

"IT'S PEOPLE YOU KNOW": THE ROLE SOCIAL NETWORKS PLAY IN MICRO-
INFORMAL MARKETS

by

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Abstract

Informal markets are prevalent all over the globe. The work done in such markets is often for the purposes of supplementary or subsistence income and it is done by men, women, and children. The purpose of my research was to understand how micro-informal markets are created by informal workers in Manhattan, Kansas. This was done through examining how informal workers used their social networks to find customers and how customers used their social networks to find informal goods and services produced by such workers, or more specifically, how micro-informal markets were created. This builds on the economic theory of embeddedness, which states social relations are an important part of the exchange process even in today's capitalistic market economy. In addition, my research also looked at why customers consumed from informal workers, why informal workers decided to go into business for themselves, how the city of Manhattan, Kansas viewed informal workers and whether city officials and affiliates encouraged informal businesses or not.

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Dedication

I would like to dedicate this to my mom, dad and sister and thank them for their never ending support during the past two years. Without their support and encouragement I would not have been able to complete a graduate degree, and my research would not have become a reality. They encouraged me when I felt like giving up. This is for them. I would also like to dedicate this to my fiancé Zack. He supported me from the start, comforted me during times of anger and frustration, and never once doubted my ability to finish what I set out to do, without which I probably would not have completed my coursework or this research.

Chapter 1 - Introduction

There are various types of informal markets: farmer's markets, home-based goods/services markets, internet markets, children's work markets, illicit informal markets, licit informal markets, and more. All of these markets are important for subsistence and supplemental income and for the survival of the home. Informal markets give individuals and families the opportunities to acquire the necessities for living by providing both a place to work and a place to purchase goods and services.

A distinction needs to be made about the various kinds of informal work, specifically licit versus illicit and wage versus household organized. *Licit* informal work is work which is technically legal but may not adhere to licensing regulations, zoning regulations, employment laws, or involve taxation. *Illicit* informal work is work that is illegal because of the nature of the work or the type of goods and services being produced and distributed (i.e. drugs and prostitution). These types of work are considered household organized work done for money. This work may involve petty producing and marketing and, therefore, constitutes informal work. On the other hand, wage work is work done for someone else and is typically formalized work. Working for a business or corporation is considered wage work.

There are other types of household organized work/income which include: investments in property, farms, and banking, state income transfers from disability, Social Security Insurance, Medicare and Medicaid, and rent income from leasing property, equipment, land, or housing. Subsistence work is often done inside the home and it is unpaid, so it is typically not perceived as work. However, this work is important because it does contribute to the subsistence of the household and family even if it is not rewarded monetarily. Such work includes house cleaning, caring for children, gardening, raising animals (for household use, not sale) or other activities that maintain the household. It can also include helping out family or friends who live outside of the home (Dickinson and Schaeffer 2001).

People are creative, resourceful, and entrepreneurial when it comes to doing what they want, or doing what they must to get by. For some, entering into the informal economy is a way for them to be able to strengthen their social networks while making goods or doing services that they enjoy or otherwise have not been able to do in the formal economy. For others, entering into

the informal economy is a way to make ends meet, either when a formal job does not pay enough, access to formal jobs are not readily available because of location or education, or the economic conditions are such that finding formal employment is difficult (i.e. times of recession or depression).

My research focused on how micro-informal markets within the informal economy were created in Manhattan, Kansas, why informal workers started their informal business, why consumers purchased from informal businesses, how the city viewed informal businesses, and whether or not city officials and affiliates encouraged informal businesses. I had four primary questions I sought to answer: (1) How do informal workers find customers and how do customers find informal workers? (2) Are informal goods and services cheaper than those of their formal counterparts? (3) During times of economic downturn do people turn to the informal economy for work and/or subsistence? (4) Does the city of Manhattan, Kansas and its affiliates encourage or discourage informal work?

Defining Informal Markets

The work done in informal markets often goes unseen because it is often done in the home. However, it is not nonwage work or housework. It is work done for a profit. Many informal workers use their homes as places to make their goods or complete their services. They may also go to another individuals' home to provide goods or services. Although informal markets are often unseen by the greater community, they are an important contributor to the community because of their ability to build social networks, provide goods or services not always readily available, provide income when times are difficult, and provide goods and services at reduced prices (Slack and Jensen 2010; Williams 2010; and Jurik 2005).

To better understand what is meant by informal market it was necessary to come up with a definition that suited my research interests. Although there are many definitions for what informal markets are and the types of work done in such markets, I focused on a few key aspects that spoke to the licit micro-informal markets operating here in Manhattan, Kansas. Informal market refers to a market that is unregulated by the government, state, or regulatory authority (i.e. the health department). It is a market where there are no stationary physical locations outside of the home where the business owners or workers *operate* their businesses. The supplies and tools that the informal workers use to make their goods or provide their services, are their own,

including the vehicles used to make deliveries or transport supplies. The primary way informal markets find consumers and consumers find informal markets is through word-of-mouth via social networks and relationships (Fillieule 2010; Maligalig and Guerrero 2008; Granovetter 1985; and Mattera 1985).

This definition is a combination of definitions provided by researchers in both sociology and economics. Philip Mattera, an economic journalist, said, "While most commentators in the US and UK have emphasized the nonpayment of taxes and the exclusion from official figures on labor force activity, it is probably the absence of regulation that is the key characteristic of the informal economy," (1985, p.5). The absence of regulation is a key characteristic of informal economies because regulation by some outside agent would make them formal. Such regulations would ensure labor laws, health codes, zoning laws, or licensing are met.

Maligalig, statistician for the United Nations, and Guerrero, former economist for the United Nations, use the definition created by the Fifteenth International Conference of Labour Statisticians, which supports the characteristics that informal workers often do not have a physical location outside the home where they operate their business and they are the owners of their tools and supplies. "Production units of the informal sector have the characteristic features of household enterprise. The fixed and other assets used do not belong to the production units as such but to their owners" (Maligalig and Guerrero 2008, p.3).

When economists define informal markets, they are focused on the work being done in such markets rather than how informal markets are created. This is probably why most definitions of informal markets do not consider the role social networks play in their creation. In sociology, this idea is called embeddedness. "Embeddedness characterizes a market relation that is supported, guided, monitored, or regulated by "social relations," which may be family relations or relationships based on friendship or trust, in short any type of relationship that goes beyond the simple anonymity that is assumed to characterize basic market relations" (Fillieule 2010, p.673). Informal market workers rely on their social networks to help them start and maintain their businesses. They are able to do this through word-of-mouth advertising, which is supported by their social networks and relationships. Word-of-mouth is a strong form of advertising for informal businesses because it is cheap, it is usually reliable, and it can spread quickly. This is how customers who purchase informal goods and services find out about

informal businesses and it is how they spread their experiences with others about such businesses. Thereby, through this process, markets for informal goods and services are created.

Purpose of the Research

Castells and Portes wrote that the only reason the informal economy exists is because a formal one was created (1989). Industrialization led to the economy being regulated through laws and licensing. Without a regulated economy, everyone would work in the informal economy. Since informal markets are no longer the accepted form of market economy, individuals are working in the informal economy for a number of other reasons. This research aimed to understand how informal workers found customers (i.e. created markets for their products), why they started their informal businesses, how economic downturns have affected informal markets in the Manhattan, Kansas area, why people consumed from informal markets, whether city officials and affiliates encouraged informal businesses and how the city and its agencies viewed informal markets in Manhattan, Kansas.

Before discussing the research and outcomes, I have provided an overview of the literature on the informal economy, both globally and in the United States, in Chapter Two. In Chapter Three I follow the literature with theoretical perspectives, which supported my research questions - (1) How do informal workers find customers and how do customers find informal workers? (2) Are informal goods and services cheaper than those of their formal counterparts? (3) During times of economic downturn do people turn to the informal economy for work and/or subsistence? (4) Does the city of Manhattan, Kansas and its agencies encourage or discourage informal work? After laying out my hypotheses surrounding those questions, I provided an analysis of my research methodology in Chapter Four, followed by the results of my research in Chapter Five, and then concluded with a discussion of the findings and recommendations for future research in Chapter Six.

Chapter 2 - Literature Review

There is another economy out there. It stands beyond the law, yet is deeply entwined with the legally recognized business world. It is based on small sales and tiny increments of profit, yet it produces, cumulatively, a huge amount of wealth. It is massive yet disparaged, open yet feared, microscopic yet global. It is how much of the world survives, and how many people thrive... - Neuwirth 2011, p.16

The informal economy is known by many names - underground economy, grey economy, "under-the-table" work, enterprising work, System D and many more. It encompasses endless types of activities ranging from drug dealing to babysitting. It is for these reasons that it is so difficult to define and measure (Neuwirth 2011; Walle 2008; Dickinson and Schaeffer 2001). Informal markets can be divided into two types - licit and illicit (Venkatesh 2006). Activities that would not be illegal if taxes were paid and regulations were followed are licit informal markets. Activities such as babysitting, house cleaning or selling homemade goods fall into the licit category. Illicit informal markets are markets that produce goods and services that are illegal. Because they are illegal, taxes are not collect on income or sales from illicit activities and the markets are not regulated by the government or other agencies. Activities such as prostitution, selling drugs, selling guns without permits, gambling outside of regulated areas or gambling on events that are prohibited, like cock fights or dog fights, all fall within illicit informal markets (Venkatesh 2006). A distinction between licit and illicit provides a better understanding of the variety and nature of the activities that constitute informal markets.

The informal economy has many definitions that vary depending on the source. Some characteristics of the informal market aspect of the informal economy include: low levels of organization, no taxation or regulation, violation of non-criminal law, low wages, transactions mainly conducted in cash, low productivity because of the smaller size of the market, limited access to credit, no legal protection for contract and property rights enforcement, and activities that complement the formal economy (Kulshreshtha 2011; Ferreira-Tiryaki 2008; McCrohan and Sugrue 2001; McCrohan 1998; Matter 1985). For example, pop-up used car markets can be

found in Southern California. The sellers of used cars park them on the side of the road and chalk the price and phone number on the windows of the car (Lovett 2011). Innovative landscapers in Ohio rent out their sheep to trim lawns. The landscapers charge people by the hour for their sheep's grazing services (Roose 2011). More commonly, day laborers in large cities like New York and Los Angeles are hired by construction companies, landscaping companies, or other types of manual labor companies for a day or two at a time. They are often paid in cash for their work because these companies find it more cost effective to not have to comply with formal employment practices or government regulations (Melendez, Theodore, and Valenzuela Jr. 2010). These are just a few examples of the licit informal work that takes place within informal markets.

As with defining the informal economy, measuring it is extremely difficult because the activities are not recorded economically through taxation, licensing and regulation, like the formal economy. Economists try to measure the size of the informal economy quantitatively by looking at GNP (Gross National Product) and GDP (Gross Domestic Product) figures for the country in question. If the measure of income GNP is not equal to the measure of expenditure GNP, then the difference can indicate the size of the informal economy. Tax auditing is another popular method for measuring the informal economy. The IRS (Internal Revenue Service) looks at the income individuals declare for taxes and the actual earnings the IRS finds through auditing. The discrepancy is how the informal economy is estimated. Labor force participation rates have also been used. If labor force rates decrease, then participation in the informal economy is expected to grow. The currency demand approach looks at the demand for currency, or cash, in the economy. Essentially, this approach assumes people who operate markets in the informal economy do so primarily on cash transactions, so if there is an increase in currency demand, then it can be related to growth in the informal economy. This is the most commonly used method to measure the informal economy in Western nations. Another common measurement for developed nations is the multiple-indicators multiple-causes (MIMIC) model, which uses statistical analysis to measure the informal economy by making it an unobserved variable over a set amount of time. In developing countries, the physical input or electricity approach is often used to measure the informal economy. This approach takes the difference between official GDP growth and electricity growth as an indicator for the size of the informal economy (Schneider and Enste 2008; Schneider and Bajada 2005; Schneider and Enste 2002;

Mattera 1985). All of these measurements are useful in determining the size of the informal economy in an area. However, none of them are completely accurate because of the dynamic size and evasive nature of the those who operate markets in the informal economy.

Although all of the measurement methods above are useful, sociologists have taken a more qualitative approach to measuring the informal economy. One method used is ethnographic study, which is more effective than quantitative methods in the aspect that it is an on-the-ground, hands-on approach. The ethnographer is getting information straight from the source. Yet, ethnography is far more geographically limiting because an ethnographer can only study one population in one location at a time, while quantitative methods can look at entire countries (Walle 2008). Surveys have also been used as a measurement in sociology. Like ethnography, surveys can provide information straight from the informal workers, but they too are geographically limiting (Schneider and Enste 2008). The results from ethnographies and surveys can infer more about the informal economy (in specific areas) compared to quantitative economic figures and estimations because the results are taken from the individuals who work in informal markets. Economic figures and estimations do not consider the individuals who work in informal markets; they use broad economic figures like: GDP, GNP, tax revenue, electric consumption, and the amount of currency in circulation, to determine how large informal economies are for entire countries. On the other hand, ethnographies and surveys do not have that capability. For example, population-wide generalizations about the informal economy cannot necessarily be made when using surveys or ethnographies because measuring an entire population would be costly, time consuming, and difficult. The validity of the answers from surveys is also hard to establish because many people do not like to admit that they are doing something that is technically illegal (Schneider and Enste 2008). As we can see, measuring something that wishes to remain unseen can be very difficult even though informal markets are a widespread global practice.

Informal markets are present in every country around the world. Most periphery and semi-periphery, or developing, nations have large informal economies, while core, or Westernized, countries have smaller ones (Wallerstein 2004). For example, in Hungary, two out of three people have a supplementary job in the informal economy (Molefsky 1982). In Thailand, between 1990 and 1993, economists estimated that the informal economy made up 70 percent of the GDP, while for Nigeria and Egypt it ranged from 68 percent to 76 percent during that same

time period. For Japan, the United States, Austria and Switzerland, which are considered developed or core countries, estimates for the informal economy ranged from 8 to 10 percent of the GDP between 1990 and 1993 (Schneider and Enste 2008)¹ (Appendix A). Research done by an economist in 2002-2003, indicated that the informal economy in the US was 8.4 percent of the GDP (Schneider and Bajada 2005)². Over the course of a decade, little change had occurred in the estimated size of the US's informal economy.

Worldwide, economists have estimated that the informal economy is a 10 trillion dollar industry with an estimated 1.8 billion people working in it (Neuwirth 2011)³. There are many people whom rely on the informal economy according to these statistics, and there is a drastic difference in the amount of informal work happening from country to country. Developed countries have much smaller informal economies but that does not necessarily mean their governments lose less money to them than developing countries. In developed countries, governments lose tax revenue because informal workers often do not pay income tax and informal markets do not collect sales tax.

There are many estimates about how large the informal economy is in the United States. Dr. Venkatesh, a sociologist at Columbia University, showed how difficult it is to measure the informal economy by examining various studies and reports from numerous economists. One study said that the United States' federal government loses between 83 and 93 billion dollars in tax revenue annually because of its failure to collect taxes from informal activities. It is a large loss for the federal government because they rely on tax revenue to fund many programs and projects. It also means that the federal government has to deal with the negative social impacts created by informal markets such as violation of zoning and licensing laws. However, for informal workers who do not pay their taxes, the 83-93 billion dollars could be positive because it means more money in their hands. Another report estimated that 70 to 100 billion dollars in

¹ These percentages are based on the currency demand approach for developed nations and the physical input (electricity consumption) for developing nations (Schneider and Enste 2008, p. 52).

² This percentage was calculated using the currency demand approach and mixed methods, i.e. DYMIMIC (Schneider and Bajada 2005, p.85).

³ The \$10 trillion is based on the World Bank's GDP estimates (Neuwirth 2011, p. 27) and the 1.8 billion people comes from the OECD (Organization for Economic Co-operation and Development), which is a network of powerful countries, mainly core countries, that promote free trade (Neuwirth 2011, p. 18).

income is generated each year in the informal sector (Venkatesh 2006). Even though the federal government may not be receiving the tax revenue from informal markets, the economy is benefitting from it because informal workers purchase goods and services from the formal economy. As seen by these varying estimates, it is hard to know for sure what the real figures may be because measuring the informal economy is difficult.

Approximately four out of five people consume goods and/or services from informal markets in the United States (Venkatesh 2006). Although the informal economy in the United States is quite small compared to other countries, especially developing countries, the majority of the population (about 80 percent according to the estimation above) still consumes goods and services from informal markets. For rural residents, informal markets are often a place where people get their essential goods and services when access to those goods and services are not generally available (Slack and Jensen 2010). It may also be a place where customers can get goods or services that formal markets may not offer. Sexual favors and drugs are two such things that formal markets do not offer in the United States. But other licit goods like exotic foods are also not available in the formal market. For example, the exotic food market in San Francisco sells "bacon-laced chocolates, sea salt and chili truffles..." and more (Brown 2011, p.21).

Formal markets are relatively new. Prior to industrialization of the economy, small businesses were common and bartering was a common practice for the exchange of goods and services. As the market economy developed, producers of goods and services realized that they could sell their products for more than the cost of producing them, thus creating a profit, or surplus value (McClellan 2000). That change created the need for another commodity, money, which could be used as a medium of exchange. Money eventually replaced bartering practices and aided in creation of the self-regulating market, a market determined by prices (Polanyi 1944).

Money also inspired producers to make more goods at lower costs, which created the need for more human labor. The putting-out system was one way that producers created larger quantities of their goods. Producers hired domestic workers (or contractors) to make their goods and then the producers would turn around and sell them in the market for more than the cost of the labor and supplies. The producers had power over the domestic workers because they knew what goods were in demand, which allowed them to have control over the volume of goods being produced. "He [the producer] knew the market, the volume as well as the quality of the

demand..." (Polanyi 1944, p. 77). The putting-out system allowed large producers to slowly dominate the market economy until machines were created.

Machine production was introduced with the onset of the Industrial Revolution, and it dramatically changed the way goods were produced. Machines allowed for surpluses of goods to be created quickly at cheaper prices, which meant producers could make and sell large quantities of their goods. But in order to do that, the producers needed people to operate the machines. Once machine production became common, human labor became a massive commodity, and those that did not own the means of production often had little other choice than to sell their labor to producers, or factory owners. Marx called this exploitation because individuals were no longer the owners of their time (McLellan 2000). The introduction of money and the changes in production led to the creation and solidification of the self-regulating market economy (i.e. capitalism). "...once elaborate machines and plant were used for production in a commercial society, the idea of a self-regulating market system was bound to take shape" (Polanyi 1944, p. 43).

After industrialization, capitalism became the common form of economic enterprise in Western societies, and the need for formal regulation of the market emerged. Formalization came about for a variety of reasons; governments wanted to collect taxes on property and economic exchanges, protect the economy from drastic fluctuations (like those encountered during the Great Depression), and have some control over the market economy in order to protect consumers, and prevent monopolies from forming. Therefore, the government implemented laws and regulations to inspect and audit companies in order to ensure regulations were being met. Some of the regulations included: labor standards like minimum wage, paid leave, and the ability to unionize, the licensing of businesses with the state, city or other agencies, taxation on exchanges and income, and consumer safety standards (i.e. the creation of the FDA (Food and Drug Administration)) (Sherman 2008; Standing 1989; Mattera 1985). With time, more laws and regulations have been created for a variety of concerns like: "impure food, air pollution, unsafe products, dangerous workplaces, the possibility of bank or insurance company failure..." (Sherman 2008, p. 9-10.)

Because Western governments implemented taxation and regulations (i.e. formalization), informal markets came into existence (Castells and Portes 1989). Prior to formalization, all markets were informal because they were not regulated. When the government began regulating

businesses it did not do so equally. Some businesses were specifically targeted and forced into the formal market. For example, only large corporations had to conform to antitrust laws, which prevented monopolies from controlling the market, when they were first put into place. The Pure Food and Drug Act of 1906 was put into place after poor meat handling was discovered in Chicago. This act put food standards into place for purity and quality (Sherman 2008). But only companies that produced food had to abide by it. Businesses that owned property had to pay property taxes, while mobile businesses did not (Perry et. all 2007). Businesses who were forced into the formal economy because of those regulations did not believe it was fair that other businesses were not subject to such regulations. This mentality is still observed today. In Manhattan, Kansas, Ralph, the owner of a pushcart hot dog stand, had to fight for his business when other non-mobile businesses complained that his business created an "unfair competitive disadvantage" for them. They said that because he did not have to follow the same regulations they did, like having liability insurance, he was not fair competition. However, Ralph did have a peddler's license issued by the city, which allowed him to operate his pushcart business legally (Ingram 2011).

With all of the regulations in place, what causes informal markets to emerge and persist in today's economy? There are many reasons why informal markets exist and what causes them. Some economists and sociologists believe they exist for cultural reasons, some for social reasons, and some for a combination of reasons, if they believe they exist at all. While others believe the informal economy is necessary for the formal economy's survival (Walle 2008). These various opinions typically fall into one of two theories surrounding informal markets - modernization and globalization. For Williams, a professor of public policy, modernization theory is the decline in informal markets with the shift towards formalized economies, and globalization theory is the increase in informal markets as the world continues to become more globalized, or deregulated, and competitive (2010). But the reasons for the existence of informal markets are more complicated than one theory or conclusions of one researcher.

In developing nations there are numerous reasons why informal markets exist. Some formal markets operate through illegal means (i.e. bribes and favors), in exchange for regulation, etc. The cost of operating in that type of formal economy can be high, so operating outside the formal system may limit interaction with corruption. Additionally, law enforcement can be scarce so protection from crime is not guaranteed in the formal economy (Ferreira-Tiryaki 2008).

Access to formalized property can be time consuming, costly and difficult in developing nations too. In Egypt it can take anywhere from five to fourteen years to acquire formal property, making work and housing in the informal sector much more realistic. Governments in many developing nations also view informal markets as scars or blemishes on society, which means they choose to ignore them rather than help them or appreciate their contributions to the economy (De Soto 2000).

For developed countries, the reasons for the existence of informal markets are rather different. In Western nations, there are a few reasons why the participation in informal markets may increase. One main cause being the increased tax burden and/or the increase in social security-type payments incurred when working in formal markets. Other reasons include: increased regulations, decreases in working hours, unemployment, and declining loyalty to the government (Schneider and Enste 2008). Increased labor laws influence the size of the informal economy too. The more rigid they are, the larger the informal economy, and the more lax they are, the smaller the informal economy (Ferreira-Tiryaki 2008). From the workers perspective, they may turn to the informal economy because they have low skills, little education, cannot find work in the formal sector or do not have the ability to rent a physical establishment to conduct their business out of (Venkatesh 2006). Also, some workers prefer the informal economy to the formal one because they can create their own hours, do not have to pay income tax or social security, and have the ability to choose their location. For example, in New York City squeegee men choose which streets lights they clean windshields at, how long they work, and when they work (Kilgannon 2010).

For both developing and developed nations the marginality theory, which is no longer very popular among economists, could be another reason for the existence of the informal economy. This theory states that those who engage in informal work are, more often than not, people who have been marginalized from society, such as poor people, women, and people living in deprived regions. This theory has been disproven by some researches who concluded that more affluent people are more often those who engage and benefit from informal work rather than poorer individuals, and men do more informal work than women (Williams 2010). In reality, a combination of factors contributes to the existence of the informal economy in both developed and developing nations. Although informal work allows for individuals to operate

more on their own terms rather than those of the government, working within the informal economy is accompanied with its own risks.

The risks associated with working in the informal economy are numerous. In developing countries, the risks associated with working in informal markets include, but are not limited to the following: the ability for informal businesses to avoid labor laws, to exploit their workers by working them more and paying them less, and the inability of workers to form unions that would protect them against poor working conditions, injuries, and exploitation (Guha-Khasnobis and Kanbur 2006; Valenzuela 2003). "The state does not provide dwellers in the informal sector with the protection of property rights by the police and the courts, nor does it provide public utilities such as roads, electric service, portable water, and sewage and trash disposal" (Azuma and Grossman 2008, p. 62). This has to do with the unequal dissemination of information between the state and the private sector, the state's inability to discriminate its levels of taxation on producers, which causes heavy tax burdens for producers, and the state's unwillingness to change the fees it places on producer endowments (Azuma and Grossman 2008).

Even in Western nations informal workers are subject to such conditions. "By toiling off the books, workers give up minimum wage and overtime regulations, health insurance, pensions, occupational safety standards - in other words, social security in the broadest sense" (Mattera 1985, p. 122). Informal workers take the risk of making less money because many informal workers get their wages based on effort rather than time and they are more willing to negotiate prices for their goods and services (Mattera 1985). Informal workers are also subject to being fined or jailed if caught in many cases. For example, a squeegee man in New York City is cited every couple of weeks for cleaning car windshields stopped at traffic lights. The city believes such men hold up traffic and have cracked down on them by fining them or issuing verbal warnings (Kilgannon 2010). But the severity of the sanction can depend on how disruptive the informal work is to the everyday functions and laws of society. The exotic and unusual food market in San Francisco had to be moved from a monthly, public market, to a members-only club when the Department of Public Health told them they must shut down because their foods were not regulated (Brown 2011). The pop-up used car market in southern California prompted officials to pass laws that prohibited cars from being parked on certain roads, which prevented the pop-up used car market from selling in certain locations (Lovett 2011). These new laws did not completely shut the market down; sellers only had to move to other roads or venues to sell

their cars. Formalized markets have regulations and licensing that make it harder for them to change where they sell their goods and services and what goods and services they sell, unlike the pop-up used car market or the exotic foods market.

The informal economy is a diverse and potentially risk-ridden economy to work in. Not everyone gets away with a simple warning if they get caught, though many people do not get caught, especially if they run their business outside of their home and are not producing illicit goods and services. The reasons for the existence of the informal economy are numerous, and no one reason can be the sole cause for its existence in any one region. People participate in informal markets because of the level of unemployment, tax and social security payments, educational attainment, availability of housing and access to it, labor laws, government enforcement of laws, degree of social inclusion, globalization, modernization, and marginalization, just to name a few. Consumers participate because of often lower prices for goods and services, the availability of goods and services in their area is limited (rural residents for example), or certain goods or services are not available in formal markets (drugs, prostitution, exotic food) (Slack and Jensen 2010; Williams 2010; Ferreira-Tiryaki 2008; Schneider and Enste 2008; De Soto 2000).

Chapter 3 - Theory

Karl Polanyi wrote about the importance of *embeddedness*, which is the role social relationships play in economic transactions. He specifically noted that in reciprocal transactions, such as bartering transactions, people exchanged goods based on their relationships with one another. The stronger the relationship, the more trust and confidence each party had with the other. Trust facilitated more productive interactions and transactions. However, Polanyi did not believe this held true for modern, or industrialized, market economies because they are self-regulating and controlled by prices. "An economy of this kind [self-regulating] derives from the expectation that human beings behave in such a way as to achieve maximum money gains" (Polanyi 1944, p.71). Essentially, once the market moved away from barter to money exchanges, *social* relationships between producer and consumer were no longer important, instead the prices of the goods or services became the basis of exchange relations (Polanyi 1944).

In the field of new economic sociology, many scholars believe social relations and social networks still play an important part of consumers' choices to purchase certain goods and services. Granovetter has a three-part theory about economics – 1) economic goals are pursued in conjunction with other non-economic goals such as sociability, 2) "economic action....is embedded in ongoing networks of personal relations," and 3) economic institutions are socially constructed (Granovetter 1992, p.4). Because economic institutions are socially constructed, social networks are a necessary part of the economic transaction process. Social networks are very important in consumption and exchange transactions between informal businesses and customers because they create informal markets.

Social relations are a particularly important factor for exchanges made in the informal economy. Many people who work in the informal economy chose to do so based on their relations with others, and they rely on those relations to keep their businesses operating (Slack and Jensen 2010). Customers also base their decisions to consume goods and services from certain people based on their social networks. They do this for three reasons: 1) individuals rely on people they know for information about where to purchase goods and services, 2) there is a reward and punishment system within social networks, which helps determine and reinforce

proper behavior and punishes deviant behavior, and 3) individuals trust people they know to do what is right (Granovetter 2005).

Granovetter is perhaps one of the better known sociologists who believes the kind of embeddedness that Polanyi talked about, is still important in the modern economy. He argues that trust is a key reason in why people choose to make purchases from people they know instead of from complete strangers. They do this in order to minimize the risks associated with purchasing goods and services from people they do not know. Economists have recognized that there is a need for some sense of morality and honesty among all producers/sellers, which holds them to a certain honorary standard. It has often been suggested that some form of generalized morality be used in the formal market. However, many people are still skeptical of engaging in transactions, especially large transactions, with people they do not know, which is why trust is important in the exchange process. Even if formal businesses are supposed to adhere to a set of moral and ethical standards and business regulations, it is difficult to know if they do so, especially when profit rules the modern economic system (Granovetter 1985). "The widespread preference for transacting with individuals of known reputation implies that few are actually content to rely on either generalized morality *or* institutional arrangements to guard against trouble" (Granovetter 1985, p. 490). It is far less risky to purchase goods and services from people whose reputation can be determined. This further emphasizes the point that when a consumer is not sure about the trustworthiness of a business, social relations can be sought out in order to reduce the risks involved in transacting with unknown businesses (Simpson and McGrimmon 2008).

Durkheim argued that transactions in a capitalist market were based on some form of morality, yet when profit and self-interest are the driving forces behind capitalism, how can moral assumptions really guarantee the customer will not be deceived by the seller? "Indeed, as a culture of self-interest has developed in tandem with capitalism the moral values essential to capitalist market economy have become vulnerable and subject to compromise" (Smart 2003, p.109). Durkheim saw that morality was harder to establish in the modern economy too, but he did not believe it was completely impossible. Social relations between people have the ability to make businesses more honest because of their networking capabilities. Through embeddedness a degree of morality can be established in modern economic markets, and more importantly, in micro-informal markets, which rely on social networks for finding customers.

When choosing to engage in transactions within formal markets, customers usually seek out the most information about the seller prior to engaging in any transaction. If they do not know the seller themselves, they will ask a trusted friend or acquaintance about their experience with the seller (Granovetter 1985). This helps to reduce the risks associated with the transaction process. Coleman says that when an individual goes to a friend or acquaintance for a recommendation about a business, both the business's reputation and the friend's reputation are on the line, which means that the friend will usually only recommend doing business with someone they trust (Kim 2009). With friends' reputations on the line, the individual can feel there is minimal risk in purchasing goods or services from the business in question.

But even more important than relying on friends, is the individual's own past experience with the producer or business. Customers trust their experiences more than others, so if they have established a relationship with the producer then they are more likely to consume from them again because the risk of doing so is dramatically lower than going to someone new (Granovetter 1985). Embeddedness, therefore, incorporates the importance of social structure and social relations on the individual's decision-making in regards to consumption, instead of being focused on individuals making isolated decisions (Gazier and Saint-Jean 2005). The idea of embeddedness is one of the main reasons people choose to consume goods and services from specific people or businesses and is the reason businesses maintain some form of morality.

As economists and sociologists conduct more research on the informal economy, new light is being shed on the reasons why people may engage in informal work, outside of the obvious motive - profit. Studies have shown that some people, usually people who are more affluent, use and exchange informal goods and services as a way to build their social networks with their neighbors and their local community, rather than seeking a profit or finding the lowest-priced goods (Williams 2010). Informal workers rely on word-of-mouth advertising from their social networks to generate demand, or create a market, for their products and services. From a marketing perspective, word-of-mouth is an act where a consumer distributes ""marketing-relevant information to another consumer"" (O'Leary and Sheehan 2008, p.23). Essentially, customers speak to members of their social networks about the positive (and negative) experiences they had with a specific producer or business. That information then spreads through the consumer's social networks. Embeddedness is very important for informal markets and is the primary way informal markets get and retain customers. I hypothesized that informal markets

relied on embeddedness, or their social relations, as their primary way for finding customers and used other methods like Craigslist, Facebook, and newspapers as secondary sources.

Customers purchase from informal businesses because their social networks trust them. But that trust is often accompanied by informal goods and services being cheaper than those of formal establishments. This is likely because informal businesses do not always have to pay rent, typically have lower overhead costs associated with running their business, and pay lower wages if they have employees (Venkatesh 2006). I hypothesized that some customers purchased goods and services from informal markets because they were cheaper than goods and services in formal markets.

Critical View: A Governmental Approach to Informal Work

The informal economy acts as a safety net for many individuals during times of economic hardship. The government, often unknowingly, can rely on the informal economy during times of economic downturn to support those who lose their jobs. Although the government does not directly support the activities that take place within the informal economy, its officials view the informal economy as a buffer to help make the unemployment statistics seem lower than they actually are. "To eliminate those [informal] jobs - since most of them would evaporate if subjected to full taxation and regulation - would mean to swell the ranks of the unemployed and potentially contribute to social unrest" (Mattera 1985, p. 71-72). The recession of the 1980's caused many Americans to lose their jobs or, if they kept their jobs, lose their benefits as they were moved from full-time positions with benefits, to temporary or part-time positions without benefits. As a result of the 80's recession, more people entered into the informal economy, which has typically been used to supplement income during times of financial insecurity (Jurik 2005).

Sociologists Slack and Jensen did research in rural Pennsylvania which suggested that the informal economy provides a safety net for workers who lose their jobs during times of recession. Residents in their study said they chose to work in the informal economy because the formal economy did not provide enough hours, high enough wages or benefits. "...low wages and the absence of jobs providing health and retirement benefits made withdrawing from the formal labor market the rational choice for some" (Slack and Jensen 2010, p. 184). For low-income individuals, informal work was often used in conjunction with formal employment because their jobs did not pay enough to make ends meet (Slack and Jensen 2010). Although this is only one

cause for the informal economy, it shows that the current state of the economic system has created multiple conditions that result in the informal economy's continued existence (Bagnasco 1990). In this case, unequal access to subsistence jobs, especially during times of economic strife. I hypothesized that the informal economy in Manhattan, Kansas has been a safety net for some individuals during the current economic recession of 2008 and that was why people started their informal businesses.

Although government officials may think of and use the informal economy as a safety net, they do not support informal markets because they infringe upon zoning, licensing, and employment laws that they and their affiliates seek to enforce. I hypothesized that the city of Manhattan, Kansas and other city affiliated agencies did not support informal markets because informal workers do not comply with zoning, license and tax regulations.

Conclusion

Social institutions and social controls are not a part of the market economy according to most economists (Zafirovski 2002). But social institutions are important because markets are essentially "sets of social relations, including personal, strategic and durable connections, between economic agents" (Zafirovski 2002, p.185). Granovetter has demonstrated that social relations are important when customers make the choice to purchase goods and services, which makes social relations an essential part of the transaction process for both formal and informal markets. The government has the power to influence the economy through laws and regulations. This influence can be both positive (employment laws) and negative (too much taxation), and can determine the growth or decline of the economy, which impacts employment. When individuals feel that the formal market cannot support them, they may turn to the informal economy as a way to make ends meet or supplement their income.

Most research about informal markets focuses on the size of the market or economy and what it means for the geographic area(s) examined. If there is more in-depth analysis, it is usually centered around illicit informal work such as: prostitution, drug dealing and production, gambling, and more. For example, economists Schneider and Enste (2002) have written and researched the types of methods for measuring the informal economy, the reasons for its existence, and the kind of illicit work happening within the informal economy (2002). But they have said little about the licit informal economy and the markets within it. This is

overwhelmingly the case for much of what has been researched in regards to the informal economy. Thus, it seems there is a gap in the literature when it comes to licit informal markets and the reasons for their existence.

I have four questions that aimed to examine the theory of embeddedness and to partially fill the gap surrounding licit informal markets: (1) How do informal workers find customers and how do customers find informal workers? (2) Are informal goods and services cheaper than those of their formal counterparts? (3) During times of economic downturn do people turn to the informal economy for work and/or subsistence? (4) Does the city of Manhattan, Kansas and its affiliates encourage or discourage informal work?

Through these questions I examined if embeddedness was a factor in informal market creation in Manhattan, Kansas, if customers purchased informal goods and services because they were cheaper than similar formal goods and services, if the current recession was the reason informal workers started their informal businesses, and if the city of Manhattan and its affiliates encouraged or discouraged informal work when such work usually does not comply with zoning, license, or tax laws. I now turn to the design of my research study on informal workers, customers, and city officials in the Manhattan, Kansas area, and then to the results of my research.

Chapter 4 - Methodology

I have laid out the literature on the informal economy, both on a global scale and a more narrow scale (i.e. the United States). I have also provided my hypotheses about the informal work happening in the Manhattan, Kansas area and backed them with supporting theories and concepts. Now I want to describe the methods I used to examine and test my hypotheses.

I am interested in the legal goods and services work that people provide for informal markets. I focused on legal informal markets because I am interested in the goods and services that are produced for a profit, by people who have created businesses for the intention of subsistence or supplementary income. More importantly, I am interested in the exchange transaction process that takes place between customers and informal workers and how important their social networks are in making economic exchanges happen, which is how a micro-informal market is created. Economists believe social networks are not important in market creation. They believe markets are regulated by prices. "A market economy is an economic system controlled, regulated, and directed by market prices" (Polanyi 1944, p. 71). However, economic sociologists do not believe that prices alone make up a market economy. In order to find out if this was true for licit micro-informal markets in Manhattan, Kansas, I had to focus on markets that fit under that classification.

I refrained from examining illicit informal markets that involved activities such as prostitution, drug dealing, and illegal gambling because it would be difficult to identify and speak with people engaged in such activities. I also refrained from examining renters, or people who rent out their homes or subdivide their apartments because I am interested in the goods and services aspect of a market, versus informal housing arrangements. Although unpaid subsistence work is very important, I did not examine it here because I am interested in the exchange of goods and services for money. It is the exchange that creates an economic market. Unpaid subsistence work is often done in exchange for nonmonetary goods or services and for the subsistence of the family (Dickinson and Schaeffer 2001). Unpaid subsistence work does have a strong social network component, but I believe it is limited to very close social networks, more kinship in dimension, whereas legal informal markets have a wider network that involves various levels of social ties between worker and customer. Because I am interested in the market aspect

of informal work, or the coming together of buyer and seller aspect of informal work, it did not make sense to include unpaid subsistence work.

I refrained from looking at children's markets because of the vulnerability of such a group, even though they are often active participants in the informal economy. Farmers' markets are regulated because the city provides the space and does collect taxes on the sales done at the market, which makes it a formal market. Therefore, I did not interview people who sold their goods there, or people who consumed from farmer's market. I stayed away from internet markets because they are not always localized, which makes it hard to find potential interviewees in addition to narrowing the research to a geographic location. Internet markets also do not have clear regulations seeing as they can operate nationally or globally. Lastly, I did look at the home-based nature of informal markets because that is where much of the informal work happens, but I did not consider people who simply work out of their home for a formalized corporation (i.e. MaryKay or Slumber Parties).

Before being able to conduct any sort of research on the subject of licit micro-informal markets in Manhattan, Kansas, I had to create a definition for informal markets. To get the best definition of what informal markets are and what they entail, I compiled a list of definitions from a variety of social scientists in the fields of sociology and economics, and then pulled them together to create a definition that would help explain licit micro-informal markets in Manhattan, Kansas. The definition is as follows: informal market refers to a market that is unregulated by the government, state, or regulatory authority (i.e. the health department). It is a market where there are no stationary physical locations outside of the home where the business owners or workers *operate* their businesses. The supplies and tools that the informal workers use to make their goods, or provide their services, are their own, including the vehicles used to make deliveries or transport supplies. The primary way informal businesses create markets, and how customers hear about such markets, is through word-of-mouth via their social networks and relations (Fillieule 2010; Maligalig and Guerrero 2008; Granovetter 1985; and Mattera 1985).

Informal market activities are difficult to measure for a variety of reasons, some of which I have already mentioned - individuals wishing to avoid heavy taxes, the mobility of informal work, type of work activities being offered, and the type of goods being produced. Indirect measures such as: the currency demand approach, tax audits, GNP and GDP figures and electricity consumption, primarily speak to the size of the informal economy and do not measure

how people come together to create micro-informal markets, why people chose to purchase informal goods and services, or in what ways the economic conditions influence informal market activity. To find out the answers, I decided to interview informal workers, consumers of informal goods and services, and Manhattan city officials and affiliates.

I theorized that most informal markets are created through word-of-mouth via individuals' social networks and relationships. To understand the effectiveness of social networking, I used a snowball sampling interview approach as my primary way of finding interviewees. Craigslist, internet websites for local city organizations and events, the local newspaper and Facebook were used as secondary sources. Participant observation was also used when meeting with or making purchases from informal workers. This allowed me to gauge the type of people who work in informal markets and experience what it was like to consume from an informal market while taking note of the quality and price of the good and/or service.

Informal Workers

The majority of my interviews were with people who provided a range of licit informal goods and services - they cleaned houses, baked goods, provided dance instruction, repaired lawn mowers and home appliances, tailored formal gowns, and repaired leather products and shoes. I found most of the informal workers through my social network, but I also used Craigslist and the local newspaper as secondary places to find potential informal workers. Additionally, I utilized Facebook to find out more information about informal businesses (if they had a Facebook page).

I interviewed nine informal workers who provided their services and goods to people in the city of Manhattan, Kansas. I stopped at nine interviews for two reasons - 1) the information from the respondents became repetitive, or saturated, and 2) because many individuals that I reached out to were not comfortable in talking with me, especially if I did not know someone they knew. I planned to interview a range of informal businesses, but was limited by the social networks of those who provided me with potential informal workers. When looking through listings on Craigslist, I focused on all types of licit informal work. The listings ranged from people who made jewelry, repaired computers and cars, photographers, craft makers, people who restored old furniture, and people who taught music or dance lessons. The local newspaper, *The Mercury*, was far more limited; still I looked there for similar listings as those on Craigslist. One

customer provided me with a copy of the local newspaper in her area, which contained advertisements for many of the informal businesses in Riley County that provide goods and services to residents of Manhattan. This newspaper was far more beneficial as a source for potential interviewees.

Customers

People often purchase goods and services from those they know and trust, as theorized and researched by Granovetter (1985). Social networks are an important part of the consumption process because they help to minimize the risk associated with purchasing goods and services, which increases individuals' trust towards the business, or, in this case, the informal business. In order to understand how customers find informal businesses and why they buy goods and services from those businesses, I interviewed four people who purchased informal goods and services in the Manhattan, Kansas area. This was a smaller sample because the information from customers was supplementary to the research about informal workers themselves. Those interviews provided enough information to explain why customers bought goods and services from informal workers and how they heard about informal business in Manhattan. I found these interviewees through my social network and the snowball sampling method. Three of the customers came to me from my social network and one came to me from an informal worker.

City Officials

The government, including, federal, state and city, have the authority to license, regulate, zone, and collect taxes for businesses. The people who do not obtain licenses, pay taxes, or observe regulations are, by default, "informal" businesses. The city requires that taxes be paid on sales and income, that businesses comply with zoning regulations, and that businesses uphold other regulations like employment laws. The state or other agencies like the health department issue business licenses and health licenses. For these reasons, it is important to gauge how the city of Manhattan, Kansas and its official business agencies perceived informal businesses. I interviewed five people who work, or have worked, for the city of Manhattan or one of the city's affiliate agencies. These interviews helped me to see how the city officials and affiliates viewed informal businesses, and whether or not they encouraged informal business activities. I found all of these interviewees through my social network and snowball sample. One came to me directly from my social network and the other four were snowball samples from the initial contact.

Interview Structure

Each group of interviewees: informal worker, customer, or city official/affiliate, were given the same questions, but the ordering of the questions varied in each interview depending on the information given to the first questioned answered. I asked informal workers nine questions: 1) Why they started their business? 2) How they found customers? 3) What was their relationship with formal businesses? 4) What is their relationship with other informal businesses? 5) How did the recession influence their business? 6) What kind of customers they had (low-income, women, men)? 7) Where they conducted their business (home, other people's homes)? 8) Did they have employees? and 9) How and why they started their business?

I asked the customers three questions: 1) Why they choose to purchase informal goods or services? 2) How they found the informal business? and 3) How the price and quality of the informal goods or services compare to their formal counterparts?

Finally, I asked city officials and affiliates six questions: 1) How did they view informal businesses? 2) How much business did informal workers generate? 3) What benefits do informal workers create for the city? 4) What are the negative impacts on the city from informal businesses? 5) How did they believe informal businesses found customers? 6) Did they encourage or discourage informal business activity in Manhattan?

I will now discuss the findings to my four primary questions: (1) How do informal workers find customers and how do customers find informal workers? (2) Are informal goods and services cheaper than those of their formal counterparts? (3) During times of economic downturn do people turn to the informal economy for work and/or subsistence? (4) Does the city of Manhattan, Kansas and its affiliates encourage or discourage informal work? I will then conclude my research findings and discuss the additional findings that came from the subsidiary questions I asked of each group of respondents.

Chapter 5 - Results

I have broken the analysis into four parts in order to address each question, or hypothesis, individually. First, I provide my findings about social networks and the importance of word-of-mouth in relation to informal workers finding customers and customers finding informal workers. Second, I look at whether customers believed informal goods and services are cheaper, then I compare prices of the informal goods/services provided by the informal workers to formalized goods/services. Third, I look at whether or not the informal workers in the Manhattan, Kansas area started their informal businesses as a response to the current recession and how the current recession has impacted them. Finally, I end with the results of how the city and its affiliates viewed the informal work happening in Manhattan and whether or not they encouraged or discouraged such work.

I interviewed 18 people over the span of four months. I contacted a total of 36 individuals from December 2011 through April 2012, which made my response rate fifty percent. I used word-of-mouth to find most of my respondents via five of the people in my social networks. From there, I was able to snowball sample most of the time. However, I did have to rely on my social networks numerous times for possible interview respondents. Eleven of the respondents were direct contacts from my social networks. Six were from the snowball sample and one respondent I found through Craigslist.

After conducting face-to-face interviews with nine informal workers, four customers, and five city officials or affiliates, it was clear that my theory about the importance of word-of-mouth was strongly supported. All respondents said that word-of-mouth or social networks, such as Facebook, were the most important ways of finding customers. Customers had mixed feelings about informal goods and services being cheaper, but thought they were cheaper overall. My hypothesis that the informal economy acted as a safety net during the most current recession was not supported by the respondents. My theory that the government, in this case people affiliated with the city or its agencies, did not support or encourage informal business was supported.

Social Networks and the Importance of Word-of-Mouth

Below is a table with the names and occupations of all informal workers. This can be used as a reference throughout the analysis. The reason for doing this instead of just saying informal worker is so that the reader can understand which person does what type of work and how they differ if they do the same type of work.

Table 5.1 - Informal Worker List of Names and Occupations⁴

NAME:	OCCUPATION:	DESCRIPTION:
Lydia	House cleaner	Makes own cleaners from non-toxic materials. Buys supplies locally.
Kathy	Dance instructor	Teaches dance to young children.
Maggie	Baker	Makes baked goods - cakes, cupcakes, pastries, etc.
Sophie	House cleaner	Clients provide the cleaning supplies.
Isabelle	House cleaner	Provides own cleaners and supplies.
Justin	Lawn mower repair	Repairs push lawn mowers out of home and at others homes when necessary.
Andrea	Crafter	Makes and repairs leather goods.
Chloe	Home appliance repair	Repairs most home appliances - washers, dryers, stoves, fridges, and dishwashers.
Elizabeth	Seamstress	Tailors formal wear for women.

⁴ The names of all informal workers, customers, and city officials/affiliates were changed in order to protect their identities.

I theorized that most informal workers used word-of-mouth, through their social networks as their primary method for finding customers/clients. All of the informal workers said that word-of-mouth was an important way of finding customers. For many, it was the only way they found customers. Although some of the respondents used other methods like Craigslist and local newspapers, the majority of the informal workers' customers came from their own social networks and the social networks of their customers.

All of the informal workers I interviewed were white, from the lower or middle class. Eight were women and one was a man. Only two of the informal workers mentioned attaining some form of post-secondary education.

Lydia, the first informal worker I interviewed, is a lively, middle-aged woman who has cleaned houses for over twenty years. She is the mother of two, who lives on a farm outside of town where she raises chickens. She learned to clean from her mother and makes her own cleaning supplies. Lydia additionally mentioned that she felt isolated from society being at home with her children all the time and needed some social interaction, which house cleaning has provided. She said she has never advertised her business. All of her clients have come to her from her social networks.

"They have all found me. I have not looked for any work. It has all come to me...I cleaned for a friend, or, um, somebody had said, 'Oh I could use some help', well 'I can help ya', and then they told somebody and they told somebody..." - Lydia.

Lydia has never done any formal advertising with flyers, newspapers, Craigslist, internet websites, or other mediums. Her friends or neighbors ask her for help or asked her if she knew anyone that could help them with cleaning and she offered them her services. As a result, she built up her business. She currently has more work than she needs and is considering hiring a young girl from her neighborhood who needs work to help her clean for some clients.

Sophie is an older lady who has been working as a house cleaner for almost thirty years. She started cleaning when her two children were small and has continued to so since. She lives in a trailer house a little ways outside of town and is very thankful for all that she has. She has never done any formal advertising for her house cleaning services either. She started by helping a

friend out with her business and when they parted ways she took some of the clients with her. All of her current clients found her through word-of-mouth.

"[I found clients] by word-of-mouth... Essentially in this line of business, by word-of-mouth is how you get clients... I've never advertised in my life. Just by word-of-mouth." - Sophie.

Sophie also said that honesty and trust played an important role in her business. She said in the house cleaning business, the cleaning person knows more about the customer, or client, than anyone else because they have full access to their home.

"In this line of work...you gotta be honest because, you know, you're walking into their house...and you essentially know more about them than anybody," - Sophie.

Elizabeth is a cheerful older woman who lives outside of Manhattan on a small farm with her husband. Her children are grown now, but she started her business in order to stay home with them when they were small. Like Lydia and Sophie, Elizabeth has never done any advertising for her tailoring services. She has completely relied on word-of-mouth. She said that in a business where you are using a specific skill, word-of-mouth is the best type of advertising because people need to know you can do, or in her words "produce," what it is you say you can.

"Um, no, I've never advertised. It's just word-of-mouth, and in a profession where you have a skill, that's almost the best advertising you can get cuz they just need to know you can produce what you say you can." - Elizabeth.

Elizabeth also mentioned the role trust plays in relationships with customers. She said that people want someone they can rely on, someone who will not ruin their clothing, and that is why people from all over the country come to her.

"They come from all over...One week I had a gal come in from California and a gal come in from Florida...They want someone they know that isn't gonna, like, hurt their dress," - Elizabeth.

Justin is an older gentleman who lives in Manhattan with his wife. He is retired from his formal job but has been fixing lawn mowers for the past 22 years. He has never formally advertised his lawn mower repair business. In fact, he did not even plan to start a lawn mower repair business. It all started when he did not have enough money to get his lawn mower repaired when he first moved to Manhattan years ago. He decided to work on his own lawn mower and found that he enjoyed the work. People drove by and saw him working on his lawn mower and they stopped and asked him to repair theirs, too. So, in a sense, customers started his business for him. Now he repairs lawn mowers eight months of the year and has more work than he needs, all as a result of word-of-mouth.

"People started finding out about it. I never advertised.... they'd just drive by and see me out there working. That's how it all evolved, okay, and I just did it for my own satisfaction to start with, on my own machinery and then the longer I did it, the more I found out how to do it better and, a, quicker, and now it's evolved into quite a large situation. More than I really need to do I guess, " - Justin.

Justin said that he has no competition but that the professionals here in town probably view him as competition. That might be true because he said he repairs lawn mowers more quickly than the professionals, and he is cheaper. Justin orders his parts locally from some of the professionals that view him as competition and at times they even give him discounts. Since he does not have to pay the expenses for operating a shop, and because of the discounts he receives, he can charge lower prices for his services.

Maggie is a young lady who started her baked goods business as a trial to see if she can make it on her own when she and her husband move out of state after he finishes his degree. Maggie has a different way of finding customers. Most of Maggie's customers knew her when she worked at a bakery in the formal sector. When she left a local bakery in town to start her own

business, many of her customers followed her. They relied on word-of-mouth to find her when she left, and that is how most of her current clients have found her today.

"Most of it's word of mouth. I used to work at [a local bakery in town], so I get a lot my same customers that I had there follow me into this, and from there it just spreads... I have business cards and I just hand them out to the customers that I make cakes for, then they hand them out." - Maggie.

She hands out business cards to her clients, which makes it easier for them to give her information out to their social networks. Her former employer also tells customers about her when customers have requests for a cakes that the former employer does not make - wedding cakes and three dimensional cakes - or if the former employer cannot handle the volume of cake requests she/he tells their customers about Maggie. All of this is done through social networking, or more specifically, word-of-mouth.

But word-of-mouth is not her only strategy for finding customers. Maggie does use Craigslist to advertise her business as well. This may reflect upon her age. Maggie is a young woman who is just starting out and Craigslist is an easy way to get her business out to potential customers who are not part of her social network. This is how I found Maggie. All of the other informal workers were older and none of them used Craigslist, in fact, only one used the internet at all.

Andrea is an older lady who is retired from her formal job, but still works part-time in Manhattan. She lives on a farm outside of town with her husband, and they run a leather accessory/shoe repair business. Andrea relies on word-of-mouth and advertising in the local newspaper to spread the word about her business. Although she lives outside Manhattan city limits, she provides her goods and services to those in Manhattan and the surrounding area. Andrea advertises in her local newspaper to find customers who live outside of Manhattan. For customers who live within the Manhattan city limits, word-of-mouth seems to be her primary way of advertising her business. Word-of-mouth and advertising in her local newspaper are her only methods for directly finding customers; however, she does sell some of her leather accessories at a local retail store in Manhattan. This does provide her with customers indirectly

and may even help to spread her business through word-of-mouth from the customers who buy her goods there.

"We actually advertise in the local weekly paper...and have just a little ad in the back in the business ad section, and by word-of-mouth." - Andrea.

Isabelle is an older, farm-raised woman who is not afraid to get her hands dirty. She started cleaning houses once her son was old enough to be in school and she has been doing it ever since. She first put an advertisement in the local Manhattan newspaper when she decided to start her house cleaning business. Although she had no experience cleaning when she first started out, her very first client showed Isabelle how to clean. Her client liked what Isabelle had learned so much that she told her social networks about Isabelle's work and from there Isabelle's cleaning business took off. Isabelle now has enough clients to make a living.

"I've only advertised in the paper twice in the thirty nine years that I've done this.... Word-of-mouth is really good because friends of friends of friends, they don't like strangers coming into their house, and I don't blame them. I wouldn't either. So I've done very well with that." - Isabelle.

Kathy is an older lady with degrees in theater and curricular instruction and is a certified K-12 teacher, but teaching dance is her passion. She has been teaching dance to young children for over 50 years. She has a small studio in her basement where she operates her business. She does advertise her youth dance business in the local newspaper, but also relies on her social networks to spread her business through word-of-mouth. When she first decided to teach dance out of her home, she placed an advertisement in the local paper. She said that the newspaper has not been useful in recent years because of the increased usage of the internet and email as sources of information and communication. She still advertises in the paper, but has increasingly relied on the local community center to advertise her dance classes.

Kathy also found many of her students through her church when she first started teaching dance. Members told parents who home-schooled their children about her home dance studio. Kathy said it is too expensive to advertise in the phone book and she would rather rely on word-

of-mouth then pay the money. It seems that advertising with the local newspaper, the community center, and using word-of-mouth are her ways for finding customers, although she did not say which one has been most beneficial.

"I just put an ad in the paper and, I got, I got a lot of students that way.... Because of my religious belief in a lot of things, I started having a lot of home-schoolers come...The ward kinda passes along [those students]...It's by word-of-mouth... I sometimes have had workshops and that kinda helps too." - Kathy.

Chloe is an older woman with a kind heart. She started her appliance business over twenty years ago, when she was a new wife and mother. She lost her job as an appliance technician, but had accumulated many of her own tools during the time she was working as a technician. After she was laid off, her neighbors began calling her for help with their appliances. Based on her neighbors' demand for her services, Chloe thought she could start her own business repairing appliances and went door-to-door with flyers in a few small towns near her farm when she first started out. Today, Chloe services appliances in five counties including Riley County. Her success has come from her social networks spreading the word about her services through word-of-mouth and her own willingness to advertise her business through multiple mediums like radio, newspaper, flyers, and the internet.

"And neighbors where I lived started calling me and saying 'my washers not working'...and I'm thinking maybe I could just do this and work for myself like I always wanted to do...A lot is just still word-of-mouth. People that move into the community that don't know about me call me up and they say 'so and so told me', either someone they work with here in Manhattan... or a neighbor... Otherwise, I carry a, a ongoing ad in the local weekly paper...I'm listed in the phone book and online...I have advertised on the radio...I do have a Facebook page for my business," - Chloe.

Chloe, like Isabelle and Sophie, also mentioned the role trust plays in her businesses.

"...up there [her rural town] everybody knows everybody, and if someone asks me 'well if you don't do this, do you know someone who does,' they know I'm gonna tell 'em somebody who's reliable and honest, and you know." - Chloe.

Chloe, Isabelle, and Sophie's comments on trust and honesty provide support for Granovetter's theory that trust and honesty are an important part of the exchange process. Individuals trust those they know to do what is right, or in this case, they trust the people in their social networks to refer them to businesses with whom they can transact with minimal risk.

Although word-of-mouth is still a large part of how customers find her, Chloe does do a range of advertising that includes placing an ongoing advertisement in her local newspaper (she lives outside of Manhattan), having a listing in the phone book and on the internet (including having a Facebook page), and on occasion placing an advertisement on the radio. On top of all of that, some of the local repair businesses in Manhattan refer their customers to her because they do not want to drive out to where the customers live. She has definitely given many methods of advertising a try, but word-of-mouth still seems to be her most successful method.

All of the informal workers mentioned word-of-mouth or social networks as an important method for creating markets for their goods and services. Many of the informal workers did use other methods in addition to social networks. However, for a few informal workers they had only used their social networks and word-of-mouth. Chloe, an appliance repairer, and Maggie, a baker, were the only ones who mentioned using internet sources, which seemed to speak to the age of the informal workers I interviewed.

How Informal Workers Acquired the Skills for their Work

Most of the informal workers did not have any formal training to acquire the skills necessary for their work. Kathy, a dance teacher, and Maggie, a baker, were the only two who mentioned going to post-secondary school. Chloe, an appliance repairer, probably had some training when she started working as an appliance technician over 20 years ago for a formal organization in Riley County. Andrea, who makes leather accessories, and Justin, a lawn mower repairer, said they taught themselves the skills they have. Isabelle, and Lydia, both house cleaners, said they learned to clean homes from someone else. Elizabeth, a seamstress, and Sophie, a house cleaner, never mentioned where they learned their skills.

Kathy, a dance teacher, said she received a bachelor's degree in theater. Her first experience teaching dance came when she was working as a religious arts instructor for her church. She only did this for about five years because, at the time, her children were young and she was unable to travel to many of the youth's performances. A dance studio asked her to teach for them for a year after she stopped teaching with her church. She then decided to teach dance on her own and started by teaching some of the home-schooled children from her church. A few schools in northern Riley County also asked her to teach dance around the same time she started teaching out of her home. She did that for about five years. Since then she has only taught dance out of her home.

Maggie, a baker, went to culinary school after high school where she majored in pastry and baking. She helped her mom make cakes for fundraisers in high school, and worked at a bakery in town. She decided to open her own pastry businesses last September.

"In high school I really wanted to do mainly pastries...I made cakes for, like, a fundraiser thing for her [her mother], and I did that in high school; and then I went to culinary school and majored in pastry and baking," - Maggie.

Chloe, an appliance repairer, did not specifically say where she learned to repair appliances; however, she has had appliance technician jobs in the formal economy. It is likely she learned her skill when working at one of those jobs. After losing her job 22 years ago, she went into business for herself.

"Twenty-two years ago I worked at Fort Riley as a, a appliance technician...I had worked there, I don't know, seven or so years; well it was a contract, and they had lost the contract, and I actually was, at the time, laid off work for a second company...I had had to buy most of my own tools, and had my own pick-up truck already," - Chloe.

Andrea, who makes leather accessories, said she taught herself how to make them. She said she was interested in working with leather, and when a few leather shops in the area went out of business, she acquired their equipment and taught herself how to use it.

"Way back in the 70's, um, I had a desire to make some things out of leather; and, um, through that process, you know, to do a little more intricate job...you acquire extra equipment to do that, and so we [she and her husband] acquired two, um, leather shops that were going out of business...we...have just kinda self-taught our self through the years how to use that equipment."
- Andrea.

Justin, a lawn mower repairer, also taught himself how to repair lawn mowers. When he and his wife first moved to Manhattan many years ago they could not afford to have their lawn mower repaired.

"...when I moved into Manhattan, we didn't have enough money to have somebody else work on mowers, and what have you, so I started working on my own." - Justin.

Isabelle, a house cleaner, said she did not have any skills that were employable and she did not want to work somewhere that had set hours. She wanted something flexible, so she put an advertisement in the local newspaper for house cleaning and her first client showed her how to clean houses.

"I really wasn't qualified for anything great. I didn't want to go be a checker, or something like that, from eight to five, or, you know, be gone that long...so I run an ad in the paper, a, no experience, had no idea what I was even getting into, so, and fortunately the lady I worked for...showed me the ropes and how she wanted things done, and stuff, and then she told her friends about me and it just took off from there." - Isabelle.

Lydia, a house cleaner, was taught to clean from her mother. She also learned some of what she knows from another friend who does house cleaning. She said she knows multiple women who clean houses and they share house cleaning tips with one another.

Sophie, a house cleaner, started working with a friend when she started. She never mentioned where she learned to clean, but she did say when she and her friend went separate ways, some of their mutual clients went with her.

Elizabeth, a seamstress, never said where she learned to sew. She did say she started her tailoring business as a way to make extra money and stay home with her children when they were young.

Most of the informal workers did not have formal training for their skills; they usually acquired them through self-determination and the help of someone. Social networks have helped all of them to practice and refine their skills, and all of the informal workers have been able to use those skills to create markets for their goods and services.

Relationships with Formal Businesses

Several of the informal workers, such as Maggie, Chloe and Andrea, had relationships with formal businesses in town. The formal businesses the informal workers mentioned supported their work and have even sent customers their way. This finding showed that it is not just close, personal relationships that help informal workers create markets for their goods and services, it can be social networks with formal businesses too.

Chloe, an appliance repairer, said she has had customers referred to her from formal appliance repair businesses in Manhattan. When customers live too far outside of Manhattan, the formal repair businesses prefer to send those customers to Chloe because she is willing to travel. In fact, Chloe provides her services to people in at least five counties, including Riley.

"A business refer someone to me? Yeah, um, quite a bit. A, sometimes I've had local appliance repair places here in Manhattan, who don't want to go up that far, tell 'em to call me." - Chloe.

Chloe also refers her customers to other informal and formal businesses when she does not have the parts or know-how to repair an appliance. She is a big supporter of local business and that means supporting both informal businesses, which are the primary types of businesses in her rural community, or local formal businesses.

"[I refer customers] to other local businesses, um, oh and like I do some stuff on air conditionings, but I don't do everything. Um, there's a guy in Olsburg...I refer people to him frequently when it's something beyond the scope of what I do." - Chloe.

Maggie, a baker, keeps an ongoing relationship with the bakery she used to work at in town. When the bakery does not or cannot make a cake for a customer (i.e. wedding cakes, 3-D cakes) they refer the customer to Maggie.

"[The bakery] I used to work for, a, I get a lot of referrals from them...because they don't do 3-D cakes and wedding cakes...anything they can't handle they pass on to me," - Maggie.

Andrea, who makes leather accessories, sells her goods at a formal business in Manhattan. The formal business is supporting her work and helping to create a market for her leather accessories.

"Well, for a while I did sell, a, at a craft shop that's since closed in Manhattan. I did sell my product there, and then I have some of the products at [a local Manhattan store]." - Andrea.

Justin, who repairs lawn mowers, did not specifically mention whether or not formal lawn mower repair businesses refer customers to him. However, he did say that he gets discounts sometimes on parts he buys at local stores in town and that he is friends with the people who he believes consider him competition.

"I think sometimes they feel that I am competition...I pay the larger price [for parts], although they do give me some discount. I'm friends with all of them...there's no hassle." - Justin.

These relationships with formal businesses help the informal businesses create markets for their goods and services. The formal businesses do this through referrals, providing space to informal businesses to sell their products, and through friendships. In return, the formal businesses probably receive goodwill from the customers that they refer to the informal businesses and from the informal workers, who may refer other customers to the formal businesses. Chloe, an appliance repairer, said that when she cannot fix a problem with an appliance she will refer her customers to other businesses both formal and informal. The formal businesses may also ask favors of the informal workers in return for their referrals. For example,

Maggie, a baker, gets referrals from the formal bakery she used to work at; however, when the formal bakery had their cake decorator quit they asked Maggie to help them out until they could find a replacement. Formal businesses may also get indirect benefits from informal businesses they have relationships with. Justin, a lawn mower repairer, buys his parts from a local lawn mower repair shop in Manhattan. Justin supports the formal businesses by buying his parts locally and the repair shops indirectly benefit from his customers who need their lawn mowers repaired. Although the repair shop would probably like to take some of Justin's customers, they at least get something in return for Justin's relationship with them. Andrea, who makes leather accessories, probably has a similar relationship with the local store where she sells some of her goods. Andrea is able to put her goods on display in a commercial setting and sell them through the store. The shop in return probably charges her a fee or takes a percentage of the money from goods that are sold.

The relationships informal businesses have with formal businesses helps to establish trust among customers for both types of businesses. As Granovetter mentioned, trust is an important aspect to the exchange process and, by working together, the informal and formal businesses help to perpetuate the importance of embeddedness. The relationships between informal and formal businesses showed that formal businesses do help informal businesses create markets for their products and services through word-of-mouth and social networks.

Customers Views on Social Networks

All four customers I interviewed said they had found informal businesses through word-of-mouth and their social networks. All of the customers were white, educated, middle or upper class, middle-aged or older, women. Two of them I knew were college-educated because of their professions in the academic community, one had run her own business for many years, and another lived in a nice home and wealthy part of town. These factors placed them in the middle or upper class.

Molly, a purchaser of many informal goods and services, found many of the informal business people she had hired through her social networks, specifically friends at church, or school groups looking for ways to raise money.

"Primarily word-of-mouth probably. Um, or, you know sometimes it was like a group of students who were going to go somewhere and needed to raise money and I would find out through one of their sponsors...friends that I have met at church or something to, hire them to help me with something." - Molly.

Jessie, who thinks informal workers are accommodating, said she has found informal workers through her social networks, specifically mentioning her neighbors who do informal work. She has also used her local newspaper to find people in her rural community. In one case, she knew someone that had helped her from her days running her own local business in town.

"...she [a former business sub-contractor and neighbor] kind of contracted through me when I had my business, so... I'd just refer people to her...I live in her same neighborhood, just a couple of miles from her, so I knew of her, that she did this type of business and then also she had a small ad in the local newspaper. I know of someone else...and same, a small little ad and word-of-mouth." - Jessie.

Leslie, who has used the newspaper to find informal workers, answered advertisements for house cleaners in the past and did place an advertisement in the newspaper for someone who could cook for her a couple of times a month. She said she has used word-of-mouth before, but that the newspaper has worked well for her over the years. However, she said she would not use the newspaper in a big city.

"...For the cleaning lady, I answered an ad in the paper. For the lady who cooks for me I put an ad in the paper...I have used word-of-mouth also, but, a, the newspaper has worked pretty well for me. I don't know, you know, if I would use the newspaper in a really big city." - Leslie.

Leslie implied that using the newspaper in a bigger city would be riskier, but did not give more information. Perhaps a smaller community provides security because a friend or acquaintance may know the person in the paper.

Susan, who supports informal businesses for ethical reasons, has hired informal workers to do a range of work for her and she has found these workers through her social networks and word-of-mouth.

"I just got a name from a friend...It was word-of-mouth, and that is how I found the person that currently cleans my house. Um, it was word-of-mouth from a friend of mine...so definitely word-of-mouth." - Susan.

Susan did not fully elaborate about the ethical reasons she purchases goods from informal and local businesses, but she did provide a few examples that I believe get at what she meant. She said she purchased pork from a local farmer because he lets his pigs roam around in the pasture instead of keeping them locked in cages. She also said she hired her first house cleaner because she felt obligated to help someone who was in a rough situation and in need of employment.

All of the customers have relied on word-of-mouth at some point to find informal workers. Molly and Susan hired informal workers out of their beliefs in supporting local businesses and/or helping someone in need. They both relied on their social networks to find informal workers. Jessie used both newspapers and her social networks to find informal workers, and has found that informal workers often do more than what she asked. Leslie has used the newspaper to find informal workers and said that method has worked for her, but that she has used word-of-mouth in the past.

City Officials Views on Social Networks

All five city officials or affiliates interviewed said they believed informal workers used their social networks and word-of-mouth as ways to find customers for their businesses. All of them were white, educated, and middle to upper class males in their middle to older ages.

James, who is a former city official, believed that word-of-mouth was the primary way informal businesses found customers, followed by advertising in the local want ads, on Craigslist, or on Angie's List.

"Word-of-mouth is certainly, probably the first one. Um, second would be, a, advertising in the local want ads, the local classifieds, um, and certainly on...places like Angie's List and others, their reputation is evaluated," - James.

James mentioned that on Angie's List informal workers can have their reputation accounted for, which means the risk to the customer is minimized, and the reliability of the informal business in question is increased or decreased.

Dennis, a current city affiliate, agreed that word-of-mouth was important for informal businesses along with farmer's markets and that social media were especially important mediums for word-of-mouth advertising.

"Well, if they're that small, you know, I look at the farmer's market, and you literally have a lot of word-of-mouth. I think, you know, with all the social media going on you can never underestimate the importance and power of word-of-mouth... I think one, one recommendation from a friend is worth umteen tweets from somebody else..." - Dennis.

Chris, a former city affiliate, said he would be surprised if informal businesses did any formal advertising through newspapers, or other such sources. He said he believed they used informal ways of advertising their business, such as word-of-mouth.

"...I would guess that it's not a formal advertising, that it's more of an informal type of marketing that they do. More like word-of-mouth...I'd be really surprised if they did formal advertising, like a newspaper ad, you know, or even a webpage or something..." - Chris.

Sam, a current city official, said he believed many informal workers found customers through social media websites like Facebook or Craigslist. Although this is not necessarily the face-to-face advertising usually considered when thinking about word-of-mouth, in the case of Facebook it still involves spreading information through social networks even if the networks are not entirely comprised of close relations.

"I would assume most people nowadays are using the internet and social media, well, maybe even more traditional kinds of media, newspaper, radio...I would suspect electronic media and social media is how most of them are doing it [finding customers]. Now, whether it's, you know, EBay or Craigslist... or some other web pages or Facebook pages," - Sam.

Ross, a current city affiliate, said he believed most informal businesses found customers through friends, family, and other social networks, like those at their children's school. Additionally, he believed they used Facebook as a way to find customers through their extended social networks, and Craigslist and other internet websites because of their anonymity.

"I think a lot if it starts friends and family...It's starting friends, family, associates, people they know through their kids...that kind of thing...Social media, I think, plays a big role in that...It's using the internet...It's word-of-mouth, it's online, it's people you know." - Ross.

All city officials or affiliates mentioned some form of social networking as the main way informal workers would advertise, or create a market for their business. Social media was brought up by three of the city officials or affiliates, which further supports the importance that social networks play in market creation for informal goods and services.

Social networks are very important to informal businesses. The power of word-of-mouth can be seen by the respondents' answers, all of which said social networks played a role in creating a market, or generating customers, for informal businesses. Word-of-mouth advertising is important because it implies the source is trusted and reliable.

Chloe, an appliance repairer, said that when she cannot repair an appliance, her customers know that she will send them to someone who is reliable and honest. Sophie, a house cleaner, mentioned that her current clients found her through social networks, which made sense to her because the home is a private place and having a complete stranger come into it increases the risk of something going wrong. Elizabeth, a seamstress, said her customers need someone they trust to alter their formal wear, and that trust is given through referrals.

Granovetter said individuals rely on those they know, whose reputation can be accounted for, to refer them to a place or person that is trusted. Individuals do this because they believe it minimizes their risk during the exchange process (Simpson and McGrimmon 2008; Granovetter

2005). My theory that embeddedness, which is relying on social relations during the exchange process, is important for informal markets was favored by this group of respondents. It seems even in a market outside the scope of regulation, that trust is important for both customers and informal workers, which is why they use their social networks when searching for informal businesses or advertising their informal business.

Informal Goods and Services are Cheaper

I hypothesized that informal goods and services were cheaper than their formal counterparts. Overall, that seemed to be the case among the customers I interviewed. However, none of them outwardly mentioned it being the reason they consumed informal goods and services.

Molly, who buys many informal goods and services, has found that most informal goods and services she has consumed have been cheaper. The informal goods and services have also met her expectations, and at times workers have exceeded her expectations.

"I'd say probably all of them [the goods and services purchased from informal workers] were at least what I wanted and then others went above and beyond." - Molly.

But that was not necessarily why she purchased goods and services from informal workers. She said she purchased them because she enjoyed it, it meet her needs as well as the workers', she was helping out someone in need of extra income, the workers were flexible with her schedule, and the quality met her expectations. It was not solely price of the goods and services that made Molly purchase from informal workers. Moreover, Molly has never had any negative experiences with informal workers or their products or services that she can remember, and she has hired many people for a variety of things - dance lessons, house cleaning, landscaping, yard work, and interior painting, as well as purchased cakes. Molly also provides her own informal sewing services on a casual basis. She does no advertising, and it is not a full business, but if someone she knows needs something mended or made she is willing to do the work because she loves it.

Jessie, who finds informal workers accommodating, said that many times informal workers gave her more than what she paid for or expected. For example, they did the work more quickly than estimated, or provided an extra good or service without extra cost.

"They're usually more accommodating, um, they usually deliver more than promised, usually pleasantly surprised that they did something extra or did something and didn't charge you," - Jessie.

Jessie said she had been pleasantly surprised by her interactions with informal workers because they did something extra for her and did not charge her for it, and she did not recall having any problems with informal workers. She said she purchased goods and services from informal workers because she knew the informal worker and wanted to support their business, not because their goods and services were cheaper. Though she did believe, but did not know for certain, that they were cheaper because the informal businesses do not have the overhead costs associated with running a formal business or have to pay employees.

Leslie, who has used the newspaper to find informal workers, said that the reasons she has hired them was because she can have a personal relationship with them versus those from professional agencies.

"Well I have had Merry Maids, but I'd like to have someone that I can have a personal relationship with. And so, Merry Maids are fine, but they change all the time." - Leslie.

Merry Maids changed personnel frequently and that hindered Leslie's ability to form personal relationships with the cleaners. As for informal goods and services being cheaper, Leslie said she was unsure if the work informal workers did for her was cheaper because she had been using them for so long that she had nothing to compare their work to. In the past she had hired house cleaners from Merry Maids, but it was too long ago to match with what she pays today.

Susan, who supports local businesses for ethical reasons, hired her first house cleaner because a single mom that she knew was in need of work, not because she necessarily needed the service or thought it was cheaper. Susan has hired people for a variety of services and has

purchased a variety of goods from informal workers. She has hired house cleaners, painters, and taken music lessons, and has purchased local eggs and meat. She said the price for the goods and services were comparable to what she found in the formal market for the most part, but believed that a few things might be a little cheaper. She also said some of what she buys is not available at formalized businesses, like free-range pork. But these are not the main reasons why she has purchased goods and services from informal workers. Susan said she hired informal workers for ethical reasons, because she wanted to help someone in need, such as the single mom, support the local community, or buy meat that is free to roam the pasture, as in the case with the pig farmer mentioned earlier.

"Um, yeah, it's a little bit cheaper to get [a local farmer's] eggs, um. Well, no. If you are buying organic eggs, they're usually about the same equivalent. So, I would say, you know, not really. You know, you can't go into the grocery store and buy...free-range pork. So in some ways I would say it's not really available." - Susan.

The informal workers also had an opinion about the cost of their goods and services. Some of them have negotiated prices for their customers who are low-income. A few informal workers mentioned that they were more likely to negotiate prices for people who are poorer, people who help them out with their work or for close friends.

Chloe, an appliance repairer, said she has only charged for the cost of the part(s) when she can see how poor her customer is. For example, she did a repair service on a refrigerator at a single mother's home and saw that there were only a few food items in the refrigerator. After seeing that, Chloe only charged for the cost of the part and not her time because she knew the mother really could not afford to pay more. She also has done work for free at her local church and community restaurants. She said it is her way of giving back to her community.

"I have a set rate, um, however, that said...I have a lot of low-income customers...I'm in their home, so I see what they have or don't have, and there's been times I've opened up a refrigerator to [repair it]...and there's very little food in there...and I've turned around and charged for a part [only], and I usually do churches for free up there [her rural community]," -Chloe.

Kathy, a dance teacher, only charges at cost prices for the children's' dance outfits. She said many mothers have said they could not afford dance lessons because of the cost of the outfits, but that Kathy has made it so they can afford dance lessons for their children by lowering the cost of outfits or not using them at all. Kathy also did not charge several of her customer's mothers for lessons because they helped her watch and organize the children during dance recitals and lessons.

"...I really sold things basically at cost...I am more interested in having them dance than say 'I can't afford it because it's so expensive'...I'd rather have them dancing cuz I love it so much, you know..." - Kathy.

Lydia, a house cleaner, said she charges her friends a lower price for her cleaning services because she talks with them while she cleans. She implied it was more casual and that her friends offer her food or drink while she cleans, which is why she charges them less.

A couple of informal workers mentioned that their goods or services were expensive. Maggie, a baker, said her cakes were too expensive for many during the Christmas holiday season last year.

"...especially during Christmas season, when everybody's buying gifts for their family, it [her cake sales] really went down...like, people...would inquire about cakes but they'd end up being too expensive for them," - Maggie.

Isabelle, a house cleaner, said she believed she was expensive. She was initially worried about losing clients when the current recession began but was surprised people wanted her services more after the recession because she believed she was so high priced.

I compared prices of the goods and services done by the informal workers to their formal counterparts. It was difficult to get an accurate comparison because many of the service jobs are based on time, labor, space in the case of house cleaning, and part(s) being repaired in the case of repair work. In the table below, I created a comparison between informal work and formal work. Most of the formal prices reflect the local costs in Manhattan for such goods and services.

Table 5.2 - Informal/Formal Goods and Services Price Comparison

Good or Service:	Informal:	Formal:
House Cleaning	\$17-25 per hour.	\$35-60 per hour or \$150-250 a week with Merry Maids.
Dance Lessons	At cost for outfits or costumes.	\$42 for four lessons. \$30 and up for costumes, and \$50 and up for outfits.
Custom 3D Birthday Cake	\$25-35	\$45-50 at a local grocery store.
Lawn Mower Repair	Cost of part and some labor. No overhead costs. \$30 repair.	\$ 100 on average for repair, cleaning and labor.
Appliance Repair	Cost of part and some labor. No overhead costs.	\$50-70 for first half hour and then \$10-20 thereafter, plus the cost of the part(s).
Boot Repair	\$30 resoles.	\$5-12 to patch leather scratches or cuts. Around \$40 for resoles.
Formal Dress Tailoring	Cost of labor. No overhead costs.	\$30-200 depending on the alterations, the type of decorations on the dress and the thickness of the fabric.

Merry Maids' prices vary depending on size of the home or apartment and number of hours that the maid stays. I was also curious about what people thought of Merry Maids so I looked at some reviews online. Most of the reviews I read of Merry Maids said they were not a good cleaning service. One review even mentioned hiring someone who posted an advertisement in the paper and that that person was much better than Merry Maids. However, for all of the goods and services it was difficult to get exact prices because the cost varies depending on the services needed and the person or company conducting the service. The cake was the only good I could get a more solid price for, but the cost of a cake varied depending on the type of cake, the size, and the time it takes to make it. All of the price comparisons are rough estimates but they do tell us something about the difference in pricing between informal and formal goods and

services. In general, informal goods and services are cheaper in this comparison, where prices were accounted for. In the case of seamstress work and repair work, the informal workers did not give their prices but a few did mention the absence of overhead costs in their work.

Chloe, an appliance repairer, and Justin, a lawn mower repairer, never gave me their actual prices for labor, but did mention that the cost of parts were included in what they charge. Kathy, a dance teacher, only said that she did not require her young students to wear the traditional dancewear and often bought costumes on sale or created them out of clothes the students already had. She even gave some of her students dancewear for free if they could not afford it.

Overall, the price of informal goods and services appeared to be cheaper than their formal counterparts. Some of that was due to the absence of employees and not having business property outside of the home. It seemed that informal workers often charged certain customers less because they are sympathetic to the customers who may not be able to afford their goods or services. As for the customers, they seemed to buy goods and services from informal workers not because they were cheaper, but because they had social benefits associated with them like supporting the community or helping out someone in need. For example, Leslie, who has used the newspaper to find informal workers, wanted a personal relationship with her house cleaner. Susan, who supports local businesses for ethical reasons, wanted to help out someone in need and support her local community. Jessie, who found informal workers accommodating, wanted someone who could adhere to her wishes, and found that informal workers often did more than she asked. Finally, Molly, who buys many informal goods and services, wanted to help those in need, and she liked the flexibility of the informal workers because they worked with her schedule. None of the customers mentioned price as being their primary reason for purchasing goods and services from informal workers.

My hypothesis that informal goods and services are cheaper seemed to be favored by *this* group of respondents. Although three of the four customers mentioned informal workers' goods and services were lower priced, it often only pertained to certain goods or services. Susan, who supports local businesses for ethical reasons, said that most of the things she purchased from informal workers were about the same price as what formal businesses would charge. Molly, who buys many informal goods and services, said informal goods and services were cheaper most of the time, but not all of the time. Leslie, who has used the newspaper to find informal

workers, could not compare whether the services she consumed were cheaper than formal services. Jessie, who finds informal workers accommodating, said she believed they were cheaper because of the absence of overhead and the cost of paying employees. Even a few informal workers admitted that they have negotiated their prices for friends, or people who are not financially well off. It also seemed that the types goods or services consumed made a difference in whether or not they were cheaper than goods and services from formal establishments (i.e. local eggs or free-range pork). What was more important than price was the strength of social relations or social networks. The social aspects appeared to be a stronger predictor of a customer choosing to consume informal goods and services rather than just price alone.

The Informal Economy as a Government Safety Net

I hypothesized that individuals turn to the informal economy during times of economic downturn in order to supplement their income or as a way to provide themselves and their families with subsistence income. I asked each respondent why they started their informal business and found that while many did start it for supplemental income, they did so before the current recession.

Isabelle, a house cleaner, said she needed extra income, but that she had a young son, no specialized workforce skills, or advanced education, so she decided to start cleaning homes once her son became a toddler.

"...we got married really young, my son, I got to stay home till he was four years old...we needed some extra income and I really wasn't qualified for anything great. I didn't want to go be a checker, or something like that, from eight to five, or be gone that long so I was looking for something quick," - Isabelle.

Isabelle did not want a job that required her to be there for eight hours or that had a set schedule. She wanted something that did not take all day and found work cleaning houses.

Lydia, a house cleaner, had a similar story. She started cleaning houses to supplement the family income. She had two small children when she decided to go into the house cleaning business, and like Isabelle, needed something that could work around her role as a parent.

Like Lydia and Isabelle, Elizabeth, a seamstress, wanted to be home with her children, yet still be able to supplement the family income. She started to do seamstress/tailoring work out of her home. She has been so successful at it that she has continued to do it for the past thirty years and has specialized her services to only women's formal wear (typically wedding dresses).

"I just wanted, a, opportunity to stay home and raise my kids; and back in the seventies a little bit of extra income was a good thing...I called it 'fun money' back then." - Elizabeth.

If it was not the need for supplemental income, it was the desire to engage in a hobby or craft that caused the informal worker to open their business. Andrea, who makes leather accessories, started her leather crafting/shoe repair business because she and her husband were interested in working with leather. From that interest, they acquired equipment from two leather shops that were closing and overtime have taught themselves how to use it. Now she has the ability to create many different kinds of leather goods and her husband can successfully repair boots.

Justin, a lawn mower repairer, had a similar story to tell. One day he decided to repair his own lawn mower and people passing by noticed and asked him to repair theirs. He enjoyed the work and continued to do it on the side until he retired. Now he repairs push lawn mowers seasonally, March through November. He said as long as he gets his money back from the work that is all that matters because he is in it for the enjoyment not necessarily the money.

"...I figure as long as I get my money back, I don't worry about it. I'm not in it to make much money." - Justin.

Kathy, a dance teacher, started teaching dance out of her home not only because she loved teaching, but also had small children at the time. So she would teach dance as a way to stay home with them. Kathy is a certified K-12 school teacher and the demands of being a full-time teacher were too much in addition to being a parent. She did not want to be working while her children were in grade school so she taught dance instead. She did go back to teach school when they got a little older but did not do that for too long because she needed to take care of her aging mother. She continued to teach dance and substitute teach during that time period.

"...I didn't want to teach when my kids were really in school...so I decided I could substitute teach no problem because you didn't have the homework. I could still teach my love, which was dance..." - Kathy.

Sophie, a house cleaner, started out cleaning because a friend needed her help. She liked having a flexible schedule. She could drop her children off to school and be back in time to pick them up. Although her children are now grown, she said she still has the flexibility. She said her clients are willing to work around her schedule if she needs time off during the week.

"...when my son started school, in the first grade, then I started cleaning, and what's good about this job is you can set your own schedule, you're your own boss. My kids are in school I didn't have to...work until...they got to school, and when they got out of school, then I would be home...This is so flexible. Like, if I need to be off...to go to the doctor...it's so flexible, where I don't lose," - Sophie.

Chloe, an appliance repairer, started her business after she was laid off from her formal job over twenty years ago. She was a wife and a new mother at the time she was laid off, so supplemental income was something she wanted, but did not necessarily need since her husband had a job. Once her neighbors started asking for her to repair their appliances, she thought she might be able to make her own business out of it, and did just that.

Chloe was the only informal worker who said she started her business because she lost her job, but she did not lose it to the *current* recession, which started in 2008. Although many of the informal workers did start their businesses as a way to supplement their income, it was not related to the current recession. As we have seen, many informal workers started their businesses as a way to supplement their income while being able to stay at home with their children. In those cases, it appears gender is influential in who out of the family participates in informal markets. Mothers were usually stay-at-home moms when most of these informal workers began their businesses. A few other informal workers started their businesses out of their hobbies or interest in the work. My hypothesis that the government uses the informal economy as a safety net was not favored by my respondents' answers. However, Ross, a current city affiliate, said he

knows people who have started their own businesses because they lost their job due to the current recession. He said he has come across several individuals who have started their own businesses in the past couple of years. Although the recession was not the reason the informal workers started their business, it does not necessarily mean that is the case for all informal businesses operating in and around Manhattan.

The Influence of the Recession

Although none of the informal workers said the current recession was the reason for starting their business, many of them had been affected by it. I asked each informal worker if their business was affected by the recession. Surprisingly, most said it had not negatively affected them.

Isabelle, a house cleaner, said had observed an increase in the number of people requesting her house cleaning services.

"...it [the recession] scared me, um, but, in fact people want me more, and I don't understand that because I am very high priced," - Isabelle.

Justin, a lawn mower repairer, said he had an increase in the number of people wanting their lawn mowers repaired, but he believed that the recession really had nothing to do with it. Rather he believed more people found out about him and that is why he has seen a higher amount of people seeking his services.

"I don't know whether the recession has anything to do with it...this year I, I think to start with I've had more...customers....I think I've had more customers because more people found out about it," - Justin

The recession has actually caused an increase in business for those who do repair work. Andrea, who makes leather accessories, said her leather/shoe repair business had seen an increase in the number of people repairing their leather shoes since the current recession began. She said more people are repairing their shoes instead of buying new ones because it is cheaper.

"If a gentleman can get his boots repaired for thirty dollars rather than paying one hundred fifty to two hundred for a brand new pair, they come and get those repaired." - Andrea.

Andrea said that shift from buying to repairing has increased her business a little since the onset of the current recession.

Chloe, an appliance repairer, said that the recession has improved her business. She said that more people are repairing their appliances instead of buying new ones because they are fearful of the current state of the economy.

"...repair is what people are doing. I mean even though the recession hasn't hit here, a lot of people aren't spending money they do have because they're nervous. And they aren't going out and buying new cars and new appliances...they are repairing their old ones" - Chloe.

On the flip side, Chloe said that parts have increased in price because companies are not able to sell their new goods. Because of the increase in the price of parts, she has had to charge customers more even if she did not charge them for her labor. Luckily, her volume of customers has not been affected by the increase in the cost of parts and she believed that her business has increased since the onset of the current recession.

Maggie, a baker, only recently opened her business. She said during the holiday season she saw a drop in the number of requests for baked goods because people were spending money on holiday gifts and found her custom baked goods too expensive. However, prior to the holidays, she said she was busy with many weddings and right after the holidays, with many birthdays. The decline during the holiday season may or may not be related to the current recession. It is hard to know for sure because of the infancy of her business and the volume of customers during the holiday season could not be compared to previous years.

Elizabeth, a seamstress, said she has not been negatively impacted at all by the current recession. She said the recession has not affected her business because of Fort Riley. Many of the soldiers' wives come to her when they need their formal wear tailored or repaired and this need has kept her services in demand.

"...I credit that [not feeling the impact of the current recession] to...being in an area where we have Fort Riley. I work with a lot of military wives. Many military wives...it is a big, big deal to them to have their fine clothing professionally tuned up." - Elizabeth.

Sophie, a house cleaner, was the only one who said she lost clients after the recession took hold. She used to work eight hours a day, five days a week. Now she only works three and a half. She said she lost three clients to the recession and has not been able to replace them, but has luckily been able to keep her steady clients.

"I did [have enough clients] until the...Wall Street crash or whatever. When that happened, I've always been able to have five days a week, eight hours a day, and, I lost a couple of, a, three clients...and right now I'm just cleaning really three days a week." - Sophie.

Kathy, a dance teacher, said it is hard to know if the recession has impacted her business. She did mention a drop in the number of students, but she believed it was not necessarily due to the recession. Instead she attributed the drop to the increase in dance being taught at schools, in after-school programs, and at the Parks and Recreation Center.

The current recession has been good for some and bad for other informal workers. Sophie, a house cleaner, was the only one who said she had lost clients due to the current recession. Outside of her loss, no one else believed the recession had negatively impacted them and none of them started their business because of the recession. In fact, many of them believed their business had increased since the onset of the current recession.

How the City Views Informal Work in Manhattan

Almost every informal worker said they did not know how the city perceived their business and/or thought the city probably did not know about their business. Kathy, a dance teacher, is the only one who mentioned any connection with the city. She said that she had spoken with the city's Parks and Recreation Department about them teaching dance and how it hurt local dance teachers. She did not say what the results of her conversation were with them. She also did not believe the Chamber of Commerce was at all interested in helping small businesses.

Chloe, an appliance repairer, said she did not believe the city of Manhattan knew about her business, but said she always follows the city's regulations in regards to what she can repair when working in Manhattan. For example, she does not work on gas lines in Manhattan because the city does not allow her to. Aside from these two, all the other informal workers did not have much to say about the city other than not having any connection with them.

As for the city officials and other city affiliated persons, four out of the five I interviewed said they encouraged informal businesses to the extent that they eventually became formalized. This supported my hypothesis, which stated city officials and affiliates would discourage informal businesses because they do not always follow zoning laws, were unregulated by the city, state or other regulatory agencies, and/or do not always pay their income or sales taxes. Only one city affiliate openly discouraged informal business activity.

James, who is a former official for the city, said the city had no outward perception of informal businesses. Essentially as long as there are no complaints, the city does not engage with informal businesses. However, he said he encouraged small businesses like those of the informal workers because he viewed them as beneficial to the community.

"Small business is, is certainly a significant part of the economic life in any community...You want people to engage in productive business in the community and provide services...absolutely, a, support and promote small business..." - James.

He said the only negative impacts on the city from informal businesses are when people complain. For example, if the informal business was not following zoning requirements or creating a neighborhood nuisance then that business was negatively impacting the community and needed to make changes. Sam, a current city official, gave the example of a house cleaning business that had its employees going to their bosses' home to pick up their cleaning supplies. That went against zoning laws, which stated that employees cannot go to home-based businesses, even for purposes of picking up equipment, unless they resided in the home. That business needed to move outside of the home to some type of commercial property.

Dennis, a current city affiliate, said he encouraged informal work to the extent that such businesses followed zoning laws. He encouraged informal businesses to speak with the Small Business Development Center, which helps small businesses get started with the process of

formalization. Dennis also said that small, informal businesses help the city and he liked the entrepreneurial activity that happens in Manhattan.

"I think any act of commerce benefits the city...the fact that they are in town doing things certainly helps." - Dennis.

Sam, a current city affiliate, also encouraged informal businesses as long as the informal workers were complying with zoning and licensing laws.

"We don't try to discourage 'em. We, we, try and be as open to them as we can be while still protecting the neighborhood as a residential settings...It just creates more opportunity, and, again, given the technology nowadays there is really no reason why not to allow that [small, home-based, informal work]." - Sam.

One interesting discovery made during my interview with Sam revealed that small businesses, done out of the home within the city limits of Manhattan, do not require licensing from the city. Manhattan leaves licensing requirements up to the state and other agencies, such as the health department or Department of Agriculture. Sam said from his professional standpoint, he would encourage informal businesses and try not to discourage them because of the city's lax zoning and licensing regulations on such businesses. He said the main negative impact of informal businesses on the community is when they outgrow the home. For example, if the businesses are taking up more than roughly 25 percent of the home, if the businesses are having employees come to one home to pick up equipment when only the resident of the home is allowed to work out of it, or when the businesses are storing large amounts of goods they do not produce, they are no longer using the property as a home. These violations would be situations when he would discourage informal businesses because the primary role a home plays should be a home, not a business. There are also certain types of businesses that are prohibited in the home like motor vehicle repair or detailing, or running a restaurant, and many more, and these businesses would be discouraged because they are prohibited by the city.

Ross, a current city affiliate, viewed informal businesses as stepping stones to the creation of bigger, more formalized businesses. He saw them in a positive light because they had the ability to grow into something bigger.

"I see a lot of 'em as stepping stones to something maybe more formalized, or... official...I think there's a very important component of that type of business...that's one way that a lot of people can, can maybe, get started cheaply...but, at the same time, yeah, I think...some of those rules and regulations are in place for, for a reason," - Ross.

Ross encouraged informal businesses as long as they formalized, or adhered to zoning and licensing laws and regulations. Overall, he perceived them in a positive light. The only negatives from such businesses were what he called the "precedent" they set. By this he meant that if one person does this type of work, another may see it as a way to make money quickly and this could cause many similar businesses to spring up in a short time frame. That could upset formal businesses or cause the city to step in because such businesses have to adhere to zoning, licensing, and regulations. He mentioned the hot dog stand business owner in Manhattan specifically as an example of this.

"I don't know anyone who had a whole lot against him [the hot dog stand business owner]...it's setting that precedent. I think that's where a lot of times where the issue comes in..." - Ross.

The hot dog stand business owner, aka Ralph, upset Aggieville merchants when he took his pushcart hot dog stand to the downtown Manhattan area. They said his business created an unfair disadvantage for non-mobile businesses that pay higher costs for property (Ingram 2011).

Chris, a former city affiliate, said he viewed informal businesses as stepping stones to formalizing. He thought they are important in that retrospect because they have the potential to grow and become a large company. However, he said that those that don't formalize put risks on themselves and others for not complying with laws.

"They're a valuable part of our economy because, while they may start at an informal level, I guess, their ability to grow... is there," - Chris.

Chris believed that informal businesses benefit the city because they contribute to the economy through purchasing goods and services with the income they generate. However, from a professional standpoint, Chris did not encourage informal businesses because of the risks associated with operating that way. Things like getting fined or shut down for not complying with zoning, taxation and licensing are all high risks for informal businesses to take if they really want to grow their business in his eyes.

"There are a lot of risks associated with something like that [running an informal business]. If they're unregistered, not paying taxes, obviously there's an economic hit to the community. Um, unregistered or unlicensed could mean that there are potential, um, harmful effects to the community either from, you know, tainted goods, or you know, environmental concerns that they're not aware of, or safety concerns for employees," - Chris.

Current or former city officials or affiliates perceived informal work as beneficial to the economy and community because of their potential to formalize. All respondents mentioned the importance of complying with zoning, licensing and regulations and they supported informal businesses as long as they did so. All but one respondent said they encouraged informal work. Chris, a former city affiliate, did not encourage informal businesses because of their potential risks to the community. However, although he was the only one to openly discourage it, all of the others did say they encouraged informal businesses if they pursued a path to formalization. Modernization theory can be used to describe how city officials and affiliates viewed informal businesses. The theory of modernization is founded on the concept of development, both social and political (Arjomand 2004). Formalized markets are a characteristic of developed societies and economies. The city officials and affiliates believed that formalization of informal markets is the best for the government and the community. However, not one of the informal business workers I interviewed mentioned wanting to formalize. It appears that the city officials and affiliates I interviewed really do *not* encourage micro-informal businesses. My hypothesis that

the city and its affiliates discourage informal work seemed to be favored by this group of respondents as seen by their preference for wanting informal businesses to formalize.

Conclusion

Three of my four hypotheses were favored for this group of respondents. 1) Social networks are important to informal markets because they help create markets through word-of-mouth. It is the social relations people have with one another that allow informal businesses to really create a market for their goods and services. Granovetter pointed out that individuals rely on their social relationships to help minimize the risk of transacting with persons unknown. People within an individual's social network are believed to be more honest and reliable. In the case of informal markets in Manhattan, Kansas, the theory of embeddedness holds true. 2) Although city officials and affiliates said they encouraged informal businesses in Manhattan, all of them did so only to the extent that those businesses moved towards formalizing. None of the informal workers I interviewed indicated having any desire to formalize. Because the city officials and affiliates did not support informal businesses that chose not to formalize, my hypothesis that the city discouraged informal markets is true. 3) Informal goods and services were cheaper than their formal counterparts for most goods and services. A few informal workers mentioned their goods being expensive, yet they were still cheaper than the formal businesses' goods and services in my price comparison. All of the customers said that *some* informal goods and services were cheaper, but that was not why they chose to consume from informal businesses.

My hypothesis that the informal workers started their businesses because of the current recession was not favored. All but one of the informal workers had started their businesses decades ago, either to stay at home with their children, supplement the family income, pursue something they loved, or a combination of the three. One informal worker mentioned starting her business because she was laid off, but that did not happen during the current recession of 2008.

Through my research, the power of embeddedness can be perceived not just between informal workers and their social relations, but through the relations informal workers have with formal businesses and the customers that consume from them. Also, those individuals that help maintain the household with informal workers are embedded within informal market creation through their efforts. They help provide household subsistence work, which is essential to

household survival and thus essential for the informal workers and their businesses. Anthropologist Clifford Geertz said that humans are entwined in their own "webs of significance," which they created (Geertz 1977). For micro-informal workers their businesses can be thought of in much the same way. Their social relations are the web that holds their micro-informal businesses together and those webs create micro-informal markets.

Chapter 6 - Discussion

Informal businesses do rely on word-of-mouth through their social networks as their primary way of finding customers. Granovetter's theory that embeddedness plays a role in market transactions holds true for informal markets in Manhattan, Kansas. Informal businesses seemingly rely more on embeddedness because their social networks are the only way for them to establish some form of morality and trust for their businesses. They do not have the "generalized morality," which economists encourage for formalized businesses. The only way informal businesses can reduce risk is by exchanging their goods and services with their social networks. Informal businesses' social networks help to maintain an honest and moral reputation for their businesses because they tell others about their experiences with informal businesses.

Customers did say that in some circumstances informal goods and services were cheaper than their formal counterparts or cheaper than the cost of new goods. However, that was never their primary reason for buying informal goods and services. The customers said their decisions to purchase from informal businesses included: flexibility, ethical reasons liking helping someone out, the fact that informal workers went above and beyond what they expected, or wanting to support local businesses.

Not one of the informal workers said they started their business because of the current economic recession. The majority said they started their business as a way to earn supplemental income while staying home with their children. Others said they had an interest in the work and started their business in order to do it. Only one of the informal workers was adversely affected by the current recession. The rest saw either no change in their business, and some said that it increased their business.

The city officials and their affiliates said they encouraged informal work because they thought it had the potential to grow into something more formalized. However, because they wanted them to go down the path of formalization, it cannot be said that they encouraged all informal businesses, just the ones that intended to formalize. None of the informal businesses I interviewed mentioned having any intentions of formalizing. Only one city affiliate said he discouraged informal businesses because of the risks associated with not following regulations, zoning, or licensing. Although all former and current city officials and affiliates said that

following regulations, zoning and licensing was important, only the one openly discouraged informal businesses because of the risks to the community from operating in that capacity.

In sum, my hypothesis that said social networks are important in the exchange of goods and services was favored by my respondents. Word-of-mouth was the main way informal workers found their customers and the main way customers found them. My hypothesis about informal goods being cheaper was favored, but mainly through the price comparison I did versus customers saying they were. Social reasons like helping a friend or supporting local businesses were more important than price for the customers. My hypothesis that the recession was the reason informal workers started their businesses was not favored by my respondents. The current recession was not the reason why informal workers started their business. They started their businesses to supplement the family income, stay at home with their children, and/or pursue something they loved doing. One worker said she had a decline in her client base at the onset of the recession and has not found clients to fill their places, while a few other informal workers saw an increase in the demand for their goods and services. My hypothesis that the city of Manhattan discouraged informal work was favored by my respondents. City officials and affiliates said they encouraged informal activity to the extent that informal businesses formalized. However, they did not say they encouraged informal businesses that did not have the intention of formalizing. None of the informal business workers I interviewed indicated their desire to formalize.

Additional Findings

There are additional findings that did not directly relate to my four questions. There are also findings about the respondents that are important to understanding them and the nature of responses I received. First I will analyze the additional findings from the interviews themselves and then I will look at the characteristics of the respondents.

One major additional finding about why informal workers have continued to do informal work presented itself during interviews. Informal workers mentioned starting their businesses for certain reasons: wanting to stay home with their children, wanting to pursue a hobby, or losing their formal employment. However, there are reasons why they have continued to do informal work even after years, or decades, have passed. One of the biggest reasons is flexibility. Informal work allows individuals to create their own schedules and be their own bosses.

Sophie, a house cleaner, said she likes the flexibility. She said her clients are willing to work around her schedule, meaning if she needs time off to go to the doctor or for other personal reasons, they are willing to change the day she usually comes to clean for them.

"What's good about this job is that you can set your own schedule, you're your own boss...It is so flexible," - Sophie.

Sophie said that she was able to work around his children's school schedules when they were young because her cleaning job allowed her to make her own schedule. Kathy, a dance teacher, Elizabeth, a seamstress, and Isabelle and Lydia, who are house cleaners all mentioned the ability to stay home with their children as why they started their informal businesses. Most of their children are now adults, but all of them have continued their informal businesses. I presume they have done this because of the flexibility they have working for themselves or because they have retired from their formal occupations, as is the case with Justin, a lawn mower repairer and Andrea, who makes leather accessories.

Most of the informal workers have operated their businesses for decades. Even when the volume of customers has increased, the informal workers did not mention the desire to hire other employees. A few informal workers said it would be too risky to do so and that they would have to insure employees in addition to paying them. Andrea, who makes leather accessories, works alongside her husband who does leather boot repair but she has no other employees. Elizabeth, a seamstress, said she has had her sister help her pin dresses on occasion but has never hired anyone. Lydia, a house cleaner, was considering hiring another employee but was unsure if she could afford to do so. Additionally, if the informal workers did hire employees, that could potentially move their business one step closer to becoming formalized because of the processes necessary to insure and pay such employees.

My research only focused on the types of informal work individuals were engaging in, however, that was not the only type of work that supported their households. Many of the informal workers had engaged in wage work at some point, had wage work jobs in addition to their informal businesses, or had other various forms of household organized and subsistence work supporting the household. Justin, a lawn mower repairer, is retired from his formal wage occupation and presumably receives some type of retirement benefits like social security and

Medicare. Andrea, who makes leather accessories, is also retired from her formal wage occupation; however, she works part-time at a wage job, has a small farm, and has a husband who repairs leather boots in the informal market. Maggie, a baker, used to work at a formal bakery in Manhattan and has a husband who may be engaged in some type of work. Elizabeth, a seamstress, has a small farm and a husband who has a formal wage occupation. Lydia, a house cleaner, raises chickens, and has a husband who works in the informal economy. She and her husband both used to have wage jobs running a restaurant and working at a grocery store in Manhattan. Sophie, a house cleaner, said she has had formal wage jobs at multiple stores in Manhattan, but prefers her house cleaning business. Isabelle, a house cleaner, has a small farm and a husband who brings in income. Chloe, an appliance repairer, used to have multiple formal wage jobs as an appliance technician before starting her own business. Kathy, a dance teacher, is a substitute teacher on occasion and has a husband who either has a wage job or receives retirement income.

The reasons why informal workers started their businesses, why they continue to operate them and the other forms of work done in the household by the informal workers or by other members of the family says something about the socio-economic status of the informal workers. All of the informal workers I interviewed were from middle, lower or working class standing. That may have had something to do with all but one of the informal workers having outside formal employment. Or it could have something to do with educational attainment of the informal workers and access to education. It could strictly be personal choice in what lifestyle to lead or not wanting to work for someone else. Also, the reliance on various forms of household organized and subsistence work can be presumed to be a characteristic of middle and lower income individuals because they are relying on multiple sources of income, which is consistent with the research in that most of the informal workers are using their work for supplemental or subsistence income.

Five of the informal workers live in rural areas outside of Manhattan but provide their goods and services to those in Manhattan, among other surrounding areas. That may have something to do with the availability of work in rural areas, or the choice to live in rural areas. Four out of the five who live in rural areas have farm land. Perhaps needing to work on the farm is another reason why rural residents engage in informal work. Or maybe it does have something to do with building social networks.

All, but one, of the informal workers were women. Perhaps that is because of the nature of the work being done (i.e. seamstress, baker, dance instructor, and cleaner), which are typically gender-typified occupations. Or maybe it was because women are more likely to operate an informal business. According to *Women in Informal Employment: Globalizing and Organizing*, women are more likely globally to work in non-agricultural informal occupations than men are (WIEGO.org 2012). Maybe that has to do with raising children, as many respondents mentioned. Or perhaps it is because women are more likely to speak about their informal work.

All of the informal workers were white. That probably had something to do with the racial make-up of Manhattan and Riley County. It could also have something to do with the nature of the type of jobs they perform or who their customers are. Or it could be that my social networks do not have strong social ties with those of varying racial and ethnic backgrounds.

Other findings not related to informal goods or services being cheaper showed that all four customers had never had any major negative experiences with the informal workers they hired. Susan, who supports informal businesses for ethical reasons, had one house cleaner who did not clean so well, but she did not fire her. Molly, who buys many informal goods and services, said she always got at least what she wanted from the informal worker's good or service. Leslie, who has used the newspaper to find informal workers, said she did cancel a house cleaning duo because she did not like that only one person did all the work. Otherwise she had positive experiences.

All of the customers I interviewed were women. This could be that women are more willing to speak about their consumption or that they are the ones in charge of hiring and buying goods and services that benefit the home and family. It could be that women are more likely to consume from informal workers because of the type of work they are in need of (i.e. dance lessons or house cleaning), which goes back to women's work in the home. The socio-economic status of the customers was higher than that of the informal workers. All of the customers were in the middle or upper class category. Perhaps that has to do with them wanting to support those less well off than themselves. A few customers did mention hiring an informal worker because the worker was in need of monetary help. Or it could be that these customers are in favor of supporting local businesses, such as Susan does. Lastly, all customers were racially white. That could have something to do with their socio-economic status. Or again, it could be because of my social networks or the racial make-up of Manhattan and Riley County.

Other additional findings from my interviews with current and former city officials or affiliates revealed that estimating a guess on how much business informal workers create in Manhattan was difficult. Most said that they did not know. Two personally imagined it was small, while two others believed it to be large because of technology. One could not even venture a guess as to the size of the informal economy in Manhattan.

The city officials and affiliates I interviewed were all men. That probably had something to do with men often working in such roles. It also says something about how the city of Manhattan is stratified by gender, and who in the city is in a role of power. In this case, my social networks had little to do with the sex dynamics of those I interviewed. I simply interviewed those my snowball sample led me to, which all were men because that is who occupies those occupations. All of the city officials or affiliates were from middle to upper class socio-economic status. This probably has to do with the necessary educational attainment attached to their occupations. Lastly, all of the city officials or affiliates were white. Again this is probably due to the racial make-up of Manhattan. But it could also be related to racial discrimination in the workforce or the availability and educational attainment of persons interested in such positions.

Overall, all respondents were from a diverse set of backgrounds with mainly informal workers coming from lower class standings and customers and city officials or affiliates coming from higher class standing. All but one informal worker was female, all customers were female, and all city officials or affiliates were male. All respondents were racially white.

Limitations of the Research

There were a few limitations to my research. The most problematic aspect was relying on my social networks to find informal workers. Although this was the best way to find informal workers, it caused me some problems because I had to rely on a "middleman" as it were. Not being from Manhattan, Kansas really limited my knowledge of the informal work happening in and around the area. I could not directly find the informal workers myself, and when I tried, they were unwilling to speak with me. I believe this goes back to the minimization of risk through trust. They did not know me and I did not know them. When I said I was acquainted with someone they knew, they were far more likely to speak with me.

My snowball sampling method had some limitations as well. All of the informal workers I interviewed, but one, were women, all of the customers were women, and all of the city officials or affiliates were men. Other methods like surveys or targeted interviews may have led to a more mixed sample.

Although I did find nine informal workers to interview, many of them were in some ways reserved and terse when speaking with me even if I knew someone they knew. This might be because their businesses are informal and they fear what they say could hurt them or their business. It could also be that my interviewing style was not inviting, or that my questions were worded in ways that encouraged short answers.

Another limitation of my research was the geographic area. I found that many informal workers lived in rural areas around Manhattan. I limited my study to those who provided goods and services to Manhattan residents. I believe there are many informal workers who live in rural areas and meeting with them could provide a better understanding of the types of informal markets in Kansas.

Further Research Implications

This research adds to the under researched area of informal work and is one of the first of its kind to examine the nature of informal work in Manhattan, Kansas. That being said, it is only a stepping stone to the much needed continued research of such work happening here. There is a rural dimension to the informal work going on outside of Manhattan, and that aspect could fill in the gaps within my research and open up research on the rural informal work happening here.

My research adds to both the fields of sociology and economics by linking the power of social relations in informal markets. My topic also is one of the first of its kind, if not the first, to examine the role of embeddedness in informal market transactions. Most existing research done on the theory of embeddedness focuses on how embeddedness is present in formal markets, not in informal ones. But embeddedness is extremely important to informal markets and it should continue to be examined in relation to them. By doing so a better understanding of how informal markets operate will come of it.

My research also has the potential to inform policy by showing the city of Manhattan that informal work is an important aspect to their economy, which may lead to changing policies that will help informal workers. The city currently has minimal regulation around informal work out

of the home, but other agencies could use it as a guide to better understand informal workers and how to go about supporting them. Currently the city does not do much in the way of actively supporting people who have micro-informal businesses. There is a Small Business Development Center that helps informal businesses understand what steps are needed to formalize. They provide their services for free and adhere to confidentiality agreements, but the city does not seem to make the center known. I spoke with a few city officials or affiliates who did not even mention the Small Business Development Center. The city could do a better job of disseminating what the center does. My research could also inform the city about why informal workers operate outside of the formal economy and show the city and its affiliates that formalizing has its own risks, especially when it comes to hiring employees.

Through my research the relationship between informal businesses and formal businesses was brought to light. This relationship is one that has not been widely explored by economists or sociologists. More information about informal/formal business relationships would add greatly to both fields' understanding of informal markets and how they are created. It also adds to the theory of embeddedness because of the social relationships that exist between both the formal and informal businesses.

The other types of work happening in the households of the informal workers would add to the understanding of informal market creation and the socio-economic status of such workers. All of the informal workers had some connection to wage work, household organized work, and subsistence work. Examining the connections between those types of work and other household members could expand the understanding of embeddedness, in addition to better understanding the informal workers' class status and informal market creation.

To conclude, my research adds to both the fields of economics and sociology through its examination of embeddedness in informal markets. Informal markets are present in Manhattan, Kansas and are an important part of the economy and community, especially in rural areas. More research needs to be done on informal market creation, the relationships between informal markets and formal ones, the connection to other types of work being done in the households of the informal workers, and on the rural dimension of informal work happening in Kansas.

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Appendix A - Size of the Informal Economy

Table A.1 - Size of the Informal Economy

SIZE OF THE SHADOW ECONOMY IN VARIOUS
DEVELOPING, TRANSITION, AND OECD COUNTRIES

Developing Countries	Size of shadow economy as % of GDP, average over 1990-93	Transition Economies	Size of shadow economy as % of GDP, average over 1990-93	
Africa		Central Europe		
Nigeria	} 68-76%	Hungary	} 20-28%	
Egypt		Bulgaria		
Tunisia	} 39-45%	Poland	} 9-16%	
Morocco		Romania		
		Slovakia		
Central and South America		Czech Republic		
Guatemala	} 40-60%	Former Soviet Union Countries		
Mexico		Georgia	} 28-43%	
Peru		Azerbaijan		
Panama		Ukraine		
Chile		Belarus	} 20-27%	
Costa Rica	Russia			
Venezuela	Lithuania			
Brazil	Latvia			
Paraguay	} 25-35%	Estonia		
Colombia				
Asia		OECD Countries		
Thailand	} 70%	Greece	} 24-30%	
Philippines		Italy		
Sri Lanka	} 38-50%	Spain		
Malaysia		Portugal		
South Korea		Belgium		
Hong Kong	} 13%	Sweden		} 13-23%
Singapore		Norway		
		Denmark		
		Ireland		
		France		
		Netherlands		
		Germany		
		Great Britain		
		Japan	} 8-10%	
		United States		
		Austria		
		Switzerland		

Source: Authors' calculations based on physical input (electricity) and currency demand approaches.

Source: Authors' calculations based on physical input (electricity) and currency demand approaches.

2.2 How Large Is the Shadow Economy?

A main focus of this survey is to give a comprehensive summary of available data on the size of the shadow economy, since there has been no consistent comparison of estimates on various coun-

Source: Schneider and Enste 2008, p.52.

Appendix B - Interview Questions

Informal Business Worker Questions

1. How do you find customers? How do they find you? Do you rely on word-of-mouth or do you use other means to find customers? Do you go door-to-door? Mail or hand out flyers? Do you advertise in the paper or on computer services (Craigslist)? Which methods have you found to be most effective?
2. Where do you operate your business? Do you work at home, on the street, in a public place (a coffee shop or a bar), in other people's homes, at their place of business, in public marketplaces (the farmer's market)?
3. What is your relationship with other informal businesses in Manhattan? Who are your competitors? Do you know them, work with them, share tools or information? Do other informal businesses refer customers to you? Do you refer customers to other informal businesses?
4. What is your relationship with formal businesses in Manhattan? Do you purchase supplies from them (Home Depot) or borrow money from them (local banks)? Are they helpful or unhelpful?
5. How does the city perceive of your business? Do they support your work? Do they harass you? Do they do what they might to assist your business?
6. Do you have any part-time or permanent employees? Where did you find them?
7. How did you get into this business? Where did you learn the skills necessary for the business?
8. What kind of customers do you have? Are they upper, middle, or low-income households? Are they primarily men or women? How did you find them? How did they find you? What kind of problems have you encountered? Do they pay their bills? What happens if they don't like your work? How do you settle a dispute with a customer? Do you have any customers that I might talk to about your work? How important is it for you to have good customer relations?

9. How has the current recession affected your business? Do you have a formal job too? Do you do other kinds of informal work? Why did you decide to open your business? Did you enter the informal sector because of the recession?

Customer Questions

1. How did you find the informal business that provided you with goods and services? Did you rely on friends and neighbors? Have you hired different people for the same kind of job?
2. What kind of experiences have you had with informal businesses? What kind of problems have you encountered? How have you resolved problems?
3. Why did you purchase goods or services from informal businesses, rather than from formal businesses? Did you think they would be cheaper? Higher quality? Because they could provide goods or services that were not available from formal businesses? Because you thought they would benefit the community?

City Official Questions

1. How does the city of Manhattan perceive informal businesses?
2. How much business would you say informal workers generate in Manhattan?
3. What are the benefits to the city from informal businesses?
4. What are the negatives impacts on the city from informal businesses?
5. In what ways do you think informal businesses generate demand for their goods/services?
6. Do you encourage or discourage the activities of informal businesses? What might you do to regulate them more effectively? What might you do to assist them?