



# Informal Economies in Post-Socialist Spaces – Practices, Institutions and Networks

JEREMY MORRIS and ABEL POLESE (Eds.)

Palgrave Macmillan, Hounds mills, Basingstoke, 2015, pp. 302

Book review by PREDRAG BEJAKOVIĆ\*

doi: 10.3326/fintp.40.1.5

---

\* Received: September 7, 2015  
Accepted: September 14, 2015

Predrag BEJAKOVIĆ, PhD  
Institute of Public Finance, Smičiklasova 21, 10000 Zagreb, Croatia  
e-mail: predrag.bejakovic@ijf.hr

Hidden, informal or unofficial economies have been present during civilisation in all societies regardless of their prevailing economic, social and political systems. However, there are significant differences in the scope and form that informal economies may assume in each society, so particularly interesting are the relatively rare studies on these activities in post-socialist countries. The differences among these countries were bigger than the similarities even before the transition, and now they have considerably widened. Thanks to accelerated economic growth and EU integration, some of these countries have achieved respectable economic and social results, but others are stuck in underdevelopment, poverty, widespread corruption and the almost non-existence of any positive development perspective for the near future. A new book edited by Jeremy Morris and Abel Polese, dedicated to the most important characteristics of the informal economy in previously socialist countries, is a significant contribution to better understanding this complex phenomenon.

The book consists of three parts and begins with introductory remarks by the co-editors. In their introduction entitled *My Name Is Legion – The Resilience and Endurance of Informality beyond, or in spite of, the State*, Morris and Polese remind us that informality exists as long as there is a state that tries to regulate relationships and interactions between citizens. As societies are more and more complex, states around the world try to formalize the rules and patterns of required behaviour hoping that everybody will respect the same principles and have the same opportunities. For those who do not respect the rules there is a consequently strict punitive system. Of course, there is always space for behaviour that is opposite to the proclaimed rules of the omnipotent state. Informal rules are often necessary in cases of high unemployment and poverty and an important buffer in circumstances of prolonged economic crisis, a weak state and lack of rule of law. Informal economic practices are often embedded in social relationships, so the formalization of some currently informal activities can be just the legalization of certain socially accepted practices.

Part I, entitled *Thinking Informality and Development Writ Large and Small* contains four papers by five authors. Williams and Onoshchenko give an overview of different theoretical approaches to informal activities, starting from the *residue theory* – the informal economy is just a leftover of a previous mode of production and consumption and will disappear with economic development; to the *by-product theory* – the informal economy is an integral part of the economy, and the *complementary theory* – the relationship between these two economies is complementary, with growth and decline present in both of them, and finally the *alternative theory* – the problems are in the overregulated formal economy. In the further text, the authors evaluate the validity of the different theoretical approaches to the informal economy in Ukraine. They conclude that only a combination of all the mentioned theories enables a broad enough understanding of the complex and diverse nature of the informal economy, because particular theories can provide insight only into some aspects. For example, the by-product theory is more pre-

sent among low-paid salaried workers, whose employers endeavour to lower costs by not registering part of their labour force, but it is inappropriate for the self-employed. In that way, only post-structuralist theory, comprising heterogeneous approaches and explanations, is valid in the demanding description of the various characteristics of the informal economy in Ukraine.

Huseyn Aliyev in his contributions describes institutional transformation and informality in Azerbaijan and Georgia. The post-Soviet period in both countries has been tainted by economic and political instability, missed processes of democratisation and economic development. Interestingly, relatively limited are insights into the extent to which institutional transformation and formalization impact and influence the informal sector, primarily human relationships, reciprocal exchange of favours, individual informal networks and other forms of informal relations in the former Soviet Union. Over the decades of Soviet rule, informal practice became an integral part of inter-personal relationships and associations as well as of institutional behaviour. For efficient functioning of the informal economy, there is a need for strong inter-personal networks where reciprocity of favours is based on honour and seniority. The end of Soviet rule in both observed countries led to the dismantling of decaying systems of communist institutions and the building of new systems that relied even more strongly on informality. Thus, the increased reliance on informal structures not only provides private safety nets in everyday life, but also substitutes for dysfunctional formal institutions.

Ida Harboe Knudsen writes on informal workers and the financial crisis in Lithuania. Surprisingly, working in formal sector in this country has often been as insecure as working informally. Working without insurance is a risky and very serious matter, not only in the eyes of the state but also according in the opinions of the workers themselves, but it is a necessary part of their survival strategy. Harboe Knudsen provides three very impressive case studies of workers in the shadow faced with an everyday challenge. These stories confirm the unstable, harmful environment and the disrespect for workers' rights, skills and attained experience. Social insecurity and marginalization force a significant number of citizens to search a job in the informal sector and to rely increasingly on alternative informal policies.

While most contributions in the book cover the ubiquity of informal subversions of rules and formally arranged interactions in the post-socialist world, a topic of the interest by Aet Annist is the formal crutches for broken Estonian sociality. The author demonstrates that in some cases informality is more an assumption than a reality. It is not necessarily accessible for those experiencing new adversities after crises and/or a useable device for understanding people's relations in dire circumstances. As some citizens become rich, they are more and more surrounded by others who are poor and in this process people forget to care for their neighbours and former friends. The grim reality is linked to the poverty of resources, because it is impossible to provide reciprocal hospitality to their rich friends and the related indebtedness produces shame and embarrassment for

those that are poor. The situation is exacerbated by the opinions of many social workers, media and other stakeholders that the poor people are often so passive that they cannot be helped.

Part II of the book titled *Power, Culture, Kinship and History* begins with the contribution by Anna Danielsson on the social situation and informal economic practices in Kosovo. The author argues that various dominant and conventional approaches to informality systematically fail to account for the main reasons for participation in informal economic activities. Some citizens are forced to operate in the informal economy due to the activities of other persons who enjoy relatively high status and political position. A key assumption of the author is that informality represents a social phenomenon that emerges and is expressed through social practices, which over time have become institutionalised to the point that they are considered almost commonsensical and unchangeable. In such circumstances, various participants find innovative ways of distancing themselves from the formal regulations without abandoning them completely.

Karla Koutkova writes on the importance of having appropriate and strong connections or links (*štela*) in Bosnia. These links are vital in any aspect of the public life, like getting a job, obtaining medical treatment, for enrolment in university or successfully finishing tertiary education. The denotation of the term *štela* is not entirely negative and has a less negative connotation than the word corruption. Various reports have provided data about the overpowering pervasiveness of *štela* in Bosnia and Herzegovina on both the quantitative and the qualitative level: *štela* is a very important system in the life of Bosnian citizens, the terms and conditions of which were known to most of the respondents. Koutkova concludes that *štela* is a culturally embedded practice, but it is also co-produced on both the international and local level.

Tanya Chavdarova in chapter 7 deals with perceptions and practices of nepotism in small businesses in Bulgaria. The author adopts an extended definition of nepotism and considers its capacity as an informal hiring practice. The concept of nepotism typically receives negative connotation, but can be seen also in positive terms as a natural healthy concern for family and those similar to ourselves. Furthermore, this practice can lower recruiting and training costs and employee turnover. Chavdarova points out that in terms of doing business, in Bulgaria an entrepreneur usually starts a business with people who can be trusted and in that way people prefer to enter business relationships after private relationships have been established. The introduction of market economy seriously shook the foundations of nepotism, so the acceptance of formal market institutions in Bulgaria caused a confrontation between the indigenous relationship-oriented culture and dominant Western rule-oriented culture. In that way, interestingly, the kinship relations – often characterised by the absence of working habits, insufficient conscientiousness or various forms of abuse – became harmful in business.

Christian Giordano analyses the personalized relationships in the post-socialist rural Bulgarian region Dobrudzha. The author reminds us that in societies filled with distrust in public institutions due to their perceived riskiness, only personal and informal relations are safe and trustworthy. With the de-collectivization and the land restitutions to the previous owners, new capitalist entrepreneurs began to emerge. These skilful entrepreneurs of rural economy, often conceived by the political elite, have a major role and have become critical in linking city and countryside. A discrepancy has emerged between the legal framework and informal social practice, a gap that challenges the traditional assumptions according to which legality and legitimacy are inseparable. Such a crevice between legality and legitimacy produces mistrust in official institutions, rules and relationships, and leads to trust in only personal and well-known relationships.

The third part of the book titled *Informal Public Sectors and Welfare: State Intervention or Withdrawal?* begins with a very interesting comparison of informal payments in Ukrainian and Lithuanian health care prepared by Tetiana Stepurko and co-authors. The aim of the paper is to shed light on the roots of informal practices through the special attention given to the factors that inhibit the provision of medical care in terms of accessibility, accountability and transparency. Informal patient payments have a variety of facing with different characteristics. They differ in nature, timing, reasons different attitudes, perceptions and beliefs. In Ukraine (according to *The Guardian* from February 4, 2015 the most corrupt nation in Europe), patients who are not willing or able to give gifts are often deprived the adequate services. The causes of the flourishing corruption in Ukraine's health care are a weak state combined with the low salaries of medical staff caused by low general tax revenues and insufficient social insurance contributions, the multiple moralities associated with the payments requested, and the toleration of inconsistency in practices. On the other hand, in Lithuania, with significant lower informal payment, patients receive services with quicker access and better quality. The authors conclude that for improving the situation there is a need to assure adequate remuneration of staff in medical care, define and implement clear professional rules, assure adequate investment in and efficient use of healthcare resources, introduce clear rules for patients' co-payment of health care services and develop the private health care services as support alternatives to public provision.

According to the official resources there are over 2.15 million people in Ukraine who live on territory designated as contaminated by Chernobyl nuclear catastrophe in 1986. The contribution by Thom Davies is based on over three years of ethnographic study around the Chernobyl exclusion zone and the author concludes that the observed region presents a model where an individual's entire bio-political position can be changed through bribery and connections. This can be achieved by obtaining higher disability status and in that way receiving higher social benefits or by entering into the forbidden area in the search for foodstuff or engaging in poaching. The mixture of social network, bribery and negotiations with various border control bodies shows how informal activity is a normalized part of every-

day life. Environmentally risky foodstuffs from restricted areas, like mushrooms, berries, game and fish, through different informal channels, regularly enter the food market in Ukraine. The people living in the mentioned region believe that is better to live with the invisible threat of radiation than to risk the obvious reality of severing the social network and in that way endangering the ability to use informal methods of survival and reciprocity. In other words, the possibility of using social networks, informal activity and local knowledge to survive in the harsh environment outside the formal economy is placed above the risk of contamination.

Controlling informal payments in Chinese healthcare is the topic that interests Jingqing Yang. The author analyses two major approaches used by the Chinese government to reduce informal payments and provides possible reasons why these attempts have not been successful. In China informal payment (*bu zheng zhi feng*) is deemed a form of malpractice that is not as serious as corruption, but is morally, politically and legally incorrect. For the fight against the informal payment practice, three major governmental and disciplinary agencies, with very similar administrative authorities, but with insufficient collaboration among them, are responsible. Although the Chinese government is very active in reducing the informal payment through various campaigns and numerous programmes, the situation has not been improved as much as expected due to the defects in institutional and policy design. Thus, further co-ordinated activities of all stakeholders will be necessary.

Liam O’Shea writes on informal economic practices within the Kyrgyz Police (*militsiat*). According to the author, violence and political instability in Kyrgyzstan have occurred because the country lacks the formal and informal institutional mechanisms by which to regulate political and social conflict. The author underlines the fact that informal economic practices have been long embedded in the police organization, so the country suffers from petty corruption, with the policemen on the streets very often behaving like bandits. After the country obtained independence, officers’ participation in informal economic activities has increased due to their own precarious economic situation and the lack of state capacity and willingness to control them. In Kyrgyzstan, from the top to the bottom, the financial structures are highly personalised and the economic fortunes of subordinate officers are dependent on their superiors, so lower ranked policemen pay regularly those in higher positions. The reform of the police organisation in this country has been almost impossible because in addition to the low and ineffective state control, the formal and informal leadership of police units have used their subordinates in a struggle for control of economic activities. Furthermore, there have been few incentives to introduce effective anti-corruption measures because Kyrgyzstan retains the legacy of a historical system in which numerous formal procedures are impractical, difficult to implement and enforce and widely circumvented.

The co-editors Morris and Polese in a short conclusion *Agency Strikes Back? Quo Vadis Informality?* explain the possible causes and the importance of informality. It can be and certainly is a social shield for the poor and socially excluded, ena-

bling them to cope with transition, inequality and social injustice, but it is also a way for the middle class to gain access to services and resources that cannot be obtained formally. While in the academic community there are opinions that informality is transitional, temporary and destined to fade away, Morris and Polese believe that the formal system will never be perfect and that the market changes faster than a state can respond to new circumstances, so informality is going to stay.

We can reiterate that since the early 1970s, the notion of economic informality has served as pivotal point for wide-ranging scholarly thinking and the development of policy initiatives enhanced by international organisations. Yet, informality shows a puzzling resilience. As a conclusion for this very useful book, it's important to remember that informality in the observed countries has become so deeply rooted and widespread that it competes with the actions of the state and is a necessary survival strategy for the majority of the population. It is particularly valuable that the many authors in the book analyse informal activities from different angles and go beyond the traditional functionalistic perspective. They also show that informality is a mode of alternative governance, while formalization of certain non-registered or non-observed activities may be the legislation of socially acceptable practice. Formalization instead of repression does not cause costs and mostly enables increased economic development and growth in employment.

As correctly observed by Aliyev, the employment of informal practices and participation in the informal sector cannot be easily eradicated through the transition to a market economy and by encouraging economic growth and/or by implementing the formalization and modernization of institutions. Citizens experience increased pressure to demonstrate their needs to the formal institutions that have become less accessible and useful for them and as a result are left to their own devices as a result of the lack of formal solutions or state aid.