bias. The authors refrain from spruiking their own research inappropriately, and highlight the work of those who have made significant contributions to the field. In short, it is an excellent example of everything a quality academic text can be.

All academic texts are subject to 'wish lists' from reviewers – there are numerous areas of microfinance that this book only touches on, such as the role of commercial banks in microfinance provision, and I personally would have liked to see a more detailed discussion of impact assessment methodologies and the role microfinance should play in facilitating the movement of informal businesses into the formal economy. But the book is an appropriate length, and each chapter can be used as the basis for a postgraduate-level lecture. I hope MIT Press will publish a paperback version, as a cheaper print would make the book more accessible to students from developing economies where microfinance is so important.

This book is essential reading for academics, researchers and postgraduate students of microfinance and development economics. It is also highly recommended for those interested in going beyond the marketing of microfinance: it provides a clear view of the reality behind the window dressing.

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Size, Causes and Consequences of the Underground Economy: An International Perspective, by Christopher Bajada and Friedrich Schneider (eds) (Ashgate, Aldershot UK, 2005), pp. xi + 295.

This is a collection of 14 papers by 19 authors, edited by leaders in the field. Bajada has two recent papers in *The Economic Record* on the subject, as well as other journal articles and several books, while Schneider lists an enormous professional output on his website, half of which relates to *Schattenwirtschaft* ('shadow economy'). Other contributors to this volume, notably Bruno Frey and Steinar Strom, have been writing in the area for decades.

The literature generally is plagued by vague and changing definitions. Sometimes these are coded in various adjectives: underground, shadow, black, informal, unobserved, unrecorded, unreported, unofficial, irregular, cash, hidden, parallel, etc. Writers also vary their choice of expression for artistic effect or to avoid repetition, whereas terms such as 'underground economy' are given different meanings in different contexts. Most of the chapters in this book that make 'size' calculations are attempting to measure shortfalls in official gross domestic product (GDP) estimates, although in one case the focus is the gap between actual and potential tax collections. In contrast, the 'causes' are typically motives for compliance or non-compliance with tax laws. The third part of the title, 'consequences', is given less attention in the book, although when it is addressed it embraces a much broader agenda including welfare fraud and evasion of labour and product-quality regulations. The reader who expects the Editors to impose consistency in definition and terminology will be disappointed.

The larger part of the book considers tax compliance in relation to national characteristics and institutions, with Australia getting much of the attention. Natalie Taylor examines the influence of taxpayer perceptions of legitimacy of the Australian Tax Office (ATO) and fairness of the tax system on their voluntary declaration of non-standard income components. The social demographics of Australians who deal in cash to avoid tax are explored by Valerie Braithwaite and colleagues. These two studies use data from a survey conducted by the Centre for Tax System Integrity at the Australian National University. Bajada has a chapter describing the official efforts in Australia to prevent tax evasion through unreported cash transactions, although it is mostly a summary of parliamentary reports and ATO press releases.

Other countries are represented. Frey and Lars Feld use data from Switzerland to illustrate their theory that tax 'morale' causes compliance, and that morale is derived from a host of social and political attitudes as well as from the perceived benefits of being an economic insider. Kim Bloomquist and colleagues from the US Internal Revenue Service describe the enforcement activities of that agency and its measurement of the tax gap. They say, wisely: 'The tax gap, however, is not synonymous with the underground economy – not even with the tax forgone due to the underground economy.' More reportage by Bajada describes the recommendations of the Grabiner report on the underground economy in the UK, and the response by the government of that country. This chapter, which is partly based on an interview with Lord Grabiner, does contribute some interesting anecdotes to the book's coverage of ‘consequences’. Closing the book, Simon James examines some broad theoretical perspectives and practical policies for managing taxpayer compliance.

The measurement or ‘size’ chapters are of particular interest to this reviewer. They are the most controversial – and the weakest. A long chapter by Schneider and Bajada purports to show the size of the underground economy in 145 countries, and the changes in that magnitude over a 3-year period. They pay lip service to the problems of definition, but never say what they are actually measuring. The nearest is the observation that ‘[o]ne commonly used working definition is all currently unregistered economic activities that contribute to the officially calculated (or observed) GDP,’ which seems to be missing a crucial negative! Too much space is wasted in a survey of methods they do not use, but little is said about where their numbers actually come from. The precision of the calculations is astounding (for example, we are told that in Kazakhstan it increased from 44.1 to 45.2 per cent of GDP between 2001 and 2002), but there are no standard errors or other indications of uncertainty in these estimates. What is worse, it is impossible to reconstruct these results from the documentation that is provided here or in the other Schneider papers on which this chapter is based. Neither the data nor the model details were forthcoming from Schneider when I asked for them.

Dilip Bhattacharyya reports research that is a decade old, as indicated by results that stop in 1990. The author tries to defend the currency demand model and results of his influential *Economic Journal* article against the derision of Jim Thomas in a later issue of the same journal. We can speculate how much more fun Thomas might have had if he’d noticed that the model is unidentified. Here we are told that a crucial parameter ‘... cannot be estimated freely along with other parameters of the model.’ Further evidence of identification failure – if such is needed – is found in the admission that routine official data revisions will overturn the results. There are also reported t ratios in the tens of millions, which surely indicates that estimation of the non-linear model has stalled at a cusp or corner. Inference made using this model in the *Economic Journal* and elsewhere is clearly nonsense. In this case, I was told that the original data have been lost in the years since the calculations were made.

The chapter by Lindsay Tedds is a reprise of her book on Canada 3 years earlier with David Giles. She claims to be measuring transactions unreported to the revenue authorities, not shortfalls in official GDP, but it is unclear how that could be so, when the overall level of the calculation is established from the fluctuation in currency demand relative to GDP. There are some technical differences from the earlier work, although the method is basically the same and a reader could be forgiven for thinking that the new results are merely fine tuning. However, the growth in estimated underground activity relative to GDP over the 20-year period covered by the book has been revised down by a factor of *five*, from 350 to 70 per cent. The difference is due to her use of a real variable where their previous results were tracking a variable in current dollars. My repeated requests for access to the data for this study were at first deferred and then ignored.

In a departure from the macro data used in the other estimates of magnitude, Strom and his colleagues use data from repeated surveys to map involvement in underground activities in Norway. They find that participation is not extensive, that it has reduced with time, and that it is not strongly linked to prevailing tax rates. These findings contradict what is frequently insinuated elsewhere in the book (especially in chapters written by the Editors). As in the Braithwaite study of Australia, also based on survey data, the most likely participants are profiled to be young males who think there is little chance of being caught.

Dominik Enste (a frequent co-author of Schneider) regresses a ‘shadow economy’ measure on various explanatory variables, one at a time. The dependent variable comes from estimates in his own obscurely published papers, but it is treated here as data. The explanators are variables from which such estimates are usually constructed (size of the public sector, level of taxation, etc.). Not surprisingly, these cross-country regressions have the expected signs and strong fits.

In one of the better contributions, Peter Spiro explores the impact of different forms of taxation on underground activity. He shows a healthy scepticism of macro estimates and of tax policy that is driven by ideology rather than evidence. He delves into the business structure of the underground economy and asks why labour productivity is apparently much lower among the self-employed. Among his prescriptions is a call for more use of micro data to see the effects of different tax policies.

Unsurprising for such diverse authorship, the papers in this volume are variable in both orientation and quality. A stronger hand by the Editors might have given the work more unity. But then their own contributions are among the weakest, so maybe it was better to give the authors their heads.

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Markets in Vice, Markets in Virtue, by John Braithwaite (The Federation Press, Leichhardt, NSW, Australia, 2005), pp. xiv + 236.

Braithwaite states from the outset that 'this is a book about competition policy, globalisation and how national regulatory polices can respond to some of the problems these create' (p. xv). However, his central thesis is the subject of aggressive tax planning, more specifically tax avoidance. He argues that tax avoidance belongs to a group of 'vices' such as paedophilia, pornography, drugs, corruption and gambling that tend to thrive in globally competitive and deregulated markets. He argues that such markets steer the production of social bads just as much as steering the production of social goods.

Braithwaite points his finger at the supply end of the market as the main cause of aggressive tax planning in Australia and the USA, arguing that it has created a responsive market of scheme investors. The saying 'If you build it, they will come' could appropriately be applied to this new wave of tax planning advice comprised of promoters and financers who have devised creative investments and captured the interests of the big four accounting firms. According to Braithwaite, 'finance houses of various kinds are important players in the aggressive tax playing market' (p. 44), including stockbroking firms, investment banks and large insurance companies; they are a motivating force behind many of the aggressive tax planning products. In the case of markets in vice, the dynamic between supply and demand offers rich information as to the reasons why aggressive tax planning in Braithwaite's framework is viewed as a social phenomenon rather than being weighed down in the more traditional and technical literatures.

Braithwaite's concern with the suppliers bravely offers an alternative to the central preoccupation of some frameworks with the weakness at the demand end of the market. Regulators commonly tackle the demand side as the fundamental problem; however, Braithwaite suggests that when it comes to aggressive tax planning, this line of attack requires revision. Braithwaite's approach to the vice market offers a fresh perspective on underlying reasons. First, his framework is broad and inclusive to the social impacts of globalised, deregulated and competitive markets. Second, he focuses on the supply side without neglecting the influence and problems of the demand side. Third, he demonstrates how markets are in fact malleable and fluid, which enable them to flip from vice into virtue.

The third point is one of the key strength of Braithwaite's book, reversing or rather reconstructing a market from vice to virtue. And, he leaves you in suspense to the very end. The flip is orchestrated with him identifying nine key mechanisms and processes, including imposing heavy promoter penalties, using the techniques of restorative justice, targeting the clients of 'A'-list promoters, banning contingency fees, instituting tax shelters and book-tax disclosure rules, educating investors to the risks of aggressive tax planning, and integrating the public and private markets for tax advice. Braithwaite advises that none of the nine strategies should be used in isolation given that their effectiveness in flipping a vice market works better in conjunction with one another.

Braithwaite's application of 'responsive regulation' exemplifies the Australian Taxation Office's style in managing tax avoidance issues, past and present. From a command and control framework in the 1970s and 1980s moving forward with 'responsive regulation' and 'meta risk management' in the 1990s, the Australian Taxation Office enforcement activity focused on a tax-paying culture of compliance, which fosters self-regulation. Braithwaite argues that a command and control application of punitive legal action does harm in promoting 'preventative solutions and good relationships with taxpayers' (p. 178). He argues that responsive regulation is a powerful tool for regulators, given that it works at educating the tax community to be self-monitoring. Therefore, the principle of self-monitoring is a key strategy underlying the idea of markets in vice flipping to markets in virtue because self-regulating actors 'punish themselves when they slip into vice' (p. 194).

It is difficult to pinpoint the book's Achilles' heel given it has many strong points. But perhaps the following criticism is warranted. Braithwaite is sensitive to the notion that tax avoidance is a global phenomenon. Broadening the lens to take into account other tax jurisdictions apart from