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# The prevalence of envelope wages in former Soviet Baltic states

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## **Biographical statement**

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# **The prevalence of envelope wages in former Soviet Baltic states**

## **Abstract**

### **Purpose**

This paper evaluates the prevalence of an illegitimate wage arrangement in the former Soviet Baltic states whereby formal employers pay their formal employees both an official declared wage as well as a supplementary undeclared ('envelope') wage.

### **Methodology**

A 2007 Eurobarometer survey is reported that evaluates envelope wage practices in 27 EU member states. This paper focuses upon the 4,031 face-to-face interviews conducted in the four former Soviet Baltic republics that are now member states of the EU, namely Estonia, Latvia, Lithuania and Poland.

### **Findings**

Some 1 in 8 formal employees in these former Soviet Baltic republics received an undeclared 'envelope' wage from their formal employer during the past 12 months which on average amounted to 45% of their gross wage packet. Although this practice is concentrated in smaller businesses, the construction industry, and amongst younger people, manual workers and lower income groups in these former Soviet Baltic states, it is by no means confined to specific pockets of the economic landscape. Rather, it exists throughout these countries in all business types and employee groups.

### **Research implications**

The existence and commonality of envelope wages reveals the need to transcend the dichotomous depiction of formal and informal jobs as always separate and discrete and to recognise how they can be inextricably interwoven.

### **Practical implications**

This paper outlines a range of potential policy measures for tackling envelope wages and calls for their piloting and evaluation.

### **Originality**

The first cross-national evaluation of the incidence and nature of envelope wages in the former Soviet Baltic states and what needs to be done to tackle this practice.

### ***Research Paper***

**Keywords:** tax non-compliance; informal economy; undeclared work; envelope wages; Baltic region; European Union.

## **Introduction**

Since the turn of the new millennium, a small tributary of scholarly thought in the former Soviet Baltic republics has started to highlight a little discussed illegitimate wage arrangement that is being used by formal employers. This is the work practice whereby employers pay their formal employees two wages, an official wage which is declared to the state for tax and social security purposes and an unofficial ‘envelope’ wage which is not declared and allows employers to avoid paying their full social insurance and tax liabilities (Hazans, 2005; Karpuskiene, 2007; OECD, 2003; Sedlenieks, 2003; Woolfson, 2007; Žabko and Rajevska, 2007). Until now, only small-scale qualitative studies of this practice have been conducted. The result is that it remains unknown whether this violation of work payment principles by formal employers exists throughout the Baltic region and beyond, or merely in a few small enclaves. The intention in this paper is to seek to begin to fill that gap.

To do this, the paper commences by showing how although an understanding of this illegitimate wage practice is emerging through small-scale qualitative studies, there is currently a distinct lack of knowledge on its overall prevalence, nature and distribution in the Baltic region and beyond. To resolve this, the second section introduces a cross-national survey conducted in 2007 across the 27 European Union (EU) member states involving 26,659 face-to-face interviews. In this paper, the focus will be upon the data collected from the 4,031 face-to-face interviews conducted in the former Soviet Baltic republics of Estonia, Latvia, Lithuania and Poland. Analysing the findings, the third section will reveal that a significant minority of formal employees in these Baltic states

receive an additional undeclared envelope wage from their formal employer and that even if this practice is more common in some countries, types of business and population groups than others, it exists throughout the economic landscape of the Baltic region. The final section then briefly addresses why it prevails, its impacts and the various policy options for tackling this wage practice in the Baltic region and beyond.

### **Previous research on envelope wages**

A large body of literature now exists on the extent and nature of undeclared work in Baltic nations (e.g., Henckel et al, 2008; Pavlovskaya, 2004; Persson and Malmer, 2006; Surdej, 2005; Williams, and Round, 2007) and other regions beyond (e.g., Bajada and Schneider 2005; Round and Williams, 2008; Schneider 2008; Wallace and Latcheva 2006; Williams and Windebank, 1998). Few studies, however, have analysed the issue of envelope wages. This is because the recurring assumption in this vast literature on undeclared work is that jobs are either formal or informal, but never simultaneously both. In other words, formal jobs are depicted as separate and discrete from informal jobs. They are viewed as dualistic opposites. The consequence is that few have enquired whether formal employers employing formal employees might be simultaneously engaging in informal practices with them. In recent years, however, undeclared work has started to be re-theorised in that the dichotomous depiction of formal and informal employment as binary opposites has started to be transcended.

A small emergent stream of literature, that is, has started to draw attention to an illegitimate wage practice that brings into question this depiction of formal and informal

jobs as separate and discrete. This is the employment arrangement where formal employees receive from their formal employer two wages, an official wage declared to the state for tax and social security purposes and an unofficial ‘envelope’ wage which is not declared (Hazans, 2005; Karpuskiene 2007; Neef 2002; Sedlenieks 2003; Williams 2007; Williams and Round 2007; Woolfson, 2007; Žabko and Rajevska 2007). Such an arrangement is primarily used by employers to avoid paying their full social insurance and tax liabilities but is also used to avoid redundancy pay in that its withdrawal acts as a useful tool to encourage employees no longer wanted to voluntarily leave (Hazans 2005; Round et al. 2008).

Previous studies of envelope wages have tended to be small-scale qualitative studies which have provided in-depth portrayals of this wage practice primarily in Baltic countries such as Latvia (OECD, 2003; Sedlenieks, 2003; Žabko and Rajevska, 2007), Lithuania (Karpuskiene, 2007; Woolfson 2007) and Russia (Williams and Round, 2007) but also in several other East-Central European nations such as Romania (Neef, 2002) and Ukraine (Round et al., 2008; Williams, 2007). For instance, the study in Lithuania by Woolfson (2007) is an in-depth case study of one person, albeit a *cause celebre*, whilst the Latvian study by Sedlenieks (2003) reports 15 face-to-face interviews conducted in Riga. Although the Ukraine survey covers 600 households, it is limited to three localities (Williams, 2007), whilst the evidence from Russia is based on interviews with 313 households in three districts of Moscow (Williams and Round 2007). None are national-level representative sample surveys.

Despite this, such studies provide a strong rationale for the further study of this practice. Some 30 per cent of employees in Ukraine reported receiving envelope wages

(Williams, 2007) and two-thirds (65 per cent) in Moscow (Williams and Round, 2007). Comparing labour force and employer surveys, meanwhile, the OECD (2003) find that 20 per cent of private sector employees in Latvia earn envelope wages. What remains unknown, however, is whether this is ubiquitous or confined to a few small pockets of the Baltic region. Consequently, in 2007, a survey was undertaken to more fully understand its extent, nature and distribution in Baltic countries.

### **Examining envelope wages in the former Soviet Baltic states**

Is it common for employees in the four former Soviet Baltic republics of Estonia, Latvia, Lithuania and Poland to be paid an envelope wage by their formal employers? If so, where is it common and amongst whom? And are such wages paid for overtime or for regular hours worked? To answer these questions, a 2007 survey is here reported whose origins lie in late 2005 when the European Commission funded a team (which included this paper's author) to design a questionnaire to investigate undeclared work in the EU (TNS Infratest et al., 2006). This was subsequently implemented as Special Eurobarometer No. 284 ('Undeclared work in the European Union'), as part of wave 67.3 of Eurobarometer.

The current paper reports the findings of this survey with regard to envelope wages, the subject matter of one section of the questionnaire, in the four former Soviet Baltic republics of Estonia, Latvia, Lithuania and Poland. Replicating the sampling method of other Eurobarometer surveys, 4,031 face-to-face interviews were conducted in these four countries. In each nation, national marketing agencies used the same multi-

stage random (probability) sampling method to select 1,000 respondents. The outcome is one of the first insights into the prevalence, distribution and nature of envelope wages in these former Soviet Baltic republics in particular and the EU more generally.

For each country, a number of sampling points were drawn with probability proportional to population size (for total coverage of the country) and to population density according to the Eurostats NUTS II (or equivalent) and the distribution of the resident population in terms of metropolitan, urban and rural areas. In each of these selected sampling units, a starting address was then randomly drawn. Further addresses (every *n*th address) were selected using standard ‘random route’ procedures from the initial address. This is the standard sampling methodology employed in all Eurobarometer surveys in EU member states.

Within each household, meanwhile, the respondent was drawn at random (following the ‘closest birthday rule’). All interviews were conducted face-to-face in people’s homes and in the appropriate national language with adults aged 15 years and over. So far as the data collation is concerned, CAPI (Computer assisted personal interview) was used in countries where it was available. For all countries, a national weighting procedure was then employed for analysis purposes that used marginal and intercellular weighting by comparing the sample with the universe description taken from Eurostat population data and national statistical offices. This weighting procedure ensures that in each country, the gender, age, region and size of locality of the sample is proportionate to the universe. The data was collated and analysed using the Statistical Package for Social Scientists (SPSS) while the statistical significance of the findings in

relation to the likelihood of participation across groups, was measured at the 0.05(\*), 0.01 (\*\*), and 0.001 (\*\*\*) levels.

To gather data, the face-to-face interview schedule covered a wide array of questions on both undeclared work and under-declared (i.e., envelope) employment. Given the focus of this paper solely on envelope wages, discussion here is confined to questions on this issue. Firstly, respondents were asked, ‘Sometimes employers prefer to pay all or part of the regular salary or the remuneration for extra work or overtime hours cash-in-hand and without declaring it to tax or social security authorities. Did your employer pay you all or part of your income in the last 12 months in this way?’. Secondly, and to decipher whether this was for regular work, overtime payments or both, interviewees were asked ‘Was this income part of the remuneration for your regular work, was it payments for overtime, or both?’ and thirdly, they were asked for the percentage of their gross yearly income from their main formal job received on an undeclared basis. To evaluate their attitudes towards this practice, finally, they were asked whether they were happy receiving a part of their salary without having it declared or whether they would have preferred to have their total salary declared. Below, the results are reported.

### **The prevalence and distribution of envelope wages in the former Soviet Baltic republics**

Of the 4,031 face-to-face interviews conducted in the four former Soviet Baltic republics of Estonia, Latvia, Lithuania and Poland, some 1,751 were with formal employees. Of

these, some 1 in 8 (11.9 per cent) reported receiving envelope wages in the past 12 months amounting on average to 45 per cent of their total wage packet. Of these 158 employees reporting that they receive envelope wages, 42 per cent received such payments for regular hours worked, 16 per cent for overtime or extra work and the remainder (39 per cent) for both regular work and overtime combined.

This varies markedly to the EU as a whole. Of 26,659 face-to-face interviews conducted in the 27 EU member states, 11,887 were conducted with formal employees, of whom 1 in 20 (5 per cent) were paid envelope wages (compared with 12 per cent in these Baltic countries), amounting on average to 41 per cent of their gross monthly wage packet (45 per cent in these Baltic states). Of the 616 formal employees paid an envelope wage by their formal employer in the EU, 29 per cent received this for their regular work hours (42 per cent in Baltic countries), 27 per cent for extra work or overtime (16 per cent in Baltic countries) and 36 per cent for both their regular and overtime work (39 per cent in Baltic nations). A greater proportion of envelope wages are paid for regular hours worked in these former Soviet Baltic republics, in consequence, than in the EU as a whole where envelope wages are more commonly used to reimburse overtime or extra work.

A significant minority of the formal labour force in these Baltic states, in consequence, report receiving envelope wages and given the sensitivity of this issue, this is probably a lower-bound estimate of the extent of this wage arrangement. To evaluate whether this wage practice is confined to a few small pockets of the Baltic labour market or is more ubiquitous, attention now turns to evaluating the distribution of this practice

firstly, cross-nationally, secondly, across different types of business and thirdly, across population groups.

*Cross-national variations within the Baltic region*

As Table 1 reveals, there are clear cross-national variations in the prevalence of envelope wage practices across these four former Soviet Baltic states. Envelope wages is most common in Latvia where nearly one-fifth of formal employees receive an additional envelope wage and nearly half receive these additional undeclared wages as reimbursement for their regular hours worked. In Estonia, in contrast, just 8 per cent receive envelope wages which amount on average to 31 per cent of their wage packet and a greater proportion is paid for overtime or extra work, or for a combination of both regular hours worked and overtime. Lithuania is and Poland sit in the middle of these two countries. It is important to recognise, moreover, that in these post-Soviet Baltic countries, envelope wages are more common than in the EU as a whole, and such wages are more commonly paid more for regular hours worked and constitute a higher proportion of formal employees' wages. In the EU more widely, envelope wages are less common, paid largely for overtime or extra work and they usually amount only to a smaller proportion of employees' wage packets.

INSERT TABLE 1 ABOUT HERE

Despite this uneven distribution of the practice of paying envelope wages both across these Baltic countries and between these Baltic states and the EU more generally, it is nevertheless important to recognise that this is a common practice that prevails everywhere to differing degrees.

***Which businesses pay envelope wages in Baltic countries?***

Table 2 details which Baltic businesses pay envelope wages. It shows that although the practice prevails across all businesses, it is smaller- rather than larger-sized businesses that are significantly more likely to pay envelope wages. Some one in five (19 per cent) employees in businesses with 1-20 employees receive envelope wages from their formal employer, but just 2 per cent of employees in businesses with over 500 employees. The outcome is that two-thirds (65 per cent) of those receiving envelope wages are in small businesses with 1-20 employees despite only one-third (33 per cent) of all employees being in such businesses.

INSERT TABLE 2 ABOUT HERE

It is also the case that some sectors are more likely to pay envelope wages than others. High proportions of formal employees receive envelope wages in hotels, restaurants and cafes (16 per cent of all formal employees), construction (20 per cent) and the retail industry (16 per cent). Indeed, 30 per cent of those receiving envelope wages are in the construction industry, 18 per cent in personal services, 19 per cent in the retail sector and

14 per cent in manufacturing industry. It is important to recognise, nevertheless, that this wage practice is not confined to a few small pockets of the Baltic economic landscape but is omnipresent.

***Who receives envelope wages in Baltic countries?***

Table 3 evaluates whether some employees are more likely to be paid envelope wages than others. It reveals that although all employee groups engage in this wage practice, men, younger people, those leaving education between 16 and 19 years old, manual workers, low-income earners and those working long hours are significantly more likely to be paid envelope wages. Indeed, over two-thirds (70 per cent) of those receiving envelope wages are men, three-quarters (77 per cent) are aged 15-39, 71 per cent left school between 16 and 19 years old, 66 per cent earn less than €500 per month and the vast majority (87 per cent) work over 31 hours per week.

INSERT TABLE 3 ABOUT HERE

However, although this wage practice is skewed heavily towards certain groups, it is not confined to specific echelons of the labour force in these Baltic countries (e.g., low-paid male manual workers). Indeed, those with relatively low formal incomes receive smaller proportions of their total salary as an envelope wage, while those with higher formal salaries receive greater proportions of their total salary on an undeclared basis. The outcome is that when envelope wages are included in the overall wage equation, wage

inequalities in these former Soviet Baltic states will be wider than when only formal incomes are analysed. It is not the case, therefore, that envelope wages mean that the lower-paid receive relatively higher salaries and as such, that little concern needs to be shown about their wage levels. Instead, quite the opposite is the case. In these Baltic countries, when envelope wages are taken into account, relative wage disparities grow wider than when they are omitted.

## **Envelope wages: reasons, impacts and potential policy responses**

### *Explaining the existence of envelope wages*

In Baltic nations, tax and social insurance liabilities are largely payable by the employee but withheld by the employer and paid directly to the tax authorities along with whatever employer contributions are obligatory in the specific country. By paying a low official declared salary and an additional undeclared envelope wage to employees, employers can significantly reduce their total salary costs by evading some of the social insurance and tax component of the wage bill, thus violating fundamental work payment principles.

Superficially, some might believe that most employees would be willing co-conspirators and happy to engage in this illegitimate wage arrangement. After all, employees might well assume that their total salary will be higher under this arrangement than if the employer were to withhold the full tax and social insurance liabilities. Analysing whether employees receiving envelope wages were indeed happy with this arrangement, however, the finding is that just 39 per cent were content to be paid a portion of their salary as an envelope wage, whilst 50 per cent would prefer full declaration and the remaining 11 per cent were either undecided or refused to answer.

Breaking this down, least happy were those receiving part of their regular wage as an envelope wage (21 per cent were content with this arrangement, 75 per cent would prefer full declaration and 4 per cent were undecided or refused to answer) whilst most content were those receiving envelope wages for overtime or extra work (55 per cent were happy and just 28 per cent would prefer full declaration).

### *Impacts of envelope wages*

In part, this lack of contentment might be because employers do not pass onto employees the savings made from evading their full social insurance and tax liabilities (Round et al., 2008; Williams, 2007; Williams and Round, 2007). This, however, was not examined in this survey and will need to be studied in future surveys. The lack of contentment, nevertheless, is also doubtless because recipients of envelope wages are significantly disadvantaged both in the wider society and the labour market. Not only does this practice reduce their mortgage and credit entitlements since their official wage is lower than their actual wage, but it also decreases the level of pension and social insurance they receive in welfare systems where these are tied to one's previous official wage. Envelope wages, moreover, and unlike official wages, are often withheld by employers and there is no legal recourse for employees if this happens (Round et al, 2008; Sedlenieks, 2003; Williams, 2007; Williams and Round, 2007; Woolfson, 2007). Indeed, employers perhaps often use this wage practice as a 'soft' lever to target employees. By withdrawing envelope wages from those formal employees whom the employer no longer wishes to employ, these workers tend to voluntarily leave their formal employment and thus the issue of redundancy pay is avoided (Hazans, 2005; Round et al, 2008).

In consequence, envelope wages appear to largely benefit employers, rather than employees, and this wage practice from the above expressions of their contentment also seems to be generally imposed on, rather than chosen by, employees. Indeed, this is the finding of the previous qualitative accounts which show that envelope wages are often imposed by employers, often at the stage of offering the job, and unless candidates accept this wage arrangement, they are not offered the job and/or do not continue to be employed (Round et al, 2008; Sedlenieks, 2003; Williams, 2007).

It is not solely employees receiving envelope wages, however, who suffer from this illegitimate arrangement. It also has negative impacts on legitimate businesses since envelope wages result in unfair competition. For governments and the wider society, meanwhile, such a practice decreases job quality and hinders the achievement of wider societal goals such as fuller-employment and social inclusion, not least by depriving the state of the tax revenue needed for financing social protection (European Commission, 2007).

#### *Potential policy responses*

For all these reasons, the policy option of adopting a laissez-faire approach towards envelope wages is thus rejected. Sometimes, that is, it is assumed that if governments try to eradicate the practice of paying envelope wages, where at least the employees are officially registered and a portion of their earnings declared, employers might turn to wholly undeclared work. For this reason, a laissez-faire approach is advocated. Here, however, and due to the negative impacts of envelope wages highlighted above, this ‘do nothing’ approach is rejected. How, therefore, might this practice be tackled?

In the broader tax non-compliance literature, two broad policy approaches are often highlighted, which could be also used to combat envelope wages (Commonwealth of Tax Administrators, 2006; Williams, 2008). These are on the one hand, a negative reinforcement or ‘sticks’ approach where employers paying envelope wages are detected and punished and on the other hand, a positive reinforcement or rewards approach that incentivises employers to shift their wage practices into the legitimate realm.

The first option, therefore, is to detect and punish non-compliance by improving the rates of detection of such work and/or the level of punishments for those caught (Hasseldine and Li, 1999; Richardson and Sawyer, 2001). Whether this will be effective, however, is open to debate. Although some studies find that improving detection reduces tax non-compliance (Slemerod et al., 2001), others find that non-compliance grows (Bergman and Nevarez, 2006). Similarly, although some argue that increasing penalties reduces tax non-compliance (De Juan et al., 1994), others identify that increasing penalties leads to an expansion of non-compliance (Murphy, 2005). Indeed, some even conclude that ‘it is not sensible to penalize illicit work with intensified controls and higher fines’ (Schneider and Enste, 2002: 192). This is because increasing penalties and detection to force employers and employees to comply can alienate them, reducing voluntary compliance and amplifying (rather than decreasing) off-the-books practices by reducing their belief in the fairness of the system (Murphy, 2005).

Another policy option, in consequence, is to facilitate compliance rather than detect and punish non-compliance (European Commission, 2007; Renooy et al, 2004; Small Business Council, 2004; Williams, 2006). This encouraging of ‘good’ behaviour (i.e., compliance) rather than taking it as given is grounded in a belief that punishing

people for doing something wrong (i.e., negative reinforcement) is relatively ineffective compared with positive reinforcement of good behaviour at eliciting behaviour change. At least three different type of measure can be employed in this approach.

Firstly, there are *preventative* measures to stop employers paying envelope wages in the first place. These might include: simplifying regulatory compliance such as the procedures to both register and pay declared employees; shifting from direct to indirect taxation systems, and/or raising the level of the minimum wage in order to reduce the proportion of the total wage packet paid off-the-books (European Commission, 2007). In Baltic countries, that is, minimum wage levels have been set cautiously at around a third of the average monthly gross wage, namely 33 per cent in Estonia, 34 per cent in Latvia, 38 per cent in Lithuania (Eurostat, 2007). The rationale of the Baltic governments was that this would prevent jobs shifting from the declared to the wholly undeclared economy. However, a low minimum wage might stop jobs shifting into the wholly undeclared sphere, but employers have greater scope for paying a larger portion of employees' earnings as an envelope wage. Raising the minimum wage closer to the average wage level reduces the portion that can be paid as an envelope wage. If the minimum wage is set too high, nevertheless, employers might decide to employ workers wholly off-the-books. This policy measure of increasing the minimum wage level therefore needs to be carefully piloted and evaluated, especially with regard to estimating the tipping point at which employers shift from the declared to the wholly undeclared realm. Even if this proves effective and transferable, however, it will need to be recognised that this only reduces the share of salary paid as an envelope wage. It does not eradicate the problem.

Secondly, and to help those already paying envelope wages to legitimise their wage practices, *curative* measures can be adopted such as offering amnesties to employers seeking to move away from envelope wages and to fully declare employee salaries. Another option might be to shift from the use of direct to indirect taxes to tackle envelope wages, in order to reduce employer contributions and therefore the need for employers to seek savings in this manner, which is a proposal currently advocated by the European Commission (European Commission, 2007). Again, pilot studies are required to evaluate the impacts of such measures.

Third and finally, *commitment* rather than compliance measures can be pursued, using indirect rather than direct controls, on a societal-wide level. This involves tackling envelope wages indirectly by combating the lack of tax morality (Alm and Torgler, 2006; Richardson, 2006; Torgler, 2003), and involves tax education and awareness raising about the benefits of declared work, peer-to-peer surveillance, and the pursuit at a governmental level of perceived tax fairness, procedural justice and redistributive justice. Fairness here refers to the extent to which individuals believe that they are paying their fair share compared with others (Wenzel, 2004), redistributive justice to whether citizens receive the goods and services they believe that they deserve given the taxes that they pay (Richardson and Sawyer, 2001) and procedural justice to the degree to which people believe that the tax authority has treated them in a respectful, impartial and responsible manner (Braithwaite and Reinhart, 2000; Murphy, 2005). Evidence from the UK reveals that campaigns advertising the benefits of declared work display a return-to-cost ratio of 19:1 in terms of revenue returns for tax authorities (i.e., £19 return for every £1 spent) compared with a return-to-cost ratio of just 5:1 for punitive measures such as increasing

penalties (National Audit Office, 2008). Indirect control methods, therefore, are potentially an effective tool for tackling envelope wages in Baltic nations.

In sum, various tools exist for tackling envelope wages ranging from punitive through preventative and curative to commitment policy measures. These contrasting measures, of course, are not mutually exclusive. A government for example, might increase the minimum wage and at the same time offer amnesties to those employers putting their affairs in order by bringing under-declared wage practices into the declared realm and then, for those who fail to comply, implement tougher sanctions for those subsequently caught whilst at the same time introducing education campaigns to elicit greater commitment amongst employers and employees to tax morality.

## **Conclusions**

Until now, beyond small scale qualitative accounts, few attempts have been made to evaluate the commonality and nature of envelope wage practices in the former Soviet Baltic republics that are now members of the EU, namely Estonia, Latvia, Lithuania and Poland. This paper has sought to fill that gap. Reporting a 2007 survey, some 1 in 8 formal employees were paid an additional undeclared (envelope) wage during the 12 months prior to the survey, and this amounted on average to 45 per cent of their gross wage. This practice, moreover, occurs across all sectors, occupations, firm sizes, countries and socio-economic groups throughout these Baltic states, even if it is relatively more common in some rather than others. Envelope wages, that is, are significantly more prevalent in smaller businesses and amongst employers in the construction sector, hotels,

restaurants and cafes and the retail sector, whilst those receiving envelope wages are significantly more likely to be men, younger age groups, manual workers, those on low incomes and working full-time who constitute the majority receiving envelope wages.

These findings, nevertheless, come with a health warning. Given the sensitive and illegal nature of the issue under investigation, the experimental pilot nature of the survey and the low number of respondents receiving envelope wages in Baltic nations (namely 158 employees), the above findings need to be treated with caution and perhaps viewed them as lower-bound estimates of the prevalence of envelope wages. Even as lower-bound estimates, nevertheless, these findings have important implications.

In terms of theorising formal and informal employment, this survey displays the need to move beyond the formal/informal jobs divide which depicts jobs as either formal or informal, but never simultaneously both, and to bring this hybrid employment arrangement more centre-stage in contemporary analyses of labour markets both in these former Soviet Baltic states and beyond. Indeed, further qualitative studies beyond Latvia and Lithuania in other Baltic states are perhaps now required in order to comprehend its impacts on employees, legitimate businesses, governments and the wider society. In terms of the implications for policy, meanwhile, this paper reveals the need for a more in-depth discussion and evaluation of how this waged practice might be tackled. Until now, this has been seldom addressed, despite its prominence. Hopefully, therefore, this paper will encourage further interrogation of this so far largely neglected employment arrangement and how it might be tackled both in these former Soviet Baltic states and beyond. If it does so, then it will have achieved its objectives.

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Table 1 % of employees paid envelope wages in the past 12 months in the former Soviet Baltic states, by country

Country	No. of waged employees surveyed	% all employees receiving envelope wages	% of gross income not declared by employer	Envelope wages paid for:			
				Regular work	Overtime /extra work	Both regular & overtime work	Refus al + don't know
EU27	11,885	5	41	29	27	36	8
Latvia	511	17***	46***	47***	18	34	1
Lithuania	446	11	48	44	10	46	0
Poland	337	11	53	35	15	50	0
Estonia	457	8	31	37	20	32	11
All 4 Baltic	1,751	12	45	42	16	39	3

Statistical significance: \* = 0.05 (5% probability), \*\*=0.01 (1%) and \*\*\*= 0.001 (0.1%)

Source: Eurobarometer survey No.284, 2007

Table 2 Distribution of envelope wages in former Soviet Baltic states: by firm size and sector

	% of employees receiving envelope wages	% of gross wage received as an envelope wage	% of all those receiving envelope wages	% of surveyed employees
All 4 countries	12	45	100	100
<i>No. of employees in business:</i>				
1-20	19***	49***	65	33
21-50	13	35	16	13
51-100	8	32	10	12
101-500	5	48	7	16
501+	2	30	2	26
<i>Sector:</i>				
Construction	20***	49***	30	15
Industry	9	50	14	26
Household services	5	18	4	18
Transport	8	25	8	7
Personal services	13	32	18	15
Retail	16	56	19	13
Repair services	9	18	1	2
Hotel, Restaurants, cafes	16	10	5	3
Agriculture	8	15	1	1

Statistical significance: \* = 0.05 (5% probability), \*\*=0.01 (1%) and \*\*\*= 0.001 (0.1%)

Source: Eurobarometer survey no. 284, 2007

Table 3 Distribution of envelope wages in the former Soviet Baltic states: by population group

	% receiving envelope wages	% of gross wage not declared	Share of all employees receiving envelope wages (%)	% of surveyed employees
All	12	45	100	100
<i>Gender:</i>				
Men	17***	44***	70	54
Women	8	47	30	46
<i>Age:</i>				
15-24	19***	38***	25	10
25-39	11	44	52	36
40-54	4	48	22	43
55+	1	22	1	11
<i>Education (end of):</i>				
15	10***	63***	9	12
16 – 19	15	38	71	52
20+	6	36	20	36
<i>Occupation:</i>				
Managers	5***	56***	10	31
Other white collar	7	46	14	21
Manual	16	44	76	48
<i>Gross formal job income/ month (€)</i>				
<500	19***	46***	66	20
500-1000	8	45	14	17
1001-2000	3	52	12	23
2001-3000	1	50	6	21
3001+	1	52	2	18
<i>Hours/week in formal employment</i>				
<10	14***	25***	5	3
10-20	3	40	2	7
21-30	4	34	6	7
31-40	3	35	42	56
41+	16	48	45	27

Statistical significance: \* = 0.05 (5% probability), \*\*=0.01 (1%) and \*\*\*= 0.001 (0.1%)

Source: Eurobarometer survey no. 284, 2007