

6.27 ***Alga aploksnē*** (Latvia)  
Klāvs Sedlenieks  
Riga Stradins University, Latvia

The Latvian terms *alga aploksnē* ('salary in an envelope') and *aplokšņu alga* ('envelope wage') refer to an undeclared part of a regular wage, concealed to allow the employer to evade a proportion of compulsory labour and social security taxes. The term derives from the widespread practice of handing over such salaries in envelopes, rather than by bank transfer or in an open, over-the-counter manner. This practice can be seen as part of a wider family of practices whereby the income of an employee or contractor is completely or partly concealed from the authorities (for instance, moonlighting, tips in service industries or outright illegal employment – see Fudge et al. 2012 for a detailed description of varied informal work practices).

*Alga aploksnē* refers mostly to the regular but officially unrecorded payments of salary that is paid alongside official payments. Part of the salary is indicated in the employment contract, signed for and officially reported. The other part of the salary does not feature in official books, is paid unofficially and concealed from tax authorities. The ratio of the officially declared wage versus the *alga aploksnē* is estimated to be 50 per cent in Latvia (Williams 2013: 331). The official part of the salary is often levelled down to the minimum wage that is required by law (360 EUR per month in 2015). The money is paid by the official employer, thus making it different from various tipping arrangements (e.g. in bars or hotels, see O'Connor 1971) and illegal private entrepreneurship where the money is paid directly by the customer and on an irregular basis (e.g. 'cash in hand' in the UK (see 6.1 in this volume) and various other countries).

Both the employer and employees often perceive *alga aploksnē* as mutually beneficial. The employer has the opportunity to attract workforce at less expense, while employees receive more cash immediately and directly, rather than through benefits redistributed by the state. The difference between the formally and informally paid salary is normally discussed in job negotiations, so it is clear what will be received 'on paper' and what 'in hand' (*uz rokas*).

Using the system of *alga aploksnē* does also incur drawbacks for both employer and employee. In addition to the legal consequences, the employer needs to maintain a constant supply of ready cash that is not accounted for in the official books. This requires careful manipulation of the electronic cash register and/or dealing with criminals who provide services of small-scale money laundering for a fee. For the employee *alga*

*aploksnē* means significantly reduced social benefits, such as job security and pensions.

A survey by Putniņš and Sauka concludes that in the period 2009–14 the percentage of underreported salaries in the Baltic states fluctuated from 35.5 (in Latvia, 2010) to as low as 12.2 (in Lithuania, 2014). In Latvia and Lithuania the underreported part amounts to 11–30 per cent of the total salary while in Estonia the most frequently used proportion falls within the interval of 1–10 per cent. Only just over 10 per cent of the surveyed company representatives in Estonia and Latvia and 24 per cent in Lithuania declare that they pay all social taxes as required by law (Putniņš and Sauka 2015: 16).

The *alga aploksnē* payments in Latvia are so omnipresent and socially acceptable that credit institutions are reported to have accepted declarations of informal income as proof of the creditworthiness of clients. Allegedly such banking practices were widespread before the economic crisis of 2008 and credits issued on the basis of such information contributed to the economic meltdown. Banks supposedly learnt their lesson and stopped the practice, but one case was reported as late as 2015 (LETA 2015), though the bank officially denied the practice. The practice of *alga aploksnē* is only a semi-open secret when it comes to identifying concrete employers who use it. As a social practice, though, it is widely acknowledged by the public, representatives of government and non-governmental organisations, in particular when tax policies are discussed.

Practices similar to *alga aploksnē* can be observed elsewhere in the world. ‘Envelope wages’ are well-researched in the European Union (Woolfson 2007; Williams 2008, 2009a, 2009b, 2013). A 2007 Eurobarometer survey indicates that envelope wages can be found throughout the European Union (EU); however, the practice is most widespread in countries of Central and Eastern Europe and least widespread in Scandinavia. While in Central and Eastern Europe 10 per cent of employees have received a wage in an envelope, it is only 4 per cent in Southern Europe and 2 per cent in Western Europe and Nordic countries (Williams 2013: 330). About 50 per cent of all envelope wage payments in the EU happen in five countries: Bulgaria, Latvia, Lithuania Poland, Romania (Williams 2013: 330). Moreover it is possible that Western European and Nordic respondents by envelope wages understood income that they earned for doing an irregular, part-time job (in contrast to East Europeans for whom it is a part of a regular job arrangement).

All neighbouring countries of Latvia have terms and practices that are virtually identical to Latvian *alga aploksnē*: Estonia (*ūmbrikupalgad*),

Lithuania (*alga vokeliuose*), Russia (*zarplata v konverte*), Belarus (*zarplata ū kanvertse*). Similar terms also exist in Ukraine (*zarplata v konverti*), Moldova and Romania (*salariu într-un plic*) and Bulgaria (*pari v plik*). All of these terms literally mean ‘salary in an envelope’, and refer specifically to the arrangement of concealing a given part of the regular salary (as opposed to undeclared earnings in general). Other societies may have similar practices but lack a particular term (see *rad na crno*, 5.24 in this volume). However, it seems that neither the term nor the practice goes beyond the area of post-socialist countries in Central and Eastern Europe (CEE) and Russia.

*Alga aploksnē* is a phenomenon that only developed after the dismantling of the Soviet economic system. During the Soviet period either all salary was paid according to the books or the employment was off the record altogether (hence the term ‘second economy’, see for example Grossman 1985/1992). Thus *alga aploksnē* has no direct precedent in the Soviet heritage. Woolfson (2007: 552), speaking of salaries in an envelope argues that the ‘informalization in the post-communist transition period ... derives less from the legacy of Soviet times than from the predatory nature of the neo-liberal capitalism’. Fudge (2012) similarly argues that the recent proliferation of informal work practices in all kinds of societies is due to globalisation and deregulation stemming from neo-liberal policies. Contesting the view that traces the roots of informality to features of Soviet citizenship, Sedlenieks (2013) and Mühlfried (2014) argue that the tendency of citizens to treat rules lightly and avoid regulations is not a result of Soviet heritage but an adaptation of citizens to the instability of state policies over a much longer period. The aforementioned Eurobarometer survey indicates that in Western Europe and Nordic countries envelope wages are paid almost exclusively for jobs performed outside one’s regular employment, similar to what used to be the case in Central and East European countries during the socialist period, while currently *alga aploksnē* and similar practices in CEE are part of the regular employment.

According to quantitative comparative research, the spread of envelope wages negatively correlates with the level of regulation. Testing the hypothesis of correlation with over-regulation/under-regulation, Colin Williams finds that the practice is least widespread in countries with strong welfare systems and effective redistribution of wealth, whereas in countries that have a more neoliberal orientation with less state intervention in the labour market and weaker redistribution, envelope wages are more prevalent (Williams 2013: 325). The qualitative evidence suggests that motivation to participate in the system of *alga aploksnē*

is linked (apart from monetary gains) to the lack of trust in state social security systems and the perception that tax money is often wasted by corrupt officials and politicians (Sedlenieks 2003: 45). Accordingly, *alga aploksnē* and related practices become rationalised and reproduced at the expense of paying taxes to an unreliable state.

## 6.28 *Vzaimozachety* (Russia)

Caroline Dufy

Centre Emile Durkheim, Sciences Po Bordeaux, and Centre national de la recherche scientifique (CNRS), France

*Vzaimnyi zacet* (also known as *vzaimozachety*, *zachetnaya skhema* and *zacet vzaimnykh trebovanii*) is a Russian term meaning ‘bilateral exchange in kind’. When used in the plural (*vzaimnye zachety*), it refers to a specific type of inter-firm exchange, whereby a commodity transferred to a partner is paid for by non-monetary means. In this sense, *vzaimnye zachety* are part of a wider concept of transactions-in-kind described in Russian as *barter*, which in turn is derived from the English ‘barter’, meaning the exchange of goods or services for other goods or services without the use of money.

Non-monetary transactions are commonplace in international trade. Under the Soviet economic system, such transactions enabled socialist states such as the Soviet Union, which lacked access to foreign-currency reserves, to pay for imported goods. Trade between the member-states of the Soviet-led Council for Mutual Economic Assistance (COMECON), for example, was mostly handled through countertrade or bilateral clearing agreements. For instance, the German Democratic Republic supplied the USSR with machinery and in exchange the USSR supplied it with oil.

Following the collapse of the USSR, *vzaimnye zachety* came in the 1990s to be seen by Russian economists as a specific feature of domestic barter in the context of a dire financial and monetary crisis during which money surrogates and inter-enterprise arrears were widespread (Yakovlev 1999). Massive arrears in wages, pensions and welfare benefits paralysed the economy at every level. Demonetisation and the disrupted role of money as a universal means of exchange made *vzaimnye zachety* an alternative means of enabling goods to circulate in the economy (Marin 2002).

While *vzaimnye zachety* took many different forms, two major types may be identified. The first denoted successive bilateral exchanges, whereby one original entity exchanged goods or money surrogates in