that govern entrepreneurial activity in Moldova. Table 3 presents a summary of these questions and the survey responses.

Table 3: Survey Responses

Question (n)	Yes	No
Do you keep records of your income? (52)	62%	38%
Do you keep records of your business expenses? (52)	46%	54%
Do you report any income to the government? (49)	47%	53%
If yes, do you report your exact income? (34)	24%	76%
Besides income tax, do you pay other taxes? (51)	55%	45%
Do you think the reporting system is efficient and clear? (50)	16%	84%
Do you think the money collected is used properly? (51)	2%	98%
Did someone explain the need for reporting your income and its ways? (50)	12%	88%
Have you seen any improvement technical or organizational improvement in your market during the past 2-3 years? (52)	4%	96%

In addition to these questions, the entrepreneurs were asked more detailed questions in order to analyze their rationale for avoidance and their perceived trust in the state institutions where their money is sent. On average, those surveyed perceived that only about one-quarter of their fellow entrepreneurs report their income to the government. Also when asked what is the main reason for not reporting all of their income, approximately sixty percent responded that the government is corrupt or it is too weak (ineffective). About half also responded that if they paid taxes it would leave them with too little income to live on.

Finally, those surveyed were asked a general question about how to improve state capacity, and they were asked to give further details on their trust in government as it relates to their willingness to evade taxation. Forty-five percent of the entrepreneurs claim that the area that needs the most improvement within the government is the taxation system.

Additionally, fifty-five percent claim that the legal and justice system are the weakest areas of national governance. The entrepreneurs surveyed were also asked

whether paying taxes for the public good (i.e. being socially responsible by paying taxes honestly) would benefit their business and their profitability. Seventy percent of those responding answered that the overall state capacity is too weak (due to corruption or other inefficiencies) to incentivize a socially responsible motivation for tax compliance.

6. Discussion

The survey results presented here reveal important features of the informal economy in Moldova and the nature of unproductive entrepreneurship in terms of tax avoidance. These results cannot be universally applied, but they do reflect some generalizable entrepreneurial behaviors in places with weak state capacity. First, the allocation of effort toward tax avoidance, as a form of unproductive entrepreneurship, is not a decision made solely given the maximization of private returns. Given the institutional framework, there exists an obvious pull of entrepreneurial behavior toward the informal economy and an incentive to evade taxation. Yet, the data demonstrate that these decisions are not one-dimensional (Weitzel et al., 2010). The decision to avoid taxation is significantly influenced by both the perceived efficiency of the tax system and the overall perception of state capacity. This decision is not determined by maximizing private returns (given the risks involved in evading) alone.

Second, the results presented here reveal that socially motivated compliance to tax laws is driven by overall state capacity. While not a surprising result, this does create a dilemma for developing economies with weak governmental institutions. It is difficult to strengthen institutions without resources and it is difficult to attain resources without strong institutions. This fact is evident in the informal economy in that of those entrepreneurs surveyed, those that sought to "play by the rules" were frustrated by others who broke the rules and paid bribes for the authorities to look the other way. For example, one of the entrepreneurs surveyed who pays rent for a booth in one of the open markets complained that paying taxes is difficult when some of her primary competitors sit on the street and sell goods without paying rent for a booth in the market. This practice is illegal, but there is no enforcement mechanism which removes illegal sellers from the street corner. Additionally, some of these street vendors are operating because they have no other source of income.

Lastly, those entrepreneurs who commented on their rationale for tax avoidance spoke about the relationship between government and the formal sector. As indicated, most of the entrepreneurs blamed general corruption within government for their unwillingness to pay taxes, but several respondents also complained about the relationship between government and "big business" in the formal economy. The perceptions of those surveyed in the informal economy are that many formal sector entrepreneurs are benefitting from political favors that allow them to evade taxation (to some degree) as well. Thus, the evidence gathered here indicates that formal sector entrepreneurs are also using resources for unproductive means as they seek to extract rents from the public sector. The pervasive nature of these efforts is not formally documented, but in talking with one formal sector

business the perception is the "most" firms keep two sets of books; one set for their own record keeping and one set available for the public officials."

7. Conclusion

The informal sector is still a very important part of the Moldovan economy, and those who operate in this sector constitute almost one-third of the labor force. Previous research indicates that within a developing country, the entrepreneurs who operate in this sector do so for diverse reasons, but the data gathered here indicates that economic decisions in the informal economy are more complex than previously thought (Temkin, 2009). That is, maximization of private returns regardless of the cost is not the only factor which explains the use of entrepreneurial resources in the informal economy. The question that remains is how to change the incentives whereby these informal entrepreneurs will choose not to use resources for the purposes of tax evasion. This research suggests that the answer lies primarily in the overall level of state capacity and the perceived legitimacy of government.

The effect of changing the taxation system should not be ignored as a viable policy option for Moldova. As indicated above, without a system-wide change (either in policy or enforcement) it is very difficult to change the behavior of those entrepreneurs who utilize their resources to avoid taxation. This is especially true in countries where governmental legitimacy is in question, which is the pervasive belief throughout the Moldovan economy. A significant policy change has the benefit of signaling a shift in the legitimacy of government, and often this perceived change in legitimacy can begin to build the informal institutions (such as trust) that remain essential of economic development. Examples from other former Soviet countries demonstrate that corruption (both by public officials and citizens) is self-reinforcing, yet when people believe they can trust government and each other, they tend to reciprocate and behave fairly (Tavits, 2010).

Policy aimed at removing corruption and incentivizing institutional change, both formally and informally, is often catalyzed by educational reforms. The belief that economic growth leads to better political institutions due to improvements in human capital has long been posited by Lipset (1960), and has been empirically tested examining the differences in development between North and South Korea (Glaeser, La Porta, Lopez-de-Silanes, & Shleifer, 2004). These results indicate that increased education, even under less democratic regimes, can lead to improved institutions that eventually improve democracy and development. Recent research supports this claim that better educated people are more likely to report corruption, and more reporting links to improvement in the quality of government and subsequent growth and development (Botero, Ponce, & Shleifer, 2012).

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