

The Informal Sector in Cuernavaca

by

Armando Gonçalves
Bachelors of Science Degree in Geography and Philosophy
University of Massachusetts at Boston
June 1993

Submitted to the Department of Urban Studies and Planning
in partial fulfillment of the requirements for the Degree

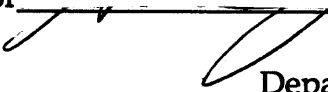
Master of City Planning

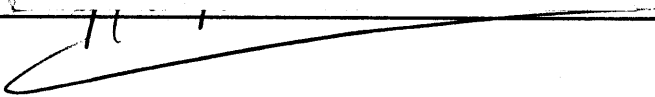
at the

Massachusetts Institute of Technology
June 1995

© Armando Gonçalves 1995. All rights reserved.

The author hereby grants M.I.T. permission to reproduce and distribute
publicly paper and electronic copies of this thesis document in whole or in part.

Signature of Author  _____
Armando Gonçalves
Department of Urban Studies and Planning
May 18, 1995

Certified by  _____
Mick Moore
Visiting Lecturer
Thesis Supervisor

Accepted by _____
Professor Langley C. Keyes, Chairman
Master of City Planning Committee

MASSACHUSETTS INSTITUTE
OF TECHNOLOGY

JUN 27 1995

LIBRARIES

Rotch

The Informal Sector in Cuernavaca

by

Armando Gonçalves

Submitted to the Department of Urban Studies and Planning
in partial fulfillment of the requirements for the Degree

Master of City Planning

Abstract

Fieldwork in Cuernavaca, Mexico is used to explore the conditions under which firms are compelled to remain informal or formal, and in some cases why they function in between. This approach is helpful in directing attention to a phenomenon not ordinarily examined by economists and planners. Understanding why in some cases' firms remain informal, and in other cases formal, serves as tool for formulating different policies for various occupations within the informal sector.

Interviews and time spent with informal sector participants showed that informality is not so much a question of legality, but rather a continuum. In this sense, it became evident that formal firms also engage in illegal transactions that points to a more varied and complex situation.

In this respect, some of the major findings are that people who engage in informal activities for survival tend to operate in situations of total illegality because their activities tend to be unstable and, therefore less profitable. However, when we look at the types of activities that the middle and upper classes engage in, the degree of legality appears to increase. The middle and upper class tend to participate in activities that are more visible to authorities. In addition, my finding suggests that for the poor, tax evasion does not explain why they place themselves under extreme conditions to make ends meet. In this connection, the study concludes by asking who benefits from a particular political-economic order and what is the relationship of that order to the origins of informal sector participation?

Thesis Supervisor: Mick Moore

Title: Visiting Lecturer

Contents

Tables and Figures
Acknowledgments

Introduction.....	7
Data Source and Methodology.....	12
I: The Informal Sector Debate, Part 1: What is Informal Economic Activity?....	14
The Informal Sector Debate, Part 2: 1970-1983.....	17
The Informal Sector Debate, Part 3: 1984-1993.....	21
Final Comments.....	24
II: Advantages and Disadvantages of Operating "Illegally":	
The Cost of Being Legal.....	25
On Tax Evasion.....	33
Final Comments.....	38
III: The "Informal Sector":	
Who is involved? Where, and for what reasons?.....	40
Final Comments.....	50
Chapter Summary.....	53
Subject Appendix I.....	56
Bibliography.....	76

Tables

1. **Breakdown of Enterprises by Degree of Legality and Sector of Activity.....27**
 2. **Number of Enterprises by Degree of Legality.....27**
 3. **Cuernavaca: Breakdown in the Number of Taxpayers by Sectors Studied..37**
- Appendix I: Gives each subjects business background.....56**

Acknowledgments

I want to thank those individuals who have helped me through my years as a graduate student at M.I.T.

I can only express warm gratitude and thanks to Elsa Gutiérrez for her patience and helpful insight in the closing hours of my thesis. A true friend and a person.

Thanks to Diane Colazo, Ronald Inniss, and Joan Becker. You have provided me with the freedom to dream and courage to make my dreams come true. I will never forget what you have done for me. I will always carry you in my soul.

Thanks to my brother Pedro Gonçalves and cousin Joao R. Santos for believing in me. Without your help this would not have been possible.

Thanks to Ricardo Miranda, Deanna Santana, Mary Quesada, Robert Mejia, Rumana Haque and Liz Stock. Your love and support have carried me a long way. I wish you only the best in the future.

Thanks to my trusted advisor Mick Moore and Readers, Bish Sanyal and Carlos Salas for your patience and positive outlook.

I would also like to thank the staff of Universal Language Institute and my host family for assisting me with my fieldwork in Cuernavaca, Mexico. Thanks to my host family in Cuernavaca.

Thanks to professor Peter Kiang and Arthur MacEwan, for you have been a tremendous source of encouragement in the last two years.

Special thanks to my siblings, nephews and nieces for believing in me during my toughest years as a student. Remember, nothing is impossible if you can dare to dream it!

To my parents, especially my mother who was never given the opportunity to attend school. I thank her and my father for the inspiration that they have given me.

"Play the game, but don't believe in it - that much you owe yourself."

-Ralph Ellison

"And it cannot be otherwise, for men will always be false to you unless they are compelled by necessity to be true."

-Niccolò Machiavelli

Introduction

My main hypothesis is that the degree of "informality-formality" is directly related to the nature of tasks that is performed within the firm.¹ In other words, the degree of compliance with legal provisions is related to the activity of the firm. A secondary hypothesis is that the more visible the activities in terms of transactions and contact with other firms or the general public, the higher the degree of formality.

From the above we can make three general points which, in my view, are neglected in the literature. First, the study of the informal sector should not be framed in terms of legality or illegality, where activities that are considered "legal" belong to the formal sector, while those that are considered "illegal" fall within the informal sector.² It has become clearer to scholars recently that in the developing world -- as a result of endemic macroeconomic instability, poorly institutionalized decision making processes, inefficient and intrusive bureaucracies, institutionalized corruption, and the like -- even those economic actors who are unambiguous participants in the formal sectors engage in instances of informal activity. Thus there is always some mixture. In most of the developing world, we are not dealing with instances or situations of either/or, but rather a continuum whereby some activities fall more to one end of the legal-illegal spectrum and others toward the other end. I specify in this study which groups and which activities we should expect to see more at one end or the other. I specify the conditions, motives, and incentives that generate behavior along the continuum.

Second, informality should not, therefore, be equated with the poor and the indigent. The middle and upper classes have always been active participants in the informal sector, even if most of the activities fall more on the legal end of the spectrum or their informal participation may display more discontinuity and brevity. Their informal activities may at times be disguised as formal transactions because of their material resources, access to political power, and

¹ The term firm refers to activities which employ between one to five persons. This fits the definition that PREALC has been using since 1975.

² Throughout this thesis, the term informal sector refers to a collection of very different types of activity. It should not be interpreted as necessarily denoting either homogeneity or weak formal-informal linkages (Booth, J: IDB, 1994).

connections to other actors possessing political and economic power. Furthermore, the conditions and motivations for their participation in the informal sector are in sharp contrast to those of the lower classes, in that the middle and upper classes engage in informal activities so as to supplement their income. The study of informality, therefore, becomes more than a mere question of poverty alleviation or economic development, but a question of power and wealth disparities, of domination and distribution, a question of who benefits from a particular political-economic order and what is the relationship of that order to the origins of informal sector participation?

Thirdly, as suggested above, informality should not be equated with tax evasion, for the incentives and motivations of actors differ according to their socioeconomic status, their product types, location, among other factors. In brief, the participation of the poor may be categorized as "survival-seeking." That is, their participation in the informal sector is geared toward meeting basic needs. The participation of the middle and upper classes can be categorized as "income-enhancing," whereby the motive is for income above and beyond basic needs. In rough form, I have found that the more the activity (more precisely the individuals and the entire range of their economic activities) can be defined as survival-seeking, the more likely it is to be informal; while income-enhancing activities will fall on the formal end.

In the first chapter I present the informal sector debate that began in the 1970's and end with the 1990's. At the outset of this chapter we look at the work of Keith Hart to help us understand his distinction between formality and informality. At the same time we examine the question of what is informal economic activity? Then we engage in the debate that began in the 1970's.

The second chapter examines the advantages and disadvantages of operating illegally with the bulk of the evidence drawn from Cuernavaca. The aim is to provide some plausible explanations as to why those in the informal sector do not always fulfill the many laws and obligations that are required by their local authorities. In particular, the chapter looks at reasons other than tax evasion which can possibly explain the existence of informal activities. My analysis focuses on the other reasons for explaining the existence of informal

activities, such as limited access to formal credit, fluctuating business location, and restricted political power.

In the third chapter I present evidence which suggests that the informal sector encompasses more than just the poor. Attention is given to questions such as who is involved in the informal sector? How? At what level and for what reasons? It seeks to explain participants motives which I think are inherently dependent on the types of political and economic connections that they have. Each chapter ends with some final comments and recommendations. The next section explains how I was able to obtain information that I am going to present in the chapters that I have just outlined.

The origin of this thesis is easy to date. In January 1992 I visited Cuernavaca, Mexico for the first time to participate in an intensive study abroad program on the political economy and culture of Mexico.

Two days after my arrival I went to a restaurant called *Las Mañanitas*, about which I had heard so many good things. For example, the family I was staying with told me that there was no other restaurant like it in Cuernavaca, and that I must go there before my trip ends. Arthur, my instructor on this trip said that my host family was correct, and that I should definitely visit the restaurant. What was troublesome is that neither my host family nor Arthur had told me anything specific about this restaurant. This brought a lot of questions to mind.

My roommate David decided to join me for dinner that night. We came out of the house and stood on the sidewalk hoping that a cab would come our way soon. We waved our hands at what appeared to be a taxi. When the driver stopped we asked him how much he would charge to take us to restaurant. He said 7 pesos but we talked him down to 5 pesos. For anyone familiar with Mexico this was the customary thing to do. Never get into a cab unless a price has been negotiated.

When we got to the restaurant everyone began looking in our direction, even though we had not exited the cab. As David and I approached the main entrance to the restaurant everyone in our presence became motionless. It did

not take long to solve the puzzle. The problem was that we were the only ones to arrive by taxi while everyone else was arriving by limousine. Nonetheless, we were both greeted politely and drawn to a table in the courtyard filled with lit candles.

The restaurant was tranquil. From its well defined courtyard, one could see the stars and the clouds drifting away. Wine glasses stood out on every table, making it more impossible for us to resist ordering a bottle of wine. After all we did not want others to know the real truth about us, which is to say neither David nor I could really afford a bottle of wine. By the time we finished our first and only bottle of wine a couple next to our table had already sipped three bottles of their favorite wine. The thought of having a second bottle of wine came to our mind, but we figured that our first bottle of wine had made a big dent on our pockets. At this point we were very hungry, but we only had enough money to get some appetizers. This particular night I had seen the one side of Mexico I did not expect to see on my trip.

The next day I went to the main cathedral to meet with my group. As we stood in the main court of the cathedral paying close attention to our guide, three young girls came to us asking if we wanted to buy some candy. The Bishop told them to leave us alone. As I reached into my pocket our guide told me that what I was about to do was a bad idea. I did not know what he was trying to get at until a group of about ten children came running to me. They formed a circle around me and began holding onto my shirt and belt so that I could not escape. They insisted I buy something from them. Arthur came to my rescue immediately and said to me "when are you going to realize that you alone cannot solve these people's problems?"

After our visit with the Bishop we headed toward *Café Universal* to get something to eat and have some beer. After being in the restaurant for no longer than five minutes two Indian men whom I imagined were in their late 50's or so approached us with their baskets. They were not any different than the children that I encountered that morning. By the looks on their faces and bare feet I could tell that they had been walking for a long time hoping that some generous tourist would relieve them of the weight that they had been carrying. That afternoon I came home with two large baskets.

Later I grew depressed and upset with the events that had transpired that day. First, I was upset with myself for not having paid a fair price for the two baskets that I had purchased. In this sense, I came to the realization that tourists like myself are very much a part of the way people live elsewhere. Second, I began asking myself whether or not peoples' lives were meant to be the way I had seen on that day. This particular question took me back to my childhood years. As I looked back, I began to realize that the only thing which made me different from the people I had come in contact with was that I had been raised in a society where opportunity actually existed for me to exercise my potential.

Though I was born and raised in an impoverished country, it was not until I went to Cuernavaca, Mexico that I began to question the notion of poverty. I did not question it while growing up because many of the people who I grew up with, especially my family, thought that life itself was meant to be difficult. Moreover, as I continued to reflect on my past experiences it became clear to me that the majority of people who live in poverty and were born in it think that their past generations are the ones to blame. Little did these people know that the reason why they are poor is because the very few who control our society are the ones responsible for keeping them impoverished. In this sense, the majority of us who live on the other side know that the bottom line of *Capitalism* is that one must "have", and for this to we undoubtedly end up with the "have-nots". These things not only helped shape my views on global politics, but they also led me to understand why the vast majority of people living in "Third-World" countries have to resort to different methods of making a living other than going to the factory.

That same year I was accepted to MIT's graduate program in planning where I hoped to become more familiar with the concept of urban informal sector. In reading literature on the informal sector I became more confused with the ideas and interpretations of authors who wrote on the subject. For example, the most frequent tendency was to equate poverty with the informal sector. That is- only poor people take part in the informal sector. The more conservative writers explained that the reason why people choose to participate in the informal sector is because they wish to evade tax and labor regulations. Those in the center wrote that it is because of poor wage and working conditions

that are found in the formal sector that people choose to engage in the informal sector.

As I continued to read other people's research it became clear to me that the only way I was going to deal with this confusion was by engaging in it directly. This decision led to further readings on the subject and trips to Mexico where I could speak to people who were an integral part of the informal sector in Cuernavaca. Some of my early discoveries led me to believe that the poor were not the only ones involved in the informal sector, and that tax evasion was the cause of people's informality. It became evident at least in the case of Cuernavaca, Mexico that many people, especially the middle-class as well as the upper-class participate both in the informal and informal sector . In fact, this thesis is a compilation of interviews and other firsthand experiences which led to these findings.

Data Source and Methodology

Without even knowing it, I began the process of collecting data on my thesis on my first trip to Mexico. The first phase included spending time with people who were active in the political arena of Cuernavaca. These turned out to be mainly teachers who either owned or worked for a language institute. During my spare time I would accompany these people to community meetings and sometimes political rallies which have increasingly become a way of life in Cuernavaca. This experiences gave me a good sense of the political and economic situations that people were aiming to change.

Apart from these activities, I tried to visit as many canteens, open markets, bars, and small shops so that I could begin to talk to people about their work and what they thought was important for them. During my meetings I would take notes on pieces of napkins because I did not want them to become suspicious of me. I found this technique to be very effective. I collected almost eighty pages of notes in this way each time I visited Cuernavaca.

The latter phase of data collection took place in Cuernavaca in January of 1995. By this time I had worked through a thesis proposal and literature review on the informal sector and some questions to help me with my fieldwork. My

initial goal was to interview twenty people who represent different types of informal activities. With the help of some friends I was able to interview twenty people with different informal perspectives. This way I could begin to understand the advantages and disadvantages of operating in a particular sector over another. Also, this would allow me the advantage of interacting with people whose work and educational experience differed. In the hopes, that this would help explain why they choose to get involved in the informal sector.

In addition, I got the opportunity to meet with some notable figures on the informal sector such, as Carlos Salas who teaches at Universidad Autonoma de Mexico (UNAM). These people not only pointed me to recent studies that have been conducted on Mexico's urban informal sector but also their own research which have redirected some of my views on the subject.

Why did I decide on Cuernavaca? One of the primary reasons for choosing Cuernavaca to do my field work is because I am familiar with the city and its institutions (i.e., universities, municipal office, grassroots organizations, etc.). I also chose it because of my relationships with local business men and women who live in the city. Aside from this, Cuernavaca unlike other Mexican cities is unique in that it is the only major primate city which lies between Mexico City and Acapulco. This makes it a major center of attraction for shopping, dining, and entertainment. Its location makes it ideal for tourism even for those that are just driving through to get to Acapulco and elsewhere further south of the country.

In the last two decades, Cuernavaca's population has increased dramatically at annual rate of 3.1 percent making it one of the largest secondary cities in Mexico. This has brought an increase in the birth of informal activities which are mainly service oriented. Besides this, there are many manufacturing plants in the area, the largest being the Nissan and Toyota plants which lie in the periphery of the city. Furthermore, what makes Cuernavaca an interesting place for this kind of research is that a large number of industries (i.e., service oriented) in this region continue to operate on an informal basis.

Chapter 1

The "Informal Sector" Debate

In this chapter I present the informal sector debate which emerged in the 1970s and continues in the 1990s. The chapter is divided into three parts. In the first section I discuss the first study on the informal sector, the work of Keith Hart and ask what is informal economic activity? The second part covers the period between 1970s to 1980s. The third part covers the period between 1980s to 1990s. The objective is to examine briefly other scholars' research on the subject since its emergence in the 1970s.

In the first chapter I present the informal sector debate that began in the 1970's and end with the 1990's. At the outset of this chapter we look at the work of Keith Hart to help us understand his distinction between formality and informality. At the same time we examine the question of what is informal economic activity? The latter part of the chapter is aimed at providing the reader with different concepts on the subject since its emergence in 1970's.

Part 1: What is Informal Economic Activity?

There many branches of economics focusing on areas such as monetary economics, welfare economics, micro-economics, etc. Informal economies of developing countries, however, are perhaps the least studied or understood phenomena by economists whose works seem to have great influence on the daily lives of people in the Third World. In this regard, development specialists, policy-makers, businesses, and financial institutions are recognizing that their information on international economic development, as well as the well-being of an enormous number of world's laborers, is severely limited by hidden, uncounted, and largely unknown economic forces.

As a result, a dramatic increase in attention to the informal sector has occurred during the past decade. Some recent studies indicate that in some developing countries the informal sector absorbs up to 70 percent of the urban labor force (as in Grindle, De Soto, Tokman etc.). Although there is no consensus in defining it, it is clear that the poor are disproportionately

represented in the informal sector. Therefore, the informal sector is of natural interest to scholars and policy-makers addressing issues of individual and societal development.

What, then, is meant by informal economic activity? The term first emerged in an attempt to explain problems with urban employment in African countries. To learn more about what was taking place in Africa, the ILO (International Labour Office) in 1972 commissioned its first study on the urban informal sector in Kenya. In its search for conceptual categories more appropriate to the Third World context, the ILO adopted the informal sector concept to describe work in small-scale activities, largely escaping legal recognition, enumeration, regulation, or government protection. In Kenya the ILO found employment in the informal sector--though regarded as stagnant and unproductive--was competitive, labor intensive, utilized locally produced goods, and developed its own skills and technology in small family or locally owned units. Another importance of the ILO Kenya Report was the emphasis that the informal sector is capable of both creating more jobs and growing faster than the formal sector and that the "bulk of employment in the informal sector far from being only marginally productive is economically efficient and profit making" (ILO Kenya Report, 1972). In sum, the ILO Kenya Report concluded that in informal sector in less developed countries typically has some or all of following characteristics:

1. *Easy of entry.*
2. *Use of local resources.*
3. *Family ownership of enterprise.*
4. *Small scale operation.*
5. *Adaptive technology and labor intensive.*
6. *Skills and training which are not obtained in the formal education system.*
7. *Unregulated markets and no competition.*

A year later, the ILO commissioned Keith Hart (1973) to carry out a second study of the urban informal sector in Ghana. It was in this study that Hart introduced the notion of formal and informal wages to aid him with his research. In this regard, he looked at populations whose income was low and participated in multiple occupations. Hart's report concluded that the distinction

between formal and informal should be recognized on the basis of wage and non-wage labor. Secondly, on the basis of self-employment.

Since the first ILO report on Kenya and Keith Hart's work on Ghana, the distinction between formal and informal has taken on a new meaning. For instance, in today's less developed countries, the informal sector is defined as comprising all activities that fail to meet one or all of following regulatory standards:

1. *Being registered with local authorities.*
2. *Providing employee benefits.*
3. *Paying taxes.*
4. *Complying with sanitation requirements.*
5. *Providing a minimum wage.*
6. *Complying with safety standards.*

On the other hand, the formal sector encompasses activities which meet all of following regulatory standards:

1. *Registered with local authorities.*
2. *Provide employee benefits.*
3. *Pay taxes.*
4. *Comply with sanitation requirements.*
5. *Provide a minimum wage.*
6. *Comply with safety standards.*

More recently, the ILO has taken on a different criteria to help it distinguish between participants who are formal and informal. It considers those firms which keep accounts as being formal, while those that do not to be informal. Does this make any sense? This makes little sense, especially given that a majority of small businesses in developing countries do not have cash registers or keep regular books. Most transactions are recorded on scrap paper or kept in the head (interview with Professor Carlos Salas, 1995).

The Informal Sector Debate, Part 2: 1970-1983

The literature on the informal sector, and the various debates within it, have generally failed to provide a discriminating analysis of the informal sector. Who are the various participants? What are their motives? According to Carlos Salas (1995), literature has tended to frame the issue with legality-illegality. In this view, it has tended to equate informality with tax evasion. Present evidence (Lisa Peattie, 1990) points to a more complicated and varied reality. Moreover, this literature (perhaps with the exception of a small body of research) has usually ignored questions of power and wealth asymmetries, and only rarely asks why there is an informal sector? What sustains it? What makes it grow?

By and large, there have been two dominant themes or issues of contention in the informal sector debate. First, there is the problem of definition. No concept has been more elusive and generated more heated discussion. The second issue of contention is not academic but practical, and refers to public policy. The essential question is what is the proper role of government and policy? Related to this last issue is the question of what is the link between the informal sector and economic development and macroeconomic strategies aimed at poverty-alleviation.

Rakowski (1994) and others argue that the informal sector debate emerged from disagreement over how developing countries should develop and at what pace. This in turn brought into question the role of state planning with respect to foreign investment, technical assistance and how these factors compared to the relative importance and costs of addressing social problems such as poverty alleviation, rural-urban migration, rapid urbanization, and so forth.

In her earlier work, Moser, (1978) an anthropologist and consultant who was among the first to enter the debate, argues that the early debate resulted from studies of employment, unemployment, and poverty; that it focused on whether or not the activities identified as informal sector could generate economic growth and employment, and under what conditions. She added that progress in addressing this question led to three major problems: the first is that scholars began to equate the informal sector with poverty; the second was with

methodology on how to conduct research on the sector; and the third focusing on the different kinds of linkages between the informal sector and the modern sector which in turn led to the notion of a dual economy.

Rakowski (1994) introduced the argument that the rise and persistence of the informal sector were largely due to the failure of development paradigms that were adopted in the early 50's in developing countries. In essence, the informal sector has and continues to act as a safety valve during periods of economic crisis. In this regard the relevant academic and policy questions are: which informal activities generate economic growth and employment, which serve as a buffer against unemployment, and what policies promote informal activities? In her opinion it has been these types of questions which have contributed to further clarification of the different roles of the informal sector and encourage debaters to avoid getting bogged down in argument over semantics and labels. In this regard, Rakowski was one of the first researchers who began to use the word "informals" (i.e. subcontracted workers, entrepreneurs, owners of micro-enterprises, the under- and unemployed) as opposed to sector .

Liedholm (1987), an economist, looks at the informal sector debate from the perspective of policies that were aimed at targeting micro-enterprises. In this view, he argues that government policies which were meant to promote investment and increase growth of micro-enterprises resulted in limiting the informal sector's potential for growth. Liedholm, whose work has focused primarily on Africa, raises questions often ignored in academic research and policy discussions in Latin America: what are the impact of the supply and demand sides of markets on the production of goods and services by micro-enterprises? Liedholms's answers to the above questions were that the government should not get involved in the business of protecting local ventures from foreign competition. To do so will only create obstacles to efficient, small firms, and will fail to solve the problem of inadequate markets which act as an important obstacle to economic growth based on micro-enterprise development.

Whereas Liedholm focuses on the impact of state policies on firms, Franks (1989), an economist and Latin Americanist, focuses on whether or not state policies will fail to achieve their intended objectives if macro-economic models

continue to exclude informal sector responses to those policies. Frank (1989), criticizes the generally accepted practice of developing macro-economics model based only on the "modern" sector when an overwhelming amount of employment and production seems to concentrate in the informal sector. This is especially true of Mexico where nearly 63% of its active labor force participates in the informal sector.⁴ Thus, both Liedholm and Franks agree that policy makers need to understand the interaction between the informal sector and macro-economic policies (even if they are not intended to impact the sector) if they are to assess and influence the role of the informal sector in development. The works of Frank and Liedholm gave rise two distinct but very important arguments. The first argument... informal firms are (a) an opportunity and (b) problem for crisis economies. If both ideas are to some degree correct, then there could exist an "optimal" level of informality that could be manipulated through policy implementation.

Portes (1989), a sociologist and one of the most influential academic voices in the debate, focuses on the role of the informal sector under crisis conditions and in transition from import substitution industrialization to export-oriented industrialization. He brings into the debate the idea that local conditions in developing countries are a direct result of what gets decided and takes place in the global market place. Portes raises the question of whether or not labor standards (i.e. protection and benefits) should be enforced in the economies of developing countries. The first issue, he says, is that export-oriented firms require flexibility in employment in order to maximize competitiveness; in the face of rigid standards, firms and states both tend to "informalize" by only selectively applying accepted standards. Economic activities can be informalized passively when state regulation is extended selectively to large firms, but not to small-scale firms. A prime example is the ability of large firms to sub-contract with small firms with little or no discretion by the state. In such instances, workers are exploited to the optimal level. His second argument is that failure to enforce standards can lead to a downward spiral in wages and work conditions for workers across the globe. The debate, as Portes sees it, is not whether the state and firms should enforce labor standards, but what standards are critical and

⁴ Encuesta Nacional de Micronegocios 1992 (ENAM), Mexico City.

non-negotiable, and at what point and under what conditions can standards be upgraded (Portes, Castells, and Benton 1989).

The contention in this literature is that people who make their living by either selling or buying commodities on an informal basis would be hurt even more if government is brought in to assist them. The belief is that with government assistance comes along corruption and inefficient bureaucracy which would only make matters worse for the poor who are just trying to make ends meet (Portes, 1989). Extensive government regulation also means that owners of informal activities can be extremely vulnerable to harassment from the police and other official members. Why? Because formalization requires businesses to meet certain operation and safety standards, and that government officials (i.e. health inspectors, police officers) owning this discretionary power will begin to harass business and owners and ask for bribery (De Soto, 1989; Portes, 1989).

In sum, Portes provides one of the strongest criticisms against the legalist approach by pointing out that state regulation presents disadvantages to small firms and not to large firms. Portes' argument is that small firms manage to survive by taking and dealing with unfair advantages of state regulations that apply to large firms. Thus, legality is a burden for small firms and not a privilege. It is at this point that Tokman's (1992) and Portes' argument intersect. Portes argues that complete deregulation is the only means to assist small firms. But Portes' position is somewhat extreme, since in many instances it is the absence of (or minimal) regulation and enforcement that triggers the chain reaction leading to informal activity. Tokman, on the other hand, argues that small firms, depending on what they produce should in fact be regulated, especially if they pose health and safety threat to the public. But participation in the informal sector is not limited to regulation-avoidance and tax evasion.

Bromley (1985), a geographer and well-known writer on the informal sector since the 1970's focuses on the work of Hernando De Soto and the Instituto Libertad y Democracia. He presents the other side of regulatory policy-labor standards. He observes that De Soto argued against state intervention and regulation, but left wages, benefits, prices, supply of inputs, and so on to be determined by the market. In this sense, he accuses De Soto of being a

conservative, someone who believes that privatization of state owned enterprises, debureaucraztion, and an unregulated market economy will resolve the problems of the poor. Bromley's work on the informal sector is important in that it seeks to outline the implications of the policies promoted by those who advocate neo-liberal economic policies and state withdrawal from the market economy.

By 1980, Uzzell (1980), an anthropologist who greatly influenced the early research of Hernando De Soto, addresses the informal sector by examining issues of power. For Uzzell, the important issues are whether informality is deviant or normative and who has power in development planning and regulation. For example, who benefits? Whose interests are ultimately served? Who pays? He argues the informal sector presents a rational and normative strategy for most actors and criticizes formal planning as not "reality based" and acting largely as a mechanism for maintaining the status quo which in turn contradicts the idea of progress and change. Momentum for this argument began to increase by 1983 as Portes (1983) and Sassen-Koob (1983) began to write more precisely on who benefits from informal activities.

The Informal Sector Debate, Part 3: 1984-1993

The informal sector debate evolved significantly between 1980 and 1993. The argument shifted more toward issues related to worldwide economic and political restructuring and a world recession. A significant change has been the shift away from an expanding informal sector as a problem for development, or an indicator of the failure of development paradigms, to a focus on the informal sector as an asset or solution to economic crisis and poverty (see for example Friedman, 1988; De Soto, 1989; and Peattie, 1987). In this view, the debate has centered mainly on questions regarding the potential of certain informal activities to generate economic growth and the effectiveness of macro-economic and poverty alleviation policies and programs. The conceptual shift in the literature coincided with a policy and analytical shift among the international financial institutions (e.g., World Bank) who finally came to terms with the fact that entire segments of the population and work force were excluded from their neat and elegant models, projects, and development aid -- people whose activities very much affected macro aggregates. What has become increasingly

popular in Latin America and among bilateral and multilateral donor agencies is the idea that the informal activities might be a necessary stage or long-term component of developing market economies. This is consistent with the 1990's emphasis on promoting democracy, efficiency, privatization, poverty alleviation, and grassroots initiatives.

There are still debates over definitional concepts and methodology, but the relative importance and focus have transformed over the years (Olivera and Roberts 1994; Portes (1989); Sassen (1991); Biggs, Grindle, and Snodgrass, 1988). For instance, in the 1970's much energy was spent arguing over terminology and whether the informal sector was a particular sector of an economy or part of a continuum. However, in the 1980's, research energy shifted to understanding the phenomenon regardless of what it was called (Peattie, 1987). As a result, by 1993, a number of terms were used virtually interchangeably. These include informality (operating outside or on the margins of the regulatory framework of a particular country), informal activity, self-employment, subcontracting, micro-enterprises, informal sector, the underground or black market, or casual work (Rakowski, 1994). These came to replace popular terms such as economic dualism, continuum, petty commodity production, which was more common to the Marxian school of thought (Portes et al, 1989) , marginality (Peattie, 1987), and traditional sector have all fallen from favor. As previously mentioned, the people who engage in informal activities are most frequently called the poor, unprotected workers, informals, entrepreneurs (i.e., risk takers) and sometimes referred to as petty producers and casual labor (De Soto, 1989).

In part, the growing popularity of the informal sector concept is a result of a converging interest in poverty issues and the need for improved policy instruments (Tokman 1987; Tendler 1988; Peattie 1987). In Mexico and other parts of Latin America this popularity was reinforced by economic crisis, increasing poverty, and scarcity of financial resources and by cultural, political, and ideological factors such as imported concepts like "underground economy" and "black market," democracy, and a conservative international policy environment, (Tokman, 1987).

The work of Marquez (1988), economist and consultant, pulls together most of the preceding themes by explaining how they became popularized by

organizations such as PREALC (an ILO employment policy body in Latin America) along with multi-lateral lending institutions. For Marquez, the arguments of the debate are not that important. What is more important is making sense of evidence and recommendations and retaining what seems useful and feasible for macro-economic and social welfare planning.

Similarly, Lisa Peattie (1990) argues that research on the informal sector should focus attention on the "real world," for grounding policy and action. In Lisa Peattie's real world, there would be institutions instead of the economy, entrepreneurs and firms instead of industries and sectors, employers and workers with particular purposes and characteristics instead of labor and labor markets. She further argues that economic modeling in regard to the notion of a dual economy and academic theorizing only contribute to the "fuzziness" of the informal sector concept (Peattie 1990, pp. 32-34). She was one of the first commentators to suggest that informality is not limited to peripheral economies, but is typical of advanced economies as well. It is from this angle that the works of people like Marquez and Peattie have been able to shift the international outlook toward the informal sector.

In the middle of the foregoing debate lie a number of scholars who have written extensively on the contributions that the "informal" sector has made to the stagnating economies of developing countries (Friedman, 1988; Jenkins, 1988; Peattie, 1987). In this view, the informal economy is presented as a safety net for the "formal" economy. In these and other authors' research, the debates have centered mainly on the productivity of the informal sector, its definition, and the different ways that government should intervene. Since the early works of Keith Hart, the most common prescriptions have been credit and technical assistance. At one point these factors were spoken of as if they were the only major needs of the informals. Today, however, many researchers have come to terms with the fact that these are not the only major needs of those who depend on informal activities to earn their living.

In sum, there is no clear consensus on what to do to improve the conditions of those whose livelihood depends on informal activities. Prescriptions seem to vary from country to country. This is largely due to the fact that the range of activities is so large that it becomes very difficult and often

ineffective to implement undifferentiated policies and programs. Nonetheless, there is a growing consensus amongst scholars that the poor are not the only ones who participate in informal sector activities. Another growing consensus is the need to take a subsector approach in directing the needs of informal sector participants. Finally, it has become clearer that informal sector activities should not be equated with tax evasion, because there are other reasons why people engage in informal activities. In this work I explore some of these issues by asking who are the different actors involved in informal activities? At what level do they operate? For what reasons, and where?

Final Comments

The preceding discussion reveals several important trends. Over the years, the language of the informal sector debate has become simpler and the conceptual framework and discussion of theory more coherent and academic. Proponents of the different approaches seem to share each other's concerns and critiques. Indeed, the importance of the informal sector as a policy phenomenon has generated a demand for analysis and policy recommendations framed in terms easily understood and applied by planners and other policy makers. These changes have led to more flexible and comprehensive approach for analyzing complex socio-economic systems and unit of analysis.

Chapter 2

Advantages and Disadvantages of Operating "Illegally"

The main objective of this chapter is to provide a general analysis of the conditions of legality or illegality that prevail in the informal sector in Cuernavaca, Mexico. The specific objectives are: (1) to establish reference points to be used as the bases for determining the degree of "illegality" of the informal sector; (2) and the advantages and disadvantages of for informal activities operating illegally, taking into account the present situation of Cuernavaca. In addition the aim is to provide some plausible explanations as to why those in the informal sector do not always comply with the many laws and obligations that are required by their local, state, and national authorities.

The Cost of Being Legal

It has been established by the works of people like Hernando De Soto, Alejandro Portes and others that in order to operate legally, informal firms have to comply with a series of legal rules and provisions in the constitutional, fiscal, and labor regulations whose scope of application is clearly defined. In this view of legality, informal businesses have to pay different fees for carrying out their economic activities according to whether production takes place in family units or semi-enterprises (Tokman, 1987,89).

One common view is that the cost of complying with legal obligations plays an important role in the decisions of the persons concerned to situate themselves within the prevailing legality or remain outside. According to De Soto, it's the number of bureaucratic procedures that have to be followed by the owner of a small activity and the time and money that has to be spent that forces him to remain outside the law. This implies that the person has the possibility and opportunity to chose one or the other situation after analyzing the "cost-benefit" ratio and that person has relevant information to justify his final decision.

Taking into account the above, as well as other order of priority that enterprises establish regarding the minimum or maximum legal requirements to comply with, or their decision to evade all or some of them, it is possible to establish a sequence of degrees of legality-illegality (i.e., continuum scale) based on importance. For instance in table 2, the lowest value corresponds to a situation of total legality. The different categories are defined as follows: generalized illegality means that the enterprise is not registered anywhere and does not have a license; whereas restricted illegality includes enterprises with minimum registration and single financial obligation, payable when commencing operation, or no financial obligation at all (i.e., street vendors); generalized legality covers enterprises listed in the maximum number of registers, including the tax and labor registers, that systematically fulfill their obligation; and restricted legality signifies enterprises that are registered in the aforementioned registers but do not comply with the obligations that these entail (Tokman, 1994).

The following describes how I scored my cases on the basis of Tokman's four terms (i.e., generalized illegality, restricted illegality, restricted legality, generalized legality). A score of '0' was given to someone if the firm (individual) had no license and not registered. Conversely, participants holding a vending permit/license were given a score of '1', and were classified under the category of restricted illegality. In this order, people who were licensed, registered, and paid taxes were given a score of '2'. This demonstrates they operating in the restricted legality category. Finally, participants who were licensed, registered, paid taxes, and complied with labor regulations were given a score of '3' that means they were operating in the generalized legality category.

As will be seen below, the importance of this scheme resides in the fact that, on the basis of the sample chosen, we can make a more systematic and precise comparison among the different sectors and perceive a pattern of behavior that is closely linked to legal status. Using the criteria that has just been outlined, it is possible to analyze the breakdown of these legal-illegal categories according to different sectors of activity.

Table 1. Breakdown of Enterprises by Degree of Legality and Sector of Activity

Category	Commerce	Industry	Services
Generalized illegality	2	-	3
Restricted illegality	1	-	1
Restricted legality	-	1	-
Generalized legality	2	2	4
Total	5	3	8

Field Survey 1994, N= 16

Enterprises refers to activities in the commerce, industry and service sector.

Table 2. Number of Enterprises by Degree of Legality

Category	Value	Number of Enterprises	Percentage of Total Enterprises	Cumulative Percentage
Generalized illegality	0	5	33	33.
Restricted illegality	1	2	13	47
Restricted legality	2	1	0	47
Generalized legality	3	8	53	100.0

Field Survey 1994, N= 16

Table 1 reveals that of the enterprises studied, those involved in commerce activities tend to situate themselves in the generalized illegality and generalized illegality category with a 50 percent split. This seems to hold true for those in the service sector as well. The situation is quite different for the industrial sector, in that firms which fall under this category appear to lean more toward the restricted legality and generalized legality category. These are the more legal operations. Many enterprises in the commerce and services sector seem to operate with the minimum requirements prescribed by the law and show varying degrees of compliance with regulations.

It can be said that illegality has different levels and cannot necessarily be restricted to the exclusive fulfillment or non-fulfillment of legal, tax, and labor regulations. The different cases shown are the result of the characteristics of the enterprises and its integration in the market, as well as of the regulations and obligations applicable in each case, together with the state's capacity to control or

tolerate failure to comply with the law when dealing with this type of activity. Furthermore, this classification scheme allows identification of the economic areas in which state regulation is either absent or easier to "evade".

In the case of Cuernavaca, it appears that the maximum number of illegal enterprises are found in the services sector, with three enterprises under generalized illegality and four under generalized legality. Enterprises which are totally illegal tend to be located at home. This is due to the fact that in situations of total illegality, enterprises are obliged to work clandestinely within the homes; in situations involving contact with customers or selling in public places, as in the case of commerce and some service sector (i.e., non-home services), it is necessary to have some form of registration, even though it does not have to be the most costly (i.e., tax).

On the other hand, it appears that the more legal businesses, whether or not they fulfill their obligations-are usually located in workshops solely used for production or selling of goods. In both scenarios, the reasons are different. Whereas in the first instance it can be assumed that the decision on location is the result of the clandestine activity, allowing the enterprise to avoid paying rent and to "evade" tax, in the second case, the enterprise's activity makes it subject to control because it is carried out on/in premises that are more visible. This appears to be true of enterprises that are located closer to the city center. These tend to be activities such as restaurant, specialty gift shops, etc. The branch of activity, legality, and the type of premises are therefore connected in different ways in situations described.

The information obtained from the Cuernavaca case study indicates that nearly 40 percent of the enterprises belonging to the service sector tend to operate under situations of total illegality. The other 60 percent fall under situations of total legality as I have described above. What are some possible explanations for such a split? I could give many reasons, but one which seems to stand out more clearly is that over the years home based activities have increased in Cuernavaca. A notable driving force seems to be the rise in rent and other fees required to run a shop. As rent and other fees increase, people begin to move their operation within the home. This might explain why home based activities have increased

by a rate of 20 percent over the past 3 years (Diario de Morelos, January 1995, p. 1).

One may question the robustness of my findings as a result of the size of the research sample. For instance, it can be argued that my analysis is not statistically significant on the grounds that my sample size is too small and non-random. Thus, there exists little capacity to say what types of activities are more likely to be formal than informal. This is because I did not have the time and financial resources to increase my sample size. Had this not been a problem I think could have produced a firmer conclusion. Research on the informal sector is never without its problems. Data collection, interviews, and the like are difficult since few people will discuss their activities and figures are never reliable. Nonetheless, I think that the methodology I have used here holds a lot promise for future ways to look at informal sector activities.

Undoubtedly, operating illegally has a number of tangible and intangible consequences. Not having operating license, not paying taxes, or not fulfilling registration requirements imposes on those in the informal sector a number of limitations on carrying their economic activities, which need to be analyzed. One obvious limitation is the impossibility of access to certain public and enterprise markets. In the case of Cuernavaca some enterprises are informal not because of a strategy to avoid being discovered by the authorities, as stated by some authors, but because of the structural limitations on access to political/economic resources and the size of the market that they operate in.

An often cited disadvantages of operating outside the law is the difficulty of obtaining credit. However, this limitation is only an apparent difficulty because the main obstacle to obtaining credit is the lack of security rather than the legal situation of the businesses (Tendler, 1993). For example, of all the participants in my survey only one had obtained credit. The credit was given to her by an informal credit cooperative that she had to become a member of in order to qualify. The remainder of the participants started their business with personal savings, money borrowed from family members or friends, etc. The evidence generally seems to support the argument that small business owners whether or not they are formal tend to have weak linkages to formal credit

institutions. This does not necessarily mean that small businesses do not borrow money from large banks and credit unions.

Another factor that is an obvious disadvantage is the inability for many informal units to advertise in various ways the products or services they arrange, sell, or provide, for fear of being discovered by the authorities. This mechanism is usually an important factor in attracting customers, particularly where the physical location of the businesses is not favorable and generally far from the principal markets. This was clearly the case with participants involved in home-based activities and those who handle indigenous products. The only way that they could promote their businesses is through satisfied customers (Gonçalves and Miranda, 1994). In this study, I found that over 90 percent of the people I interviewed relied on informal channels (i.e., frequent customers) to advertise their products or services.

Operating a shop is generally thought of as an "easy entry" activity, but in talking to participants it became clear to me the intricacies of price policy, wholesale buying, social interaction with customers, and general accounting through memory and mental arithmetic indicate that participating in the informal sector is no easy way to make living. It is possible for someone to start a rudimentary activity with neither capital, extensive experience, no credentials. A women painting seller at a church front told me how she began many years ago. With five children and a husband who is not able to perform hard work, she had to earn something. Alberta gets up at about four in the morning, takes two bus rides to get Cuernavaca so that she can sell her arts and craft. She spends most of her earnings on traveling back and forth. If something is not sold by the end of the day, she lowers the price or takes it back home.

I come from everyday from Taxco, which is three-hour bus ride to Cuernavaca. My friends and I would go to the church yard everyday to sell our goods. Recently, the head bishop told us he was receiving complaints from local authorities and surrounding businesses. They claimed that we were harassing the tourists. Therefore, we are not allowed to sell our goods in the church yard. Since then, a police officer was assigned to the church to keep us away. Yet, we still manage to sell our goods.

This new rule has made it more difficult to for me and my friend to make enough money to support our families. The church yard was our central location, but now we have to carry our merchandise wherever we go. I am lucky because I have two boys who can help me. Having the boys really helps, because I can stay behind, while they go home and get more paintings and crafts. When I stay in the city, I usually sleep in the main plaza. The plaza is a good place to sleep for many vendors because the trees are big enough so that no one can see us. At night it really when its cold, the trees shields us from the wind. It is not really bad.

A less obvious disadvantage of operating illegally is not having long-term social security in terms of health, unemployment, and pension benefits. In Latin America, the population with no social security coverage is principally made up of the informal sector, the unemployed, and the agricultural workers, especially non-wage workers (Mesa, 1983). In terms of pension benefits this poses a serious problem to non-wage workers because as they grow to become old they are expected to provide for themselves. Perhaps this could explain why such large network of families exist in less developed countries such as Mexico. This also poses difficulties for women who are the majority in the informal sector. One of these difficulties is not having access to maternity leave and healthcare for the child. This means that the husband and other members of the family have to increase their work hours or resort to a more profitable activity. In the long run, this also posses a problem for the state because the well being of any nation is inherently dependent on the well being of its population.

Finally, more than a disadvantage, the payment of bribes that those in the informal sector have to pay in order not to be harassed by the authorities are additional costs that in some cases represent fixed sums that have a significant impact on the structure of regular costs to be paid by those in the informal sector. For instance, one women I interviewed felt that the reason why her business was not doing well was because of bribes she had to pay each time officials from the local ministry of finance visited her (see appendix I, for participants profile).

In every country, there are major obstacles limiting the growth and profitability of informal activities. One of these is a hostile policy environment. Typical problems are policies banning street vendors from selling in downtown locations, and licensing and registration requirements that are extremely time

consuming, complex and expensive from the perspective of small business owners (for further readings on this subject see De Soto, "The Other Path", 1989). The current situation in Cuernavaca is such that street vendors are no longer allowed to use major public places to sell their products or lure potential customers. It used to be that street vendors could sell their goods in places tourists come to visit, but this is no longer the case. A prime example of this in Cuernavaca is the use of fence to keep street vendors from entering restaurants and churches as well.

In Cuernavaca there is virtually no access to institutional credit for the informal sector. Banks feel that lending to small businesses is too risky and too expensive, or are simply not interested. Rigid collateral requirements, inappropriate payment schedules, extremely high interest rate, and excessive transaction costs tend to keep these business small and informal.

Lacking access to institutional credit, businesses owners use moneylenders who charge interest rates ranging from 15 % to 30 % a month to 20% a day, a major factor limiting the profitability of informal businesses. In Cuernavaca, the going interest rate on business loans is 33% a month and can change unexpectedly depending on the economic situation of the country. Whether or not the interest charged from loan "sharks" reflect their true cost of doing business is spent to debate, but loans from moneylenders are often too small to stimulate growth, and payback periods are too short, often a day or week, to permit long-term investments in equipment or shop improvements. Similarly, lack of working capital often leaves the business owner little recourse other than to buy from certain suppliers on credit and at very high prices (Ashe, 1985).

There is also the problem of marketing ones products and services. Even when the market is stable or expanding, high transportation costs, poor prices paid by middlemen, and slow payment once goods are delivered are problems. Also, business owners may lack information on available markets, or many simply go into the same line of business as a relative or a neighbor without considering that the market may be saturated. That the informal sector has continued to prosper and grow in many parts of Mexico and other countries is a clear indication of the profitability, and resilience e of the enterprises and the dynamism of the business owners.

On Tax Evasion

We now turn to the claim that tax evasion is one of the primary causes of informality. Before I present my own views and findings on this matter, I think it would be a good idea to present the ideas of other researchers who have done work in this area.

Tax-dodging is like a common cold-prevalent; no certain cure; no cause for alarm, but often seems to be worse than it really is.

(Houghton, 1979, p. 91)

There is also a feeling, given that people on lower incomes tend to receive almost all their earnings in salaries and wages taxed at the source, that tax evasion is the poor man's tax avoidance.

(Furnham and Lewis, 1986, p. 233)

'Fraud is like VD' Campbell once said. 'If you've got it you don't talk about.' But left to fester, it becomes a cancer: not so much like VD, but more like the AIDS of the economic system.

(Bose and Gunn, 1989, p. 233)

Best, one of the leading researchers on the subject of tax evasion and labor regulations wrote that tax and labor regulations are more likely to be influenced by those connected to the economic and political system of any country, not just developing countries. His research in many parts of Central and South America concluded that the influence of "oligarchical" powers in many Latin American countries ensures that the rich enjoy preferential treatment and are able to manipulate the tax system in their interest. As a result, those with large incomes are able to manipulate the tax system in their favor: being born rich, while not a necessary condition, is usually a sufficient condition to ensure open and successful tax evasion, concludes (Best, 1976).⁶

The wealthy have also tended to benefit from the supply of, and demand for, market niches (i.e. market stalls, etc.). Strategically located market stalls are a lucrative resources. With the connivance of market officials, there are mainly

⁶ Best, M.H. (1976) 'Political power and tax revenues in Central America', *Journal of Development Economics*. 3. pp. 81-6.

illegal transfers of stalls at inflated prices, and it is the wealthier traders who have the resources and contacts to accumulate stalls in their own names in the first place (Eades, 1985). In this connection, studies done by Salas (1995) in Mexico City demonstrate that it is because of the vertical integration of the markets, the poorer traders are unable to take direct action against the wholesalers. In all cases it is the wealthy who are able, through their access to capital, to take over market niches, helping to provide the political class with an economic base (Salas, 1995).

Similarly, the works of Jerry Jenkins (1988) suggest that if governments of developing countries wish to improve their tax collection system and raise local revenue at the sometime they must establish two essential priorities: (1) they would need to reduce concentrating on those people who do not really have the means to pay taxes; (2) and focus more on collecting taxes from those people who demonstrate a substantial amount of income. In this view, government officials would need to target more rigorously the corporate giants and real estate tycoons. Basically, the government should stop wasting their time and other resources trying to collect tax and other fees from people close to or below the poverty line. In addition, both authors argue that this is something that governments of developing countries have consistently managed to ignore. The reason being the high levels of government involvement in economic activity in many developing countries, especially in economic services. When mixed with widespread and complex systems of controls, this allows opportunities for considerable fraud in terms of under-reporting of an individual or company's actual earnings (Theobald, 1990). For example,

The amount of taxes one pays depends on two important factors. First, it depends on who you know at the tax register's office. Second, it depends on how you categorize your business. In my situation, I declared my restaurant as a family business, which means I only have to pay a 2 percent tax rate each year. However, declaring my business as a commercial establishment would increase my tax rate to 20 percent. Many business owners are not aware of the loopholes that exist. As a result, some businesses become vulnerable to bankruptcy. The key to having a successful business, not only depends on management skills, but it also depends on who you know, says Carlos, a restaurant owner in Cuernavaca.

Klitgaard (1987), an authority on corruption attributes widespread corruption in Mexico partly to the greater importance there of personal relationships. For instance, if a friend asks for a favor, one might end up doing it-even if the favor is against government rules. The prevalence in the society of personalism and *amistad*, primary loyalties being directed toward one's family rather than toward government or administrative entity, has an important effect on the level of corruption. Mexicans treat one another as *persons*, with the result that formalized codes of behavior carry little weight in the society (Klitgaard, 1987, p. 62). By this he means that members of the Mexican political elite corrupt themselves not only for personal gain but also for their immediate families and for those who belong to the same kinship that make their clientele. In the case of Cuernavaca, this phenomenon is more attached to individuals belonging to the middle and upper-class.⁷ Simply because there the ones who tend to be more educated in terms of what surrounds them politically and economically. This is less common amongst indigenous groups who are not familiar with how the system works.

The tax reform which was introduced two years ago in Mexico has proven to be very inefficient from my point of view. Before 1993, every business owner paid a flat tax rate. The amount of tax and other business fees were determined by the location of the business. For example, the closer the business was to the center of the city, the more tax it had to pay. Many business owners felt that this system was unfair. As a result, the local government decided to reform the tax collection system.

The goal of the reform was to reduce inefficiency and increase local revenue at the sametime. The strategy is to have officials from the local ministry of finance visit each registered business to examine its gross earnings. The income figure is used to determine the amount of tax that one has to pay. The business owner is fined for any discrepancies that the official finds in the balance statement.

⁷ With respect to informal activities, the word lower-class refers to those participants who engage in informal activities on a full-time basis to meet their basic needs. In other words, the money that is earned is used primarily to buy food and clothes. The term middle-class refers to those participants who engage in full-time wage work and on the side carry informal activities for extra-income which is used to obtain luxury goods, etc. The term upper-class refers to members who engage in informal activities as distributors of products that are either sold in the streets or storefronts. These tend to be people who are self-employed in the sense that they are managers of their own operation or have people working for them.

There are two main problems with this new tax collecting system. One is that it encourages people to underreport their actual earnings, which motivates bribery. Second, it prevents business owners like myself from learning accounting techniques which can save us money in the long-run. For instance, most business owners that I know pay private accountants to keep track of their business transactions. From what I know, many accountants charge more than what I make in a day or two in my stationery store. Almost every month I get fined; but hopefully one of these days I can become better at keeping my own account, says Magdalena.

Legislation has thus provided a good deal of discretionary power for the agents of the state. Whether or not they exercise it depends on how they see their own interests. When salaries are low, and inflation rates high, they may well decide that regular payoffs from traders are preferable over enforcement of the law. This sporadic enforcement acts in favor of the wealthy, who are able to afford the bribes to stay in business, and who have most to offer in other ways to State officials (Eades, 1985, p. 210). Eades argues that there is a further complicating factor in the relationship between traders and the State. The officials of the State are often part-time businessmen themselves, and if they are not, their wives or close kin almost certainly are. Where officials are not paid well or their income are falling, such links are vital. For the lower paid formal sector employee, self-employment offers the only real chance for extra-income: the role model is not the senior bureaucrat but the self-made cash man, with his houses, his shops and his vehicles (see for example the work of Peace⁸, 1979), and such man are accumulating the capital to get out of the formal sector as quickly as they can.

Thus, the agents of the state are ambivalent towards the legal and administrative apparatus they are employed to uphold. It serves as a source of discretionary power, but this is not valued for itself, but for the income it can generate. This helps explain why much of the legislation relating to both large and small enterprises fail to be enforced, largely because the agents are either closely connected to the sector through their responsibilities or relative, or are actual or potential businessmen themselves. In this respect, given the nature

⁸ As cited in Klitgaard, Robert E. 1987. *Controlling Corruption*.

and class structure of Mexican society, the "informal" sector is largely the preserve those who are more privileged than others.

Table 3. Cuernavaca: Breakdown in the Number of Taxpayers by Sectors Studied

Category	Number of Taxpayers	Percent of Total Enterprises	Cumulative Percentage
Commerce	2	13	13
Industry	3	20	33
Services	3	20	53
Total	8	53	100

Field Survey: 1994, N= 16

Table 3 shows that industry and services represent the largest share of enterprises that pay tax with commerce being the lowest. Almost 50 percent of the people I interviewed were not registered anywhere, which means they are not paying taxes. These were people who worked at home or thought that registering their activity was not necessary. For instance, in situations where the enterprise does not face strong market competition and does not rely on imports registration is less likely to take place. This is especially true of indigenous street vendors whose products not only requires indigenous types of materials but also special non-formal training. In other words, indigenous people tend to operate in restricted market. This is not to be taken as saying that these people do not pay tax. There are other factors which could explain why large numbers of people at the bottom do not tend to register or pay taxes. For instance, most of the indigenous people I interviewed did not know that it is required of them to be registered with their local authorities. This is because many of them do not know how to read and write in the formal language.⁸ An additional explanation is that compared to their net earnings it would not be worthwhile to register their activity.

⁹ Formal education may have little value, but skill acquisitions is necessary for subsectors, such as small-scale manufacturing, craft work, or maintenance and repair services. Thus, these sectors do have barriers to entry, one of these barriers may well explain why earning in these subsectors may be higher than formal wage employment. Also, illiteracy may become a problem for informal sector enterprise owners if they want to become legal, such as registering ones activity, or to apply for a bank loan, etc.

As previously mentioned, service enterprises are less likely to escape tax and other types of regulation because of exposure to the general public. The same applies to industry where registration is required if trade is expected to take place. For instance, in Cuernavaca I found that registration and payment of fees is more common amongst participants involved in the service and industrial sector which depend on the import market for the bulk of their supply. It is also in these sectors that people in the middle and upper-class tend to concentrate because import goods tend to yield higher profit margins in comparison to products which are produced locally. Though, registration and payment of tax was higher for these groups, I found that they are more likely than the lower-class to under-report their income so as to not pay the correct amount of tax.

Final Comments

It has been shown that decisions by owners with regard to the degree of "legality" or "illegality" is the result of a number of factors such as type of activity, public exposure, alternative employment, and the possibility of bribing authorities. It is therefore, not only the excessive and burdensome regulations in force, as authors like De Soto and Tokman have suggested.

Even where there is some type of registration, the degree of compliance with legal provisions is also very different. The casuistic explanations is the result of a number of different factors such as trade links with other formal enterprises, direct contact with the public or through intermediaries, the level of macro-economic activity, the owners belief that their activity is temporary or very unstable or that full-scale legalization would be costly, as well as the relative ease with which the authorities can be deceived or bribed if one is found out.

Also, the preceding discussion showed that the distinction between "legal" and "illegal" activities has not been realistic, and it was decided to establish categories of legality/illegality in accordance with a the hierarchical followed by the owners themselves in defining the minimum or maximum requirements to be fulfilled. In this case, five of the fifteen enterprises that had no form of registration or license and transgressed all the fiscal and labor laws were situated in the generalized illegality category; the restricted illegality category contained one enterprise that was least formally registered with the finance authorities or

had a local government authorization but had only a single financial obligation or paid nothing; the restricted legality category included one enterprise which had the greatest number of registrations, permits, and the like in the legal, fiscal, and labor spheres; finally, only eight enterprises comprised the generalized legality category on the basis of their declaration of strict compliance with all the regulations, tax obligations, and benefits for their employees.

In the case of Cuernavaca, the results show that industrial enterprises tend to situate in the restricted and generalized legality categories, whereas commercial and service enterprise are evenly spread between the generalized legality and illegality categories. This is because the industrial activities I observed had links with other enterprises, whereas 50 percent of commerce and service activities were not obliged to have greater public contact with their customers are thus less likely to be detected by local authorities. This view is reinforced when considers that activities which take place in premises that serve both homes and places for work-as is the case for most service and commerce shops. In contrast, activities specializing in services to the public are obliged, at least formally, to comply with regulations in force and thus are found in the legal categories. It is therefore possible to affirm that the type of activity and the form of relationships to markets are determinant factors in the tendency to remain outside the law. However, further research is need in this area before such claims can be said to be true.

Chapter 3

The "Informal Sector": Who is involved? Where, and for what reasons?

In this chapter I present evidence which shows that the informal sector encompasses more than just the poor. Special attention is given to questions such as: Who is involved in informal activities? How? At what level and for what reasons? The objective is to explain the motives of the participants. I think these motives, are inherently dependent on types of political and economic situation that they face. I intend to demonstrate this by pointing out the different roles that each class plays in the informal sector. Specifically, I will focus on the types of products and services that each group provides which in turn determine their place of business. After doing this, it will become clear to the reader that some of "Third-World" populations engage in informal activities in order to survive, while others do it for extra-income.

As I have already mentioned, one of the most persistent assumptions made about the informal sector by the general public, academics, and policy-makers is that informality is synonymous with poverty. But not all informals are poor, nor do all the poor work in the informal sector (Uzzell, 1990). This study found that there are three different classes which make up the informal sector: those belonging to the lower class, the middle-class, and the upper-class.⁹ In what follows, I describe each groups activity.

At the top are the upper-class who act as suppliers to those just below them, the middle-class. In this view, one has to keep in mind that those people who sell Marlboro cigarettes, windshield wipers, or Gucci time pieces in the streets or in their stores but who do not manufacture these items themselves. Given this, it becomes clear that these people must have some sort of connections with suppliers who can get them these goods. Based on field observation, the suppliers tend to be from the upper-class, because they

¹⁰ Again, with respect to informal activities, the word middle-class refers to those participants who engage in full-time wage work and on the side carry informal activities for extra-income. In this respect, the word upper-class includes those participants who engage in informal activities as distributors of products that are either sold in the streets or storefronts. These tend to be people who are self-employed in the sense that they are managers or have people working for them.

are the ones who have connections to import and export channels. This access is made possible by the political and economic leverage that the upper-class hold at both the state and national level. They tend to have a lot of what the average Mexican lacks - the economic and political power to make things happen when you want them to. In short, it's this type of power that allows the ruling class to control politics and economic outcomes in Mexican society.

In the case of Mexico, Grindle (1977) states that it is difficult for the poor to influence the government because Mexican bureaucracy is very pervasive and powerful. For instance, the Mexican Institutional Revolutionary Party (PRI) is known for its co-optive tactics, such as timely distribution of government jobs and resources, in order to block potential political opposition from the bottom. This might have some positive effects in the short-run, but in the long-run such maneuvers by the governments makes it difficult for resources to trickle down to the poor. At present the most common tool for co-optation is the regime's solidarity program which was initiated by former president Carlos Salinas. The program is based on the classical notion that public works projects is the avenue to creating jobs for blue-collar workers, thereby instilling political stabilization. According to Grindle, it is communities which produce the highest voter turnouts for the ruling party that seem to benefit from the solidarity program.

In Mexico, history has shown clearly that poor people's demand for political and economic change often can only come about through underground movement. A primary example of this is the recent demands that are being made by the Zapatistas rebel in Chiapas. What Chiapans natives want is a piece of land to grow food-land that once to belong to them. In the eyes of an ordinary citizen, the indigenous people of Chiapa are not asking for too much. However, it is not until one examines the agenda and motives of the landed elite, who continue to thrive at the expense of those who live in Chiapas that we can really begin to understand what is taken place in Mexico. It is for this reason that I draw from the experiences of people who live in other regions of Mexico besides Cuernavaca.

A recent article by Paco Ignacio which appeared in the April 1995 edition of *The Nation* states the following: In Mexico, the struggle for power within the system has, since the 1940's, followed an unwritten rule: It must take place underground. This rule has carried more weight than the country's constitution. He moves on to say that no member of the Mexican ruling class has any concept of anything-life, the present, the future-outside what gives them meaning, prestige, wealth, power, a reason for being, a future, an inheritance, permanence, material goods and even something to talk about: the system. This is why the PRI, the party of "eternity" (seventy-five years in power) still governs and despite everything maintains its unity.

What is the reason for all this, one might ask. To theorize and talk about the growth of the informal sector, we must think about the political and economic structure that makes up a country such as Mexico. With the exception of Portes, this is something that has often been ignored in the informal sector literature. We must look at these forces jointly, otherwise we begin to paint pictures which are not accurate representations of people's lives and the activities that they engage in. This is a must for researchers who are trying to understand in a comprehensive manner the heterogeneity of the informal sector. Upon doing so it will become clear to many of us that the well-off are just as involved in performing informal activities as their poor neighbors. This is why from the start I bring the issue of power and politics into my analysis.

With regard to the informal sector, Friedman (1988) and others equate the upper-class of less developed countries to the transnational elites, the dominant class in the world city. In this view, Friedman argues that the city is arranged politically and economically to cater to their life styles and occupational necessities. The upper-class manages to create a cosmopolitan world which surrounds them. A society which is created by high energy, rootlessness, and affluence. Members of this class are predominantly males between the ages of 30 and 50. Because of their importance to the city, they are a class well served (Friedman, 1988, p. 73). This in part explains the well defined relationship between the upper-class and the middle-class who act as distributors for them.

The contrast between the upper-class and the third of the population who make up the permanent lower class of the world city is very striking (Friedman, 1992). The lower class, weak in terms of economic and political stature, are the victims of a system that holds little hope to them. They crowd along the edges of the primary economy - the 'formal' sector, or settle in its interval, barely tolerated by the government, yet providing personal services to the ruling class, doing the dirty work of the city. The ruling class and its dependent middle sectors enjoy permanent employment, a steady income, and complete legality; they do not have to justify their existence. For all practical purposes they are the city. The lower class lives at its sufferance (Friedman, 1992; Portes, 1989).

In the many works that he has done on the informal sector, Portes (1991) refers to this type of relationship as "internal colonization". A process whereby the labor and resources of the lower class gets exploited by the upper-class who run the country. From this perspective, Portes goes on to argue that the periods of imperial rule and degradation still remain with us today, especially in the former colonies that exist throughout Latin America. By this he means that things have not changed since the colonial periods of Latin America and the rest of the World. Portes also argues that the emergence of new and improved technology, which is derived from the international community (or the periphery), has led to an increase and sustainability of this divide.

In this connection, members of the middle-class and those slightly below, act as vendors of goods and services that they obtain from the upper-class. What makes this type of relationship work is that middle-class people are familiar with the different products that the upper-class bring into the country. People at the top know that the middle-class are the ones with the money to invest in their products. Another important factor is management skills in terms of knowing how to handle money and keep records which is more prominent in the middle-class.

The middle-class resembles members of the upper-class in that they are more connected to the political and economic networks of the urban centers than members of the lower-class. They know where to buy their supplies,

and most importantly they know how to negotiate terms of agreement (i.e., exchange rate, monthly payments, etc.) with their suppliers. There the ones who are more concerned with how to obtain a license or permits for their activity. Simply because they would not want to jeopardize their privileges. The tendency amongst the middle-class is to engage in informal activities on a part-time basis while they hold on to full-time wage work; often in a government office or private firm. Most of them consider the work that they do on the side as a way to earn extra money. Let us look at an example of someone who works full-time as a teacher and sells imports on a part-time basis.

I learned about this business through my grandmother, who owned a boutique store located in a section of a *fayuca* (flea market) for nearly 40 years. I started working at the store when I was nine years old. Back then, the *fayuca* was much smaller in size and there was not much variety in terms of products. Today, however, the cooperative house has close to 200 shops. You can purchase almost anything at this market, but once you buy something you cannot return it. Therefore, there are risks involved when you buying goods in the *fayuca*. This is especially true with electronic products because most of them are rebuilt. There are goods which are less risky, such as shoes and clothes. Yet, what holds true for all items is that every sale is final.

If you decide to sell merchandise that is produced outside of the country, you have to be connected to a person who is dependable and can provide reasonable prices. For someone who is just starting a business, this requires money and network. Having capital helps, but the most important element to this relationship is trust. My situation is unique because I tapped into a network that my grandmother had already established in Mexico City.

In this type of business you cannot afford the risk of not complying with regulations. It is clear to local authorities that I am making a substantial amount of money because imports usually yield a higher profit. Also, in this type of setting your business is exposed to government officials. They come around once a month to inspect vendors. If anything seems suspicious, then your asked to show receipts for the previous months tax and utility payments. Most people steal electricity and

sometimes even water, but I choose not to do so this because I do not want to get expelled from the cooperative, says Francisco.

As we can see, having the proper connection in terms of suppliers is a key component. This story illustrates the linkages between the middle and upper-class and how it takes time to build and secure such a relationship. The most important aspect of this story, though, is that it contradicts the commonly held perceptions that informal activities have no barriers to entry. As Francisco points out, there are tremendous barriers to becoming a seller of imported goods. It requires more than enough capital to engage in these types of activities.

As I have already mentioned, the middle-class are more aware of what takes place in the market that they operate. In terms of products they know where to invest their money and where not to. The tendency is to invest on imported goods because they usually have a higher rate of return value compared to domestic products. I also found that most people who do it for extra-income tend to be involved in different activities. For instance, the selling of clothes is usually complemented with cosmetic products and jewelry. The middle-class women who provides cheap meals in her home usually sells beers, cigarettes, matches, kerosene, and other products. One place I went to almost every night provided products such as toothpaste, razors, deodorant, etc. Again, most of these products are not produced locally. In what follows, I give an example of someone who was fortunate enough to join the ranks of the middle-class.

I knew that my parents could not afford to send me to college. Yes, education is free of charge in Mexico, but that is only half of the story. Classes may be free, but how do you get there? In my situation, the closest university was 30 miles from where I lived, and the only way I could get there was by bus. Besides getting to school, there are other things that one needs to consider. For example, you need clothes, paper to write on, and not to mention food since your going to spend so much time away from home. So I realized that if I was going to attend college, I would have to figure out a way to pay for these things.

Two years before going to college Yolanda began selling cosmetics from an Avon catalogue. This was her avenue to an institution of higher education.

After two years of working at home selling cosmetics and jewelry, Yolanda earned enough money to attend college. When she left college with a degree in Mechanical Engineering, Yolanda went to work for a bio-chemical plant located 10 miles outside Cuernavaca. She worked there for 10 years. When asked why she left the company, she said, that were many reasons:

I was well under paid for my responsibilities and knew that a chance for promotion was close to never. I went to school thinking that my profession would be valued but so far this has not been true. It turned out that I was working more hours and earning less compared to my friends who never went to college. This really made me angry.

Yolanda is now a full-time Spanish instructor who sells Avon products and clothes at home.

Most of my income comes from these activities, says Yolanda. Selling clothes and cosmetics is not an easy task. I spend at least 12 hours a day going from house to another to take customer order and to collect payments. Recently I hired my brother who goes to Mexico City to purchase merchandise for me. I have a very stable business and this is due to the way I treat my customers. I find that giving people credit is a good thing because it encourages them to buy more from me. Moreover, it reinforces trust between me and some of my clients. Yes, there are risks with giving credit. When some of my clients can not pay me I tell them to give me whatever they can for that week. Going into business for myself is by far the best decision I have made since graduating from college. As a result, I much more independent in that I have been able to build a home, purchase an automobile and take a vacation once a year. These are some of the things I hoped for in my old job.

On the other hand one ends up with the lower-class whose reasons for engaging in informal actives are purely for survival. In other words, they do it to meet their basic needs. When translated this means getting two meals a day and, if they happen to be lucky, a decent home to live in. In the case of Cuernavaca, the people who depend on informal activities in order to survive operate at a different level. That is they are less dependent and less connected to the mainstream markets which are made up of the middle and upper-class. This is demonstrated clearly by their products and where they carry out their activities. They do business not in the core of the city, but in

the outer periphery of those who are registered and own market stalls. Their products tend to be indigenous and reflect labor-intensive techniques. Remember, the middle-class trade goods which are less labor-intensive. This is because most of their products are mass produced, therefore requiring manufacturing and assembly of parts. Thus, in the periphery of urban centers such as the city of Cuernavaca you tend to find indigenous people whose products are quite different from the middle-class who locate in the center of the city. Another distinguishing factor is that people who engage in survival activities tend to have the following characteristics about them:

1. *They have no savings account.*
2. *Their children usually do not attend school, because they have to help out.*
3. *Thus a strong presence of child labor exists within this group.*
4. *They often live in huts constructed with scrap metals and sometimes plywood.*
5. *They have no access to running water, electricity, and if they do, its because they tap into them illegally.*
6. *Their mode of planning tends to be short-term not long term.*
7. *Because of these characteristics they tend to locate themselves in the outer fringes of the city.*

These are people who live at the bottom. They are not concerned with market interest rates or when the next shipment of tennis shoes is due to arrive in Mexico City. Nor do they tend to worry about what they are going to do for their daughters sixteenth birthday which happens to be a great concern to the middle and upper-class.

Many, though not all, of the lower class are of different ethnic origins than the ruling class; often they have a different skin color as well, or speak a language or dialect of their own. This was especially true of members of the lower class that I interviewed in Cuernavaca, Mexico. The majority of them tend to be indigenous people who speak a different language other than Spanish. Unlike their counterparts, these people have never received any formal or educational training from the system that is suppose to look after them.

My sense is that those who operate at the bottom go to sleep hoping that tomorrow they can increase their food supply. Often, children do not go to school because they have to get up early in the morning in order to sale their share of indigenous paintings, pottery, and hand made jewelry. In Cuernavaca and other parts of Mexico schools are made available to indigenous populations, but the problem is that many of them have no access to transportation. Furthermore, going to school requires a child to have a notebook, something to write with, clothing, and not to mention food. These things cost money-money that many indigenous family have to use for food. Sending a child to school would decrease the family's income by a substantial amount. A child can earn 10 to 20 pesos (\$2 to \$4 US dolalrs) per day selling chewing gum and handmade crafts. All of this becomes clear when one walks into a bus terminal at six in the morning and is approached by child selling homemade cookies, etc. Here is what one boy had to say an interview:

The way I make my money is by helping people put their trash in the dumpster. My best days are Wednesdays because that is when the trucks come to pick up the trash. I sit near the dumpster and help each person throw their garbage away. I usually earn 10 to 15 pesos a day (\$2 to \$3 US dollars). This is good money in comparison to what many people earn in the factory.

At first the odor of the garbage was terrible, but after a while you get used to it. When the smell gets really bad, I just move away from the dumpster. This usually happens in the afternoon when it gets hot and humid. The smell sometimes gets to the point where I can no longer withstand it. This is when I go home for two or three hours then return.

There are many people who do this for a living. I know of at least four friends who do exactly this type of work. I started by helping my friend out. Later he moved to Acapulco, so I took over his dumpster. The dumpster belongs to me and this is clear among the other boys in the neighborhood. It is rare that a person gives up their dumpster, but when they do, they sell the dumpster for at least 200 to 500 pesos (\$40 to \$100 US dollars), says Felipe.

Unlike the children of middle and upper-class families, Felipe cannot afford the luxury of going to school or stay home to watch television like

most children his age. As we can see, there can be very different reasons for working informally. Some people work informally to supplement income and others do it to meet their basic needs. In this view, the causes of informality are quite different from the commonly held perceptions that taxes is the reason why many people choose to go informal. Also, the preceding example makes it clear to us that for some people there is no choice involved in what they must do for a living in order to survive.

In terms of income, money that is earned by the middle and upper-class are used to purchase goods and services which exceed basic necessities. The extra income that they earn by performing informal activities is used primarily on luxury goods such as automobiles, furniture, vacations, and often to send their children to music and language schools. Personal savings is more common amongst these groups, for example. Conversely, the lower-class which is largely made up of indigenous people spend their income mainly on basic needs. Apart from this, most of their money is used to transport their goods from and to the urban centers so that they can sell them. Whatever they have left is used to buy corn *tortillas*, *nopales*, and other native food inputs.

Thus, traveling time and transportation cost appear to be greater for those operating at the bottom than for those at the middle and top of the scale. This supports further the hypothesis that some groups, especially the poor, participate in the informal sector solely for survival purposes. Though I have no real numbers to show this, firsthand experience with these people strongly support this hypothesis. In addition, I think the following example supports my argument.

I come everyday from Taxco, which is a three-hour bus ride to Cuernavaca. My friends and I would go to the church yard everyday to sell our goods. Recently, the head bishop told us he was receiving complaints from local authorities and surrounding businesses. They claimed that we were harassing the tourists. Therefore, we are not allowed to sell our goods in the church yard. Since then, a police officer was assigned to the church to keep us away. Yet, we still manage to sell our goods.

This new rule has made it more difficult for me and my friends to make enough money to support our families. The church yard was our central location, but now we have to carry our merchandise wherever we go. I am lucky because I have two boys who can help me. Having the boys really helps, because I can stay behind, while they go home and get more paintings, etc. When I stay in the city, I usually sleep in the main plaza. The plaza is a good place to sleep for many vendors because the trees are big enough so that no one can see us. At night when its cold, the trees shields us from the wind. It's not really bad, says Alberta, an indigenous women in her late forties.

Alberta's situation represents a case where someone spends a majority of her time traveling back and forth in order to reach their customers. It also demonstrates the persistence and boldness that are required by those that are just trying to survive. The struggle that people like Alberta have to go through is instructive for those scholars who think that the majority of "Third-World" populations choose to participate in informal activities in order to avoid being taxed. Unfortunately, it is people like Alberta who are not allowed to sell in the middle of the city because they cannot afford the cost of high rent, permits, and other required municipal fees, and not to mention bribes. When asked why she is not registered with local authorities Alberta said that for her it did not make any sense to do so because she does not make enough money.

Final Comments

As we have seen, there is no single cause when it comes to explaining people's informality. In reality there are many causes. In order of importance, lack of a sufficient wage-- a wage which covers the basic needs of any given family is what should be considered as being the main catalysts. When asked what led to their involvement in informal activities, many of the respondents felt that the problem was not so much a lack of employment per se, but rather the lack of a minimum wage that is sufficient to support a family.

Very few chose to work in the formal sector because of this reason. For instance, a child who sells *chicle* in the streets makes more money than most wage laborers. Sometimes ten times as much as the average laborer. In this sense, there is very little prospect in searching for regular wage work. One major implication behind this is that young adults begin to drop out of school, because in many respects the returns to education is very low. At least in the short-run. The end result is that people begin to see no future guarantees in becoming an engineer or an accountant, especially in the long-run where personal contacts takes precedence over ones' educational attainment.

The truth is that Mexico's political and economic structure seems to work for those people who have the means to shape it and make it work for themselves. This means having money, which in turn connects you to people in the government. The average citizen who only earns about 11 to 13 pesos per day does not possess this leverage. As one subject puts it, our way of doing things is illegal because we have no means to influence those in the political and economic sphere of this country.

As John Friedmam (1992) notes, in the political climate existing in the "Third-World" today, all attempts to take from the rich and give to the poor are bound to fail. Only policies that place growth incentives where the poor are capable of producing true and effective results. Until this is recognized by governments of "Third-World" countries and the international community, the chance for progress remains gloomy.

Finally, by example I have shown that the poor are not the only ones who depend on informal activities for income. I have also demonstrated that it is best to refer to informal activities as income-seeking strategies. The importance of this resides in the fact that it draws both the middle and upper-class into the discussion. This approach is very useful in understanding the reasons and motives of the different participants. As we have seen in the preceding discussions, the poor person's motives and reasons for participating should be equated with survival strategies. As for the middle and upper-class, we can say that they do it for extra-income. Once again, my findings and

analysis are only applicable to Cuernavaca, Mexico. And as such, we cannot make any cross-country generalization.

Summary

In the first chapter I presented a multi-dimensional and complex informal sector debate. The debate addressed (1) definitional and conceptual issues from the perspective of many researchers, (2) methodological issues, (3) questions regarding the nature and linkages between informal and so-called modern activities and the informal sector and the state, and (4) the role of informal activities in development and democratization.

Generally speaking, the informal sector is not confounded by people whose activities are total illegality. In other words, the degree of compliance is directly related to ones economic, political, and personal circumstances. Those with the necessary means tend to be more legal than others.

In the second chapter we looked at issues related to operating illegally. The objective of this section was to examine the advantages and disadvantages of operating outside the legal framework. The general analysis was based on conditions of legality and illegality that prevail in the informal sector in Cuernavaca, Mexico. In this connection, the specific objective was to establish reference points to be used as the bases for determining the degree of "legality-illegality" of the informal sector, taking into account the present situation of Cuernavaca. Following this analysis, the chapter provided some plausible explanations as to why those who operate in the informal sector do not always comply with the many regulations and obligations that are required by their local, state, and national authorities.

In this respect, some of the major findings were that people who do it for survival tend to operate in situations of total illegality because their activities tend to be less stable and less profitable in comparison to the activities of the middle and upper-class members. However, when we look at the types of activities that the middle and upper-class engage in the degree of legality appears to increase. This is because the middle and upper-classes tend to participate in commerce and service activities which are not easily hidden. Furthermore, it makes a lot of sense for members of the middle and upper-class to comply with regulations, especially given that they are the ones who dominate import and export channels.

We also looked at the issue of tax evasion, and asked the question of if tax evasion is the primary cause of informality. My findings indicate that for the poor, tax evasion does not explain why they place themselves under extreme conditions in order to make ends meet. If anything, tax evasion appears to be more important for the middle and upper-class whose informal activities seem to be more lucrative and rewarding. If we want to equate tax evasion with illegality we must then look at those groups who can actually afford to pay it.

In the third and final chapter I argued that the informal sector is made up of three distinct groups of people. By way of examples I demonstrated that poor people do it in order to survive. Whereas the middle and upper-class participate for reasons which exceeds their basic needs. As I have described, the nature and scope of their activities tend to be quite different compared to indigenous groups who handle labor intensive products.

We also looked at the power relation between these three different groups. My analysis showed that members of the middle and upper class are better connected to political and economic resources in the region of Cuernavaca than the poor. As Portes puts it, the poor are well disposed. In other words, the poor are placed in situations where there are more occupied with self-preservation (i.e., survival) than with other matters such as politics and economics of the country.

Power is one of the most commonly neglected variables in studies on labor markets and enterprises (Uzzell, 1980; Liedholm, 1990; Bromley, 1994). Who benefits and who loses through the specific regulations, policies, and programs; and what are the vested interests that make difficult reform and change? What economic conditions facilitate incorporating the poor and powerless into political processes? How do firm behavior and employment patterns interact with, support, or threaten the authority of the state? Analyses need to be sensitive to ideological positions and ethical issues (Rakowski, 1994, p. 278).

More research is needed on the different activities that represent the so-called informal sector. We need to shift away from a wholistic approach to a subsector approach. There is a great need to understand individual activities separately. A blanket policy approach should be avoided (Marquez, 1988) and the relative short and long-term benefits of direct and indirect policies should be assessed for each policy problem. As stated earlier, policies and programs need to be more heterogeneous and flexible, because informal sector activities tend to change over time, especially in times of economic expansion and economic recession (Franks, 1989; Cartaya, 1990; de Olivera and Roberts, 1994).

Policy recommendations should be grounded in knowledge of the nature of planning, the production of information or knowledge, state objectives, needs assessments, and the impact of specific policies on the balance of power and the authority of the state. Policies too often promote the interests and values of some groups at the expense of others and are based on outdated information produced by methods and models that include implicit ideological biases. Therefore, policy makers should solicit input from "target" groups, not merely from "experts," as a means to improving the potential of policies to address real problems and as a mechanism for democratizing the policy process. Finally, policy makers should acknowledge and correct for biases that are unacceptable morally, for example, that reinforce inequality and exacerbate social problems like poverty (Uzzell, 1990).

Sample of Survey Questions

Name: Alberta

Age: 44

*Education: Never attended school

Current Occupation: Street Vendor

Did you have prior training in this activity?

1. Yes.
2. No.

Who started this activity?

1. You.
2. You and someone else.
3. One of your family members.
4. Someone else.

What were your reasons for getting involved in this activity?

1. Independence.
2. Family tradition.
3. Extra-Income.
4. Could not find wage work.
5. To meet basic needs.

Are you registered?

1. Yes.
2. No.

Do you pay taxes?

1. Yes.
2. No.

Who are your primary suppliers?

1. Big commercial businesses.
2. Small commercial businesses.
3. Big factories.
4. Small shops and factories.
5. Others.

How did you obtain money to start your activity?

1. Bank loan.
2. Borrowed money from friends or parents.
3. Personal savings.
4. Informal credit.
5. Other.

Profile

Alberta wakes up at four in the morning everyday and goes to church, not to pray, but to sell traditional paintings so that she can support her family. When I first approached her, she was hesitant to speak to me out of fear that I was a government official. It was difficult to convince her to speak to me not only because she mistrusted me, but also because a bus had arrived with tourists-her main customers. After ten minutes of persuasion, I gained her trust. Finally, she agreed to talk to me behind an alley across the main entrance of the church.

I come everyday from Taxco, which is a three-hour bus ride to Cuernavaca. My friends and I would go to the church yard everyday to sell our goods. Recently, the head bishop told us he was receiving complaints from local authorities and surrounding

* Education refers to the last grade the person attended or completed in a formal education system.

businesses. They claimed that we were harassing the tourists. Therefore, we are not allowed to sell our goods in the church yard. Since then, a police officer was assigned to the church to keep us away. Yet, we still manage to sell our goods.

This new rule has made it more difficult for me and my friends to make enough money to support our families. The church yard was our central location, but now we have to carry our merchandise wherever we go. I am lucky because I have two boys who can help me. Having the boys really helps, because I can stay behind, while they go home and get more paintings, etc. When I stay in the city, I usually sleep in the main plaza. The plaza is a good place to sleep for many vendors because the trees are big enough so that no one can see us. At night when its cold, the trees shields us from the wind. It's not really bad.

Sample of Survey Questions

Name: Magdalena

Age: 39

Education: College graduate

Current Occupation: Stationary Store Owner

Are you registered?

1. Yes.
2. No.

Do you pay taxes?

1. Yes.
2. No.

Did you have prior training in this activity?

1. Yes.
2. No.

Who started this activity?

1. You.
2. You and someone else.
3. One of your family members.
4. Someone else.

Who are your primary suppliers?

1. Big commercial businesses.
2. Small commercial businesses.
3. Big factories.
4. Small shops and factories.
5. Others.

What were your reasons for getting involved in this activity?

1. Independence.
2. Family tradition.
3. Extra-Income.
4. Could not find wage work.
5. To meet basic needs.

How did you obtain money to start your activity?

1. Bank loan.
 2. Borrowed money from friends or parents.
 3. Personal savings.
 4. Informal credit.
 5. Other.
-

Profile

The tax reform which was introduced two years ago in Mexico has proven to be very inefficient from my point of view. Before 1993, every business owner paid a flat tax rate. The amount of tax and other business fees were determined by the location of the business. For example, the closer the business was to the center of the city, the more tax it had to pay. Many business owners felt that this system was unfair. As a result, the local government decided to reform the tax collection system.

The goal of the reform was to reduce inefficiency and increase local revenue at the same time. The strategy is to have officials from the local ministry of finance visit each registered business to examine its gross earnings. The income figure is used to determine the amount of tax that one has to pay. The business owner is fined for any discrepancies that the officials find in the balance statement.

There are two main problems with this new tax collecting system. One is that it encourages people to under report their actual earnings, which motivates bribery. Second, it prevents business owners like me from learning accounting techniques which can save us money in the long run. For instance, most business owners that I know pay private accountants to keep track of their business transactions. From what I know, many accountants charge more than what I make in a day or two in my stationary store. Almost every month I get fined; but hopefully one of these days I can become better at keeping my own account.

Sample of Survey Questions

Name: Yolanda

Age: 34

Education: College graduate

Current Occupation: Sells clothes/cosmetics

Are you registered?

1. Yes.
2. No.

Do you pay taxes?

1. Yes.
2. No.

Did you have prior training in this activity?

1. Yes.
2. No.

Who are your primary suppliers?

1. Big commercial businesses.
2. Small commercial businesses.
3. Big factories.
4. Small shops and factories.
5. Others.

Who started this activity?

1. You.
2. You and someone else.
3. One of your family members.
4. Someone else.

What were your reasons for getting involved in this activity?

1. Independence.
2. Family tradition.
3. Extra-Income.
4. Could not find wage work.
5. To meet basic needs.

How did you obtain money to start your activity?

1. Bank loan.
 2. Borrowed money from friends or parents.
 3. Personal savings.
 4. Informal credit.
 5. Other.
-

Profile

I knew that my parents could not afford to send me to college. Yes, education is free of charge in Mexico, but that is only half of the story. Classes may be free, but how do you get there? In my situation, the closest university was 30 miles from where I lived, and the only way I could get there was by bus. Besides getting to school, there are other things that one needs to consider. For example, you need clothes, paper to write on, and not to mention food since your going to spend so much time away from home. So I realized that if I was going to attend college, I would have to figure out a way to pay for these things.

Two years before going to college Yolanda began selling cosmetics from an Avon catalogue. This was her avenue to an institution of higher education. After two years of working at home selling cosmetics and jewelry, Yolanda earned enough money to attend college. When she left college with a degree in Mechanical Engineering, Yolanda went to work for a bio-chemical plant located

10 miles outside Cuernavaca. She worked there for 10 years. When asked why she left the company, she said, that were many reasons:

I was well under paid for my responsibilities and knew that a chance for promotion was close to never. I went to school thinking that my profession would be valued but so far this has not been true. It turned out that I was working more hours and earning less compared to my friends who never went to college. This really made me angry.

Yolanda is now a full-time Spanish instructor who sells Avon products and clothes at home.

Most of my income comes from these activities, says Yolanda. Selling clothes and cosmetics is not an easy task. I spend at least 12 hours a day going from house to another to take customer order and to collect payments. Recently I hired my brother who goes to Mexico City to purchase merchandise for me. I have a very stable business and this is due to the way I treat my customers. I find that giving people credit is a good thing because it encourages them to buy more from me. Moreover, it reinforces trust between me and some of my clients. Yes, there are risks with giving credit. When some of my clients can not pay me I tell them to give me whatever they can for that week.

Going into business for myself is by far the best decision I have made since graduating from college. As a result, I much more independent in that I have been able to build a home, purchase an automobile and take a vacation once a year. These are some of the things I hoped for in my old job.

Sample of Survey Questions

Name: Rocario

Age: 23

Education: College graduate

Current Occupation: Jewelry Repair/Vendor

Are you registered?

1. Yes.
2. No.

Do you pay taxes?

1. Yes.
2. No.

Did you have prior training in this activity?

1. Yes.
2. No.

Who are your primary suppliers?

1. Big commercial businesses.
2. Small commercial businesses.
3. Big factories.
4. Small shops and factories.
5. Others.

Who started this activity?

1. You.
2. You and someone else.
3. One of your family members.
4. Someone else.

What were your reasons for getting involved in this activity?

1. Independence.
2. Family tradition.
3. Extra-Income.
4. Could not find wage work.
5. To meet basic needs.

How did you obtain money to start your activity?

1. Bank loan.
 2. Borrowed money from friends or parents.
 3. Personal savings.
 4. Informal credit.
 5. Other.
-

Profile

Rocario currently holds two jobs. She works as a full-time Spanish instructor with Universal, a language center in Cuernavaca, Mexico. This job pays her about a quarter of what she earns as a part-time jewelry dealer in her home. I asked her how she got involved in this type of business.

In Cuernavaca, there are not many shops that can repair watches and other types of jewelry so I decided to open one, said Rocario. I got the money by joining a revolving loan credit union where you can borrow up to five times the amount you put into it. In essence, it is a cooperative made of people who know each other and who are interested in opening their own business. In my case, becoming a member of the credit union was a smart move because it provided at a much lower interest rate compared to local banks.

For instance, before I discovered credit union, I had approached at least three banks for a loan. I was denied credit from all of them because I had no collateral, or someone who could co-sign for me. Furthermore, the banks were charging anywhere between 27 to 34 percent interest on their loans. This was incredibly high compared to what I am paying now, which is 3 percent. This is why I think the credit union is a good idea.

My business is doing well, but it could be doing much better if I was not so young. What I have realized is that most people are afraid to come to me because they think I have no experience. They attribute this to my age. This is because most people involved in this type business tend to be in their late 30's and 40's. This affects me some, but usually I say to my customers I can repair anything even if I cannot. If I can not repair a particular item what I do is take it to a shop that can. In this business what matters the most is quality and the way I provide it is by doing a good job in a reasonable amount of time.

Later in our discussion I asked Rocario why she chooses to work a second job and what it has done for her personally. She gave me a smile and said that its not uncommon for individuals, even professionals like herself to work two jobs.

If you want to live in a decent home and eat regularly you have to hold at least two jobs. The way things are going in Mexico its almost impossible to survive with one job unless that job pays you well.

Sample of Survey Questions

Name: Luis

Age: 40

Education: College graduate

Current Occupation: Jewellery smith

Did you have prior training in this activity?

1. Yes.
2. No.

Who started this activity?

1. You.
2. You and someone else.
3. One of your family members.
4. Someone else.

What were your reasons for getting involved in this activity?

1. Independence.
2. Family tradition.
3. Extra-Income.
4. Could not find wage work.
5. To meet basic needs.

Are you registered?

1. Yes.
2. No.

Do you pay taxes?

1. Yes.
2. No.

Who are your primary suppliers?

1. Big commercial businesses.
2. Small commercial businesses.
3. Big factories.
4. Small shops and factories.
5. Others.

How did you obtain money to start your activity?

1. Bank loan.
 2. Borrowed money from friends or parents.
 3. Personal savings.
 4. Informal credit.
 5. Other.
-

Profile

In Mexico, its difficult to make a decent wage by working for someone else. It took a long time before I realized this in my job with Baxter pharmaceutical. For example, in the 15 years that I worked for this company I only received two raises. As was with every other year, it became increasingly difficult to support my family with the salary I was earning. There were several times when I had to seek financial support from my father in order to make ends meet. This was quite embarrassing for me , but at the time I had no other alternative. One day I went to work and told my boss that I was leaving the company. He asked me why? I told him I had found another job even though there was no other job. That is when I made the decision to go into business for myself.

When I first opened my business, I was scared because it had been a long time since I worked with gold and silver. However, it did not take long to recall some of the skills I had learned as an

apprentice. To minimize my risk I began by producing graduation rings for students who could not afford them through their schools. They would usually come to me with a friends' ring and ask me to replicate one for them. I started with 13 students. At present I serve close to 150 students who all reside in Cuernavaca. I also have clients from Mexico City.

The advantage of being in this business is that I have my own designs. I am always trying to combine different styles in order to create something new and exciting. Once this happens and a particular customer discovers a certain product the phone does not stop ringing. Another competitive advantage is my ability to work with different types of stones . The point is that you have to be creative. Otherwise, you will not survive.

Sample of Survey Questions

Name: Felipe

Age: 14

Education: Completed elementary school

Current Occupation: Garbage handler

Did you have prior training in this activity?

1. Yes.
2. No.

Who started this activity?

1. You.
2. You and someone else.
3. One of your family members.
4. Someone else.

What were your reasons for getting involved in this activity?

1. Independence.
2. Family tradition.
3. Extra-Income.
4. Could not find wage work.
5. To meet basic needs.

Are you registered?

1. Yes.
2. No.

Do you pay taxes?

1. Yes.
2. No.

Who are your primary suppliers?

1. Big commercial businesses.
2. Small commercial businesses.
3. Big factories.
4. Small shops and factories.
5. Other.

How did you obtain money to start your activity?

1. Bank loan.
 2. Borrowed money from friends or parents.
 3. Personal savings.
 4. Informal credit.
 5. Other.
-

Profile

The way I make my money is by helping people put their trash in the dumpster. My best days are Wednesdays because that is when the trucks come to pick up the trash. I sit near the dumpster and help each person throw their garbage away. I usually earn 10 to 15 pesos a day (\$2 to \$3 US dollars). This is good money in comparison to what many people earn in the factory.

At first the odor of the garbage was terrible, but after a while you get used to it. When the smell gets really bad, I just move away from the dumpster. This usually happens in the afternoon when it gets hot and humid. The smell sometimes gets to the point where I can no longer withstand it. This is when I go home for two to three hours then return.

There are many people who do this for a living. I know at least four friends who do exactly this type of work. I started by helping my friend out. Later, he moved to Acapulco, so I took over his dumpster. The dumpster belongs to me and this is clear among the other boys in the neighborhood. It is rare that a person gives up their dumpster, but when they do, they sell the dumpster for at least 200 to 500 pesos (\$40 to \$100 US dollars).

Sample of Survey Questions

Name: Raul

Age: 26

Education: One year of elementary school

Current Occupation: Taxi Driver

Did you have prior training in this activity?

1. Yes.
2. No.

Who started this activity?

1. You.
2. You and someone else.
3. One of your family members.
4. Someone else.

What were your reasons for getting involved in this activity?

1. Independence.
2. Family tradition.
3. Extra-Income.
4. Could not find wage work.
5. To meet basic needs.

Are you registered?

1. Yes.
2. No.

Do you pay taxes?

1. Yes.
2. No.

Who are your primary suppliers?

1. Big commercial businesses.
2. Small commercial businesses.
3. Big factories.
4. Small shops and factories.
5. Others.

How did you obtain money to start your activity?

1. Bank loan.
 2. Borrowed money from friends or parents.
 3. Personal savings.
 4. Informal credit.
 5. Other.
-

Profile

I left school in the sixth grade to support my mother, who had become completely blind, and my two younger sisters. My first job was shoe shinning because it did not require a lot of money to set up. With this job, I could move from one place to another without difficulty. This was an ideal job for me at the time. I became very good at it. In fact, I was one of the few boys who were allowed to work at hotel lobbies and restaurants. Later, I decided to quit shoe shining in order to become a taxi driver. As a taxi driver I would have a higher income and be able to build a home for my family.

In my situation, I rent a taxi because I cannot afford to buy a vehicle. Moreover, to own a taxi you would need a medallion which is expensive and difficult to acquire. The medallion allows you the power to make whomever you want a taxi driver. For example, the men I rent from has at least ten person working for him. He does not have to provide them with vehicles. All he has

to do is sign his name on their release form. The person takes the form to the registry and gets a release form which declares him a taxi driver. That's the easy way to become a taxi driver.

When you rent a taxi, the owner of the taxi is responsible for registering and paying for your social security benefits. Often this does not happen because it is too expensive. Furthermore, it is a hassle to deal with officials at the Social Security Office. If you want your benefits, there are two ways of getting them. One, you can pay more and have the owner of the taxi register you immediately or two, you can have him register you on the day you get sick or hurt.

Sample of Survey Questions

Name: Jose

Age: 24

Education: Two years of high school

Current Occupation: Taxi Driver

Did you have prior training in this activity?

1. Yes.
2. No.

Who started this activity?

1. You.
2. You and someone else.
3. One of your family members.
4. Someone else.

What were your reasons for getting involved in this activity?

1. Independence.
2. Family tradition.
3. Extra-Income.
4. Could not find wage work.
5. To meet basic needs.

Are you registered?

1. Yes.
2. No.

Do you pay taxes?

1. Yes.
2. No.

Who are your primary suppliers?

1. Big commercial businesses.
2. Small commercial businesses.
3. Big factories.
4. Small shops and factories.
5. Others.

How did you obtain money to start your activity?

1. Bank loan.
 2. Borrowed money from friends or parents.
 3. Personal savings.
 4. Informal credit.
 5. Other.
-

Profile

I dropped out of high school after my second year to get a job with Pemex, the mexican petroleum company. I was able to work in this company because my brother worked there as a manager. I worked there for two years. The reason I left Pemex was due to the poor working conditions. In this job, my hands began to wear out from handling different chemical compounds. Moreover, the benefits and pay were not rewarding for the type of job I was doing. I was working long hours in dangerous conditions for low pay. Therefore, I decided to leave the company to work as a taxi driver.

I come from a family of taxi drivers. My father and two other brothers have been taxi drivers ever since they were old enough to drive. One day I took my father's taxi out and came home with more money than I used to make at my previous job. Six months later I purchased a second hand taxi with a loan from my father and became a full-time taxi driver.

The taxi business can be very profitable, but I have seen guys go out of business almost overnight because of vehicle related accidents. The majority of taxi drivers in Cuernavaca do not carry insurance, which means they have to pay the other person in cash. In this case, the person you hit can take advantage of you by charging you well over the repair cost. When your at fault and you have no insurance, you cannot go to the courts to settle your case.

Sample of Survey Questions

Name: Carlos

Age: 48

Education: College graduate

Current Occupation: Restaurant Owner

Did you have prior training in this activity?

1. Yes.
2. No.

Who started this activity?

1. You.
2. You and someone else.
3. One of your family members.
4. Someone else.

What were your reasons for getting involved in this activity?

1. Independence.
2. Family tradition.
3. Extra-Income.
4. Could not find wage work.
5. To meet basic needs.

Are you registered?

1. Yes.
2. No.

Do you pay taxes?

1. Yes.
2. No.

Who are your primary suppliers?

1. Big commercial businesses.
2. Small commercial businesses.
3. Big factories.
4. Small shops and factories.
5. Others.

How did you obtain money to start your activity?

1. Bank loan.
2. Borrowed money from friends or parents.
3. Personal savings.
4. Informal credit.
5. Other.

Profile

The amount of taxes one pays depends on two important factors. First, it depends on who you know at the tax register's office. Second, it depends on how you categorize your business. In my situation, I declared my restaurant as a family business, which means I only have to pay a 2 percent tax rate each year. However, declaring my business as a commercial establishment would increase my tax rate to 20 percent. Many business owners are not aware of the loopholes that exist. As a result, some businesses become vulnerable to bankruptcy. The key to having a successful business, not only depends on management skills, but it also rests on who you know.

Who are your workers?

The only people who work for me are my three daughters. One of my daughters works on a full-time assisting me with the

management of restaurant. While the other two daughters work after school.

Do your daughters receive a wage?

There are no direct wages.

After this brief conversation, Carlos was becoming impatient with the type of questions I was asking. Therefore, I decided to end the interview. His reactions led me to believe that there was some dishonesty in our discussion.

Sample of Survey Questions

Name: Francisco

Age: 34

Education: Completed high school

Current Occupation: Sells import goods

Did you have prior training in this activity?

1. Yes.
2. No.

Who started this activity?

1. You.
2. You and someone else.
3. One of your family members.
4. Someone else.

What were your reasons for getting involved in this activity?

1. Independence.
2. Family tradition.
3. Extra-Income.
4. Could not find wage work.
5. To meet basic needs.

Are you registered?

1. Yes.
2. No.

Do you pay taxes?

1. Yes.
2. No.

Who are your primary suppliers?

1. Big commercial businesses.
2. Small commercial businesses.
3. Big factories.
4. Small shops and factories.
5. Others.

How did you obtain money to start your activity?

1. Bank loan.
 2. Borrowed money from friends or parents.
 3. Personal savings.
 4. Informal credit.
 5. Other.
-

Profile

I learned about this business through my grandmother, who owned a boutique store located in a section of a *Fayuca* (flea market) for nearly 40 years. I started working at the store when I was nine years old. Back then, the *Fayuca* was much smaller in size and there was not a variety products. Today, the cooperative house has close to 200 shops. You can purchase almost anything at this market, but once you buy sometime you cannot return it. Therefore, there are risks involved when buying goods in the *Fayuca*.. This is especially true with electronic products because most of them are rebuilt. There are goods which are less risky, such as shoes and clothes. Yet, what hold true for all good is that every sale is final.

If you decide to sell merchandise that is produced outside of the country, you have to be connected to a person who is dependable and can provide reasonable prices. For someone who is just starting a business, this requires money and network. Having capital helps, but

the most important element to this relationship is trust. My situation is unique because I tapped into a network that my grandmother had already established in Mexico City.

In this type of business you cannot afford the risk of not complying with regulations. It is clear to local authorities that I am making a substantial amount of money because imports usually yield a higher profit. Also, in this type of setting your business is exposed to government officials. They come around once a month to inspect vendors. If anything seems suspicious, then your asked to show your receipts for the previous months tax and utility payments. Most people steal electricity and sometimes even water, but I choose not to do this because I do not want to get expelled from the cooperative.

BIBLIOGRAPHY

- Ashe, J. 1985. "The Informal Sector and the case for Assisting It." In *The Pisces II Experience*. Washington, D.C.: USAID, pp. 1-19.
- Biggs, Tyler, Merilee S. Grindle, and Donald R. Sondgrass. 1988. *The Informal Sector: Including the Excluded in Developing Countries*, ed. Jerry Jenkins, pp. 133-171. San Francisco: ICS Press.
- Bose, M. and Gunn, C. 1989. *Fraud*. London: Unwin.
- Bromley, R. 1994. "Informality De Soto Style: From Concept to Policy." In *The Informal Sector Debate in Latin America*, ed. C.A. Rakowski, Contrapunto. New York: SUNY Press, pp. 131-152.
- Bromley, Ray. 1985. "Small May Be Beautiful, But It Takes More than Beauty to Ensure Success." In *Planning for Small Enterprises in Third World Cities*, ed. Ray Bromley. Oxford: Oxford Pergamon Press, pp. 321-341.
- Bromley, R and Gerry, C. 1979. "Who Are the Casual Poor?" In *Casual Work and Poverty in Third World Cities*, eds. R. Bromley and C. Gerry. New York: John Wiley and Sons, pp. 3-23.
- Cartaya, Vanessa. 1990. "Costos de legalización de empresas informales. El caso de Venezuela." In *Más allá de la Regulación*, ed. Victor Tokman, Santiago: PRREALC, pp. 247-274.
- Castells, M and Portes, A. 1989. "World Underneath: The Origins, Dynamics and Effects of the Informal Economy." In *The Informal Economy: Studies in Advanced and Less Developed Countries*, et.al., eds. A. Portes. Baltimore: The John Hopkins University Press, pp. 11-40
- De Soto, Hernando 1989. *The Other Path: The Invisible Revolution in the Third World*. New York: Harper and Row, pp. 131-230.
- Eades, J.S. 1985. "If You Can't Beat 'em, Join 'em: State regulation of Small Enterprises." In *Planning for Small Enterprises*, ed. R. Bromley. New York: Pergamon Press, pp. 203-218.
- Franks, Jeffrey R. 1991. "Sector Informal y Crecimiento Economico en Bolivia." *Informe Confidencial*, 67 November, 1-97.
- Franks, Jeffrey R. 1989. "Unraveling the Riddle of the Informal Sector: A Survey." Harvard University-World Institute of Development Economic Research, unpublished paper.

BIBLIOGRAPHY

- Friedman, J. 1992. *Empowerment: The Politics of Alternative Development*. Massachusetts: Blackwell Publishers.
- Friedman, J. 1988. "The Barrio Economy and Collective Self-Empowerment in Latin America." *Life Space and Economic Space: Essay in Third World Planning*, New Brunswick: Transaction Books, pp. 108-146.
- Furnham, A. and Lewis, A. 1986. *The Economic Mind: The Social Psychology of Economic Behaviour*. Brighton: Wheatsheaf Books.
- Gonçalves and Miranda. 1994. "Toward A Strategic Approach For Formalizing The Informal 'Sector'." Massachusetts Institute of Technology, unpublished paper.
- Grindle, Merilee S. 1977. *Bureaucrats, Peasants, and Politicians in Mexico: A Case Study in Public Policy*. Berkeley and Los Angeles: University of California Press.
- Hart, Keith. 1973. "Informal Income Opportunities and Urban Employment in Ghana." *Journal of Modern African Studies* 11, no. 1: 61-89.
- Heinz, R.Q. and Olk, T. 1982. "Development of the Informal Economy: A Strategy for Resolving the Crisis of the Welfare State." *Futures*, June, pp. 189-204.
- Henry, S, ed. 1981. *Informal Institutions: Alternative Networks in Corporate State*. New York: St. Martin's Press, pp. 1-25.
- Houghton, D. 1979. "The futility of taxation by menaces." In *Tax Avoidance*, ed. A. Seldon. London: Institute of Economic Affairs, pp. 89-103.
- Hubert, Schmitz. 1992. "On the Clustering of Small Firms." *IDS Bulletin* 23(3), pp. 64-68.
- Illich, I. 1979. "Are We Now Going to Colonize the Informal Sector?" In *Development*, 21(4): 9-14. Also I. Illich. (1979). *The Right to Useful Unemployment and Its Professional Enemies*. London: Marion Boyars, pp. 7-37, 81-85.
- ILO (International Labour Office). 1972. *Employment, Incomes and Equality: A Strategy for Increasing Productive Employment in Kenya*. Geneva: ILO.
- Jenkins, Jerry. 1988. *Beyond the Informal Sector: Including the Excluded in Developing Countries*. San Francisco, California.: ICS Press.

BIBLIOGRAPHY

- Klitgaard, Robert E. 1987. *Controlling Corruption*. Berkeley: University of California Press.
- Liedholm, Carl. 1990. "The Dynamics of Small-Scale Industry in Africa and the Role of Policy." *GEMINI* paper No. 2. Washington, D.C.: GEMINI.
- Liedholm, Carl. 1987. "Small Scale Industries in Developing Countries: Empirical Evidence and Policy Implications." *MSU International Development* paper No. 9, Michigan State University.
- Lipsky, Peter. 1980. "The Critical Role of Street-Level Bureaucrats," "The assault on Human Services: Bureaucratic Control, Accountability, and the Fiscal Crises," and "The Broader Context of Bureaucratic Relations." Chapters 1, 11, and 12 in: *Street Level Bureaucracy, Dilemmas of the Individual in Public Services*. New York: Russell Sage Foundation, pp. 3-25, 159-179, 181-191.
- Lipton, Michael. 1988. "Who are the poor? What do they do? What should we do?" Lecture to Center for Advanced Studies in International Development. Michigan State University, East Lansing, Michigan, pp. 1-52.
- Lipton, Michael. 1988. "The Poor and the Poorest: Some Interim Findings." *World Bank Discussion* paper No. 25. Washington, D.C.: The World Bank, pp. 46-57.
- Maipose, G.S. 1990. "The Informal Sector in Zambia: Employment Consequences of the Legal Regulatory Framework." Working Paper No. 53 WEP 2-19. Geneva: ILO.
- Mann, C.K. et.al., eds. 1989. *Seeking Solutions: Framework and Cases for Small Enterprise Development Programs*. West Hartford, CT: Kumarin Press, pp. 9-67
- Márquez, Carlos. 1988. "La ocupación informal urbana en México: Un enfoque regional." Working Document, Friedrich Ebert Foundation, Mexico City.
- Max, M.A. - Neef. 1991. "Development and Self-reliance." *Human Scale Development*. New York: The Apex Press, pp. 55-86.
- Mesa-Lago, Carmelo. 1983. "Social Security and Extreme Poverty in Latin America." *Journal of Development Economics* 12, pp. 83-110.

BIBLIOGRAPHY

- Montgomery, J.D. 1988. "The Informal Services Sector as an Administrative Resource." In *Urban Services in Developing Countries*, eds. D.A. Rondinelli and S. Cheema. pp. 89-111.
- Moser, Caroline O.N. 1984. "The Informal Sector Reworked: Viability and Vulnerability in Urban Development." *Regional Development Dialogue* 5, no. 2, pp. 135-178.
- Moser, Caroline O.N. 1978. "Informal Sector or Petty Commodity Production: Dualism or Dependence in Urban Development?" *World Development* 6, pp. 1041-1064.
- Nadvi, K and Schmitz. 1994. "Industrial Clusters in Less Developed Countries: Review of Experiences and Research Agenda." Discussion paper No. 339, Sussex, England: Institute of Development Studies.
- Oliveira, de O and Roberts, B. 1994. "The Many Roles of the Informal Sector in Development: Evidence from Labor Market Research, 1940-1989." In *Contrapunto*, ed. C.A. Rakowski. New York: SUNY Press, pp. 51-74.
- Otero, M. 1990. "The Role of Government in the Informal Sector." In *The Critical Connection: Government, Private Institutions and the Informal Sector in Latin America*, eds. K Stearns and M. Otero Accion Monograph Series, No. 5. Washington, D.C., pp. 11-42.
- Peattie, Lisa R. 1990. "Real World Economics." *Hemisphere* Fall pp. 32-34.
- Peattie, Lisa. 1987. "An Idea in Good Currency and How it Grew: The Informal Sector." *World Development* 15, no. 7, pp. 851-860.
- Peattie, Lisa. 1968. *The View from the Barrio*. Ann Arbor, University of Michigan Press.
- Portes, Alejandro. 1991. "An Informal Path to Development?" *Hemisphere* Winter-Spring, pp. 4-5.
- Portes, Alejandro. 1989. "Latin American Urbanization in the Years of the Crisis." *Latin American Research Review* 24, no. 3, pp. 7-44.
- Portes, Alejandro. 1989. "La informalidad como parte integral de la economía moderna y no como indicador de atraso. Respuesta a Klein y Tokman." *Estudios Sociológicos de El Colegio de México* 7, no.20, pp. 369-374.

BIBLIOGRAPHY

- Portes, Alejandro; Castells, Manuel and Benton, Laura, A. 1989. "Conclusion: The Policy implications of Informality." *The Informal Economy: Studies in Advanced and Less Developed Countries*. Baltimore, Maryland: The John Hopkins University Press, pp. 298-311.
- Portes, Alejandro. 1983. "The Informal Sector: Definition, Controversy and Relation to National Development." *Population and Development Review* (Summer).
- Portes, Alejandro. 1978. "The Informal Sector and the World Economy: Notes on the Structure of Subsidized Labour." *IDS Bulletin* 9, pp. 35-40.
- PREALC (Regional Employment Programme for Latin America and the Caribbean). 1990. "Urbanizacion y Sector Informal en America Latina," 1960-1980. Santiago: PREALC.
- Rakowski, Cathy A. 1994. "The Informal Sector Debate in Latin America.", *Contrapunto*. State University of New York. *Research* , 7(2), pp. 5-21.
- Rakowski, Cathy A. 1991. "Gender, Family, and Economy in a Planned, Industrial Society: The Working- and Lower-Class Households of Ciudad Guyana." In *Gender, Family, and Economy: The Triple Overlap*, ed. Rae Lesser Blumberg, Newbury Park, Calif.: Sage Publications, pp. 149-172.
- Richardson, H. 1985. "The Role of the Informal Sector in Developing Countries: An Overview." *Regional Development Dialogue*, 5(2), pp. 3-54.
- Sassen-Koob, Saskia. 1991. *The Global City: New York, London Tokyo*. Princeton: Princeton University Press, pp. 3-16.
- Sassen-Koob, Saskia. 1984. "The New Labor Demand in Global Cities." In *Cities in Transformation: Class, Capital, and the State*, ed. Michael P.
- Sassen-Koob, Saskia. 1983. "Labor Migration and the New Industrial Division of Labor." In *Women, Men, and the International Division of Labor*, ed. June Nash and Maria Patricia Fernandez-Kelly, Albany: State University of New York Press, pp. 175-204..
- Sethuraman, S.V. ed. 1981. *The Urban Informal Sector in Developing Countries*. Geneva: ILO, pp. 3-47.

BIBLIOGRAPHY

- Spath, B. 1993. "Small Firms in Latin America: Prospects for Economic and Socially Viable Development?" In *Small Firms and Development in Latin America*, ed. B. Spath. Geneva: ILO, pp. 1-38.
- Tendler, Judith. 1993. "New Lessons from Old Projects: The Workings of Rural in Northeast Brazil." World Bank.
- Tendler, Judith. 1988. "The Remarkable Convergence of Fashion on Small Enterprises and the Informal Sector: What does it mean for policy? A Proposal." Mimeo, Massachusetts Institute of Technology.
- Theobald, R. 1990. "Corruption, Development and Underdevelopment." Macmillan: London.
- Thomas, J.J. 1984. "Incorporating Informal Economic Activity into a Macroeconomic model." London School of Economics, unpublished paper.
- Tokman, Victor E. ed. 1992. *Beyond Regulation: The Informal Economy in Latin America*. Boulder, Colorado: Lynne Rienner Publishers, Inc.
- Tokman, Victor E. 1991. "Informal Sector in Latin America: From Underground to Legality." In *Labor Market Issues and Structural Adjustment*, eds. G. Standing and V. Tokman. Geneva: ILO.
- Tokman, Victor E. 1990. "The Informal Sector in Latin America: Fifteen Years Later." In *The Informal Sector Revisited*. et.al., eds. D. Turnham. Paris: OECD, pp. 93-110.
- Tokman, Victor E. 1989. "Policies for a Heterogeneous Informal Sector in Latin America." *World Development*, 17(7), pp. 11-42.
- Tokman, Victor E. 1987. "El imperativo e actuar: El sector informal hoy." *Nueva Sociedad* 90 July-August, pp. 93-105.
- Turner, J.F.C. 1979. *Housing by People: Towards Autonomy in Building Environments*. New York: Pantheon Books.
- Uzzell, J. Douglas. 1990. "Dissonance Between Formal Planners and the Informal Sector: Can Formal Planners Do Bricolage?" *City and Society* 4, no 2, pp. 114-130.
- Uzzell, J. Douglas. 1980. "Mixed Strategies and the Informal Sector: Three Faces of Reserve Labor." *Human Organization* 39, no.1, pp. 40-49.

INTERVIEWS

Salas, Carlos. Professor of Labour Economics at Universidad Autonoma del Estado de Mexico. Personal Interview, January 1995.