

Keynote Address

on

Credit constraints and tax evasion

By

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Abstract: In a developing country, however, we argue that taxpayers use tax evasion to compensate for imperfect financial markets as well as government expenditure patterns that do not benefit them. We demonstrate that imperfect financial markets result in situations where when individuals find the chance of earning high returns from investments, it causes them to overcome their aversion to risk and participate in actuarially unfair tax evasion gambles. Also, tax evasion increases when either public goods are underprovided, or the government is sufficiently predatory, or the government directs policies at groups that the taxpayer is not a member of. In such a situation tax evasion is viewed by the taxpayer as a means of shifting the allocation of her income in favor of investments and away from government expenditure policies that give little benefit to her.