

THE MARKET IN THE URBAN INFORMAL SECTOR: A CASE STUDY IN METRO MANILA, THE PHILIPPINES

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INTRODUCTION

THE objective of this article is to understand the market mechanism in the urban informal sector, referring to my participant observation in a certain squatter area in Metro Manila (M.M.) for a total of one year over the last few years, from September 1985 to April 1990. It is pointed out that the informal markets are not necessarily competitive, and an alternative analytical framework is proposed in order to better understand them.

The urban informal sector has been born in the less developed countries because urban employment has shown very little fluctuation in spite of the high natural growth rate of population and the large-scale rural-urban migration within the process of industrialization. This sector consists of the self-employed sector, the cottage-scale economic units, and the casual laborers. That is to say, this concept intends to explain the huge disguised unemployed who are not employed by relatively large-scale enterprises (the so-called urban formal sector).

The theoretical models of the urban informal sector have developed as revised versions of the two-sector models.¹ In these models, the urban informal sector is considered as one which stands on the opposite side of the urban formal sector. While the urban formal sector is supposed to have a sticky price system arising from the institutional factors, the urban informal sector is essentially regarded as one facing perfect competition outside official regulations. In other words, the urban informal sector has been supposed to be complementary to the urban formal sector in the dual economy. Now we call these revised two-sector models "traditional."

Extensive observation in a squatter area in M.M., however, prompted me to propose a basic hypothesis that the markets in the urban informal sector are not competitive. Take a sample for its labor markets. A hired worker needs shelter for emergency because he cannot get a stable job under the given conditions, while an employer finds difficulty in getting sufficiently stable and reliable labor. Here the employer tries to maintain long-standing employment relations with employees,

This paper is based on Nakanishi [5] [7]. I owe a great debt to all of the residents in the research field, specially to my host family there who have always treated me as one of the members. I would like to record my gratitude to Cristina Antoja, Marialimpa Cruz, Zenaida Atienza, and Rosalinda Madrid, who have kindly helped me with the research. The names of persons and places in this paper are anonymous since the research field is a squatter area.

¹ See Fields [1], Piñera and Selowsky [13], and Sethuraman [14].

for example, by lending money to the employees who need shelter. He lends money only to those who are assumed to be comparatively reliable. Under these conditions, it is convenient for both of them to agree with implicit contracts, which means the markets in the urban informal sector are not necessarily competitive. In this case, we may understand that the labor market for the urban informal sector is monopsonistic.

Moreover, the patron-client relation between the junkshop owner and the scavengers can be regarded as the source of the vicious circle of poverty. Scavengers, who are in the lowest income bracket in general, must accept any price offered by the junkshop to which he belongs. In the extreme poverty far below the level of basic human needs (BHN) they cannot but depend on their patron, the junkshop owner.

Such simple logical analysis, however, cannot be deduced in the traditional models. Even in the general equilibrium model, if we assumed a competitive market in the urban informal sector and coped with this sector as only one aggregate, this kind of approach would fail to understand the specific characteristics of the urban informal sector. It does not seem proper, therefore, to extend the traditional theoretical framework to the analysis focusing on the urban informal sector itself.

In Section I, the socioeconomic conditions in the research field that seem not so familiar to us will be examined. Section II will give a general survey of the urban informal sector in the research field and the basic hypothesis of this article. Furthermore, the hypothesis will be illustrated through analyses of the labor market for scavengers and the goods and services market for *sari-sari* store. Finally this hypothesis will be applied to explain some characteristic aspects of the urban informal sector in Section III.

I. SOCIOECONOMIC CONDITIONS OF THE RESEARCH FIELD

In this section, the socioeconomic conditions of a certain squatter area in M.M. will be discussed. Although such a description is not a matter of interest in development economics, it is a very important basis for discussion of the problems in the urban informal sector. The figures here are based on the interviews conducted in 1985.

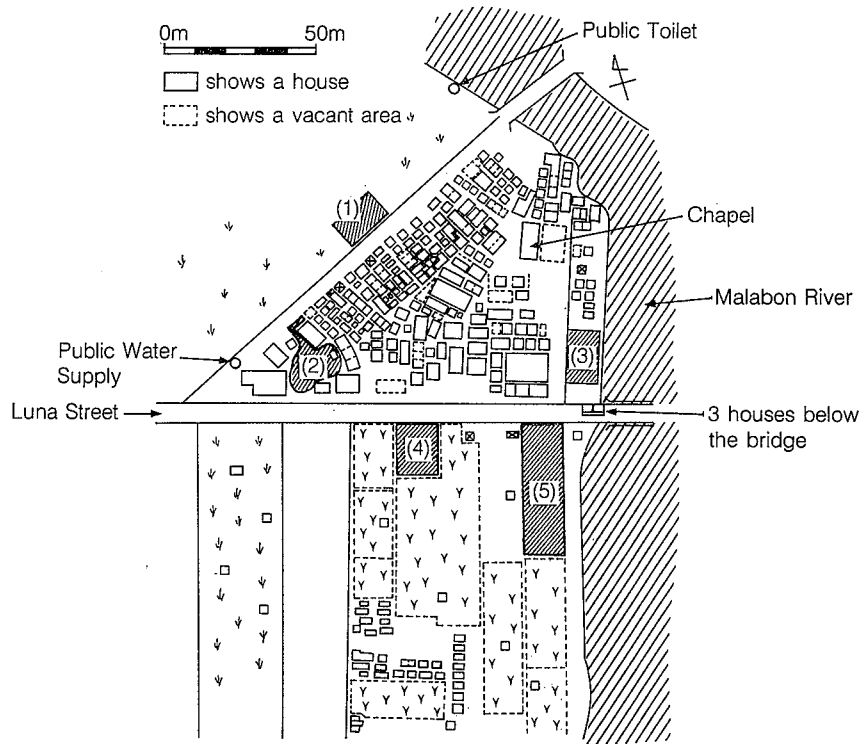
A. *The Basic Characteristics of Sitio Paz*

The research field called Sitio Paz is a squatter area in Malabon, M.M.² This *sitio*³ is divided into two, the north and the south, by Luna Street (Figure 1). In

² The following points, elucidated through preliminary research, are main reasons for selecting this field: (1) most of the residents were engaged in the occupations which have been considered as concrete images of the urban informal sector; (2) there were many migrants from the provinces which have been thought to be representative of places of origin of migrants to M.M.; (3) the migrants began to enter in earnest after the latter half of the 1960s when urban problems became serious; and (4) as it had political independence to a certain extent and clear delineation from other areas, there were some advantages in studying relations with adjacent areas.

³ A *sitio* is defined as a part of a *barangay* which is the smallest administrative unit.

Fig. 1. Map of Sitio Paz (in 1985)



Note: (1): Reyes's Junkshop; (2): Esguerra's Junkshop; (3): Aguirre's Junkshop; (4): Monsod's Junkshop; (5): Flores's Junkshop.

the northern part, triangular shaped, of about 0.8 hectare, more than two hundred houses stand close together. The southern part of about 1 hectare is mostly used as a vegetable field by the residents in the *sitio*. There were about fifty families living in this area. The whole of the north and part of the south belong to the government, and the remaining part of the south is private land. A fish pond extends in three directions except the west. All the land of the *sitio* was part of this pond before. In the latter half of the 1950s, several families already lived on the bank of the pond. Since the pond was filled up with discarded articles after the 1960s, this *sitio* was called Tambakan.⁴ People began to live here in earnest after 1968, though the actual *sitio* was said to be formed only by 1975. As of 1985 when the research was conducted, there were 1,215 residents of 253 households (643 males and 572 females). The population structure by sex and age shows the pyramid form typical in the LDCs, with the population of those under twenty years of age (628) at more than half of the total. As regards the age structure of household heads, the average was 39.4 years old and 60 per cent (150)

⁴ *Tambakan* is a Tagalog word which means a dumping area.

were under 40 years old. Only 61 families were classified as so-called extended families which were dominant in the rural area, while the share of nuclear families reached 70 per cent (187). The number of families with 10 or more members were 5, and the average number of family members was 4.8.

It is said that many residents died of an epidemic in 1978 and a typhoon in 1979. It seems that these disasters forced the people to have closer relations with the *barangay* church⁵ and to open their eyes to community organization. In 1981, a chapel was constructed inside this *sitio* by a contribution of one of the landowners and by funds which the church had collected from the *barangay* residents outside the *sitio*. At that time, a *barangay* priest named this *sitio* Paz and began to say Mass there once a month. Furthermore the residents elected Joseph Rodriguez (from Pangasinan Province) as a leader of the *sitio* and from that time onward they have celebrated the Paz Festival once a year under the sponsorship of the *barangay* church. This organization was, however, strongly characterized as a religious group which was formed against natural disasters, and had little feeling of togetherness as a political organization of residents. One of the informants said that there were two groups, i.e., the one of those born in Visayas and the other of those born in Ilocos and they differed in every matter.

The political situation in this *sitio* was forced to change dramatically by the presidential election of 1986 and the successive political changes of February. First of all, a new group, informally supported by the church, was born after the Paz Festival of January 1986, just before the presidential election. It could be called a new Christian group. Its members formed another organization called Samahang Lakas-Bisig (SLB)⁶ under the leadership of Roland de Guia (from Negros Occidental) and began to actively support the then candidate Aquino. On the other hand, the group under the *sitio* leader, whose members were mostly from Pangasinan, Ilocos, supported the then President Marcos. The two groups were constantly at feud with each other.

After the political changes of February, part of the Pangasinan group joined the SLB and the year after, they had an opportunity for reconciliation in a general meeting of the SLB. Some people under the ex-leader's family, however, have not joined the SLB even now nor have had negotiations with the SLB. From that time on, the SLB has continued to be a community organization, asking medical services from some Christian social action centers, making a plan for a communal funding system such as mutual financial association, and so on. The number of its members as of April 1987 was 270, including non-residents of this *sitio* (residents' friends or persons concerned with the church).

B. *The General Standard of Living*

The following is a certain family's daily life in the *sitio*, described on the basis of my observations.

At five o'clock before daybreak, the men here gather by twos and threes at the water vendor's house out of Sitio Paz (three pesos for twelve plastic receptacles of twenty

⁵ More than 90 per cent of the residents are Catholic.

⁶ Samahang Lakas-Bisig in Tagalog means "Society of Strong Arm."

liters). They can use a handcart free of charge. Francisco Cruz, twenty-five years old, is one of them. He buys water in plastic receptacles and carries them in a handcart to the *sitio*, keeping away from jeepneys passing by. He stops the handcart at the gate of the *sitio* and carries the receptacles of water by hand to his house because of the narrow paths inside the *sitio*. He pours the water into a drum can that was a disused article. The plastic receptacles and the handcart should be returned, so it takes more than half an hour for one man to finish all of this work.

His eldest son, Dominador, ten years old, goes to collect empty bottles and plastic at a dumping ground near the house before breakfast. Francisco's wife Ana begins to prepare the breakfast. She cooks rice with the water of the day before, but it takes a lot of time for her to cook it, because the heating power of the charcoal is weak. When Francisco finishes carrying the water, Ana rewards him by serving a cup of watery instant coffee. After that, Francisco takes a bath outside the house with the water of the drum can. They do not have any electric appliance except a radio, so he goes to the neighbor's house to iron his polo shirt. It is around six o'clock when they have breakfast, fried fish left over from the night before. At this time, children's cries catch one's ears here and there and radio music is heard over the *sitio* at high volume. Francisco finishes his meal and then changes his T-shirt pyjamas for the ironed polo-shirt to go to his construction work. Dominador, back from scavenging, takes a bath and breakfast and goes to school.

Ana also has breakfast with two other children of six and four years old and begins washing clothes. She needs the whole morning to wash things of the five-member family, because she has to do all by hand with a solid soap bar. They do not have lunch if there is nothing left over. She takes a nap one or two hours, and after that she goes out to scavenge with Dominador who comes back at that time. The two children take care of the house playing with their friends. At four, their mother and brother come back and go to the junkshop to receive their proceeds, about twenty pesos. Ana buys cheap candies for the children at a *sari-sari* store and goes to the *barangay* market nearby. They usually have fish for their supper. Most children play cards or tag before supper, but some help street traders in the market and earn something.

About five o'clock, Francisco comes back with a bottle of gin. He sits down on a box of wood at their small backyard and drinks with his friends before supper. After they finish their supper of only one dish and rice, Ana and the children go to bed by nine o'clock. Francisco visits his neighbors to watch TV with the rest of the gin, some relishes, and ice that he buys at the neighborhood *sari-sari* store. Television sets and radios around them make loud sounds late at night. He usually comes home by ten to sleep on the dirt floor. When he has a lot of fun with his friends, he continues drinking up to one or two o'clock.

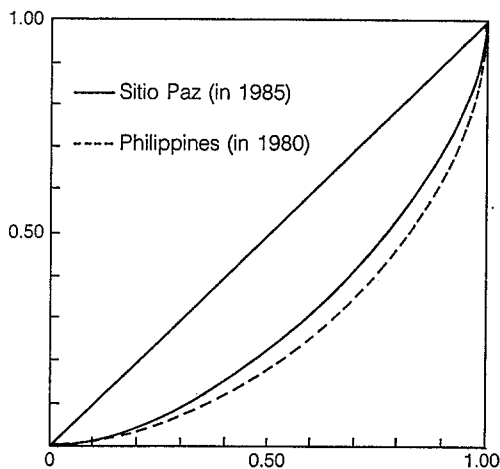
As the description above shows, the *sitio* can be considered as an area where the lowest income bracket of the pyramid social stratum of the Philippines lives.

1. *Income level and income distribution*

The average monthly income per family⁷ here was 1,463.9 pesos (329.5 pesos

⁷ The definition of monthly income in this article is as follows. It is the monthly income in the previous month of the interview. In obtaining this data, it is calculated as multiple income of the previous day of the interview with the average working days a month. Therefore, the personal income data do not describe the average monthly income exactly, because jobs in the urban informal sector are so unstable.

Fig. 2. Lorenz Curves of the Philippines and Sitio Paz



Source: National Economic and Development Authority, *Philippine Statistical Yearbook*, 1990.

per capita), but there existed a big difference in the standard of living between the north and the south of the *sitio*, as much as 1,591.6 pesos (383.5 pesos per capita) in the north and 918.9 pesos (301.6 pesos per capita) in the south. It is estimated that the basic necessary cost for six people/family was 3,344.4 pesos (557.4 pesos per capita) a month as of July 1985.⁸ That means the BHN cannot be satisfied anywhere in the *sitio*. The average monthly individual income of the economically active population was 967.7 pesos (1,018.7 pesos in the north and 702.4 pesos in the south). All of these were inferior to the minimum wage at that time.⁹

It is inevitable to observe the earning of the non-economically active population under fifteen years old as supplementary. Nineteen household heads mentioned that their children under fifteen years old do scavenging, a total of twenty-one children. According to the informants, it was common among most households of which heads themselves were engaged in scavenging. Furthermore, although I did not get any information through interview, I saw some children help vendors or sell plastic bags in the public markets, or work in the informal services sector. These children contribute a lot to the family's income. The average monthly income of each child reached to 262.7 pesos.

⁸ See Ibon Databank Philippines, *IBON: Fact and Figures, 1985* (Metro Manila: Ibon Databank Philippines, 1985).

⁹ The minimum wage rate is 57.08 pesos a day at that time. Monthly it amounts to 1,231.1 to 1,467.8 pesos.

TABLE I
SOURCE OF BORROWING

(Of 136 families)

Borrowed from	Cases of Borrowing	Average Amount Borrowed (P)
Relatives	19	1,361.58
Friends	29	1,093.10
Neighborhood	20	957.85
Employer	16	1,626.56
<i>Sari-sari</i> store	27	112.44
<i>Suki</i>	3	1,500.00
Usurer	29	802.83
Hospital	2	2,500.00
(Social Security Service)	1	n.a.)
Total	145 (1)	955.7

In general, income distribution in the low income area seems fair, but it hardly can be said that this is the case in Sitio Paz. In fact, the Lorenz curve of the *sitio* does not show fair income distribution (Figure 2).

2. Property of monetary and real assets

Financial debt: According to the interviews, fourteen residents had bank deposits. As for debt, there were 145 cases of 136 families and the average amount was 955.7 pesos (Table I). Among them, 16 cases were of borrowing from their employers and the amount per capita was comparatively large. Take the case of junkshop owners. They lent money to their scavengers very often as a way of obtaining labor. In this case, the interest rate was low compared with that of the usurer and they usually did not set the term of repayment. Twenty-seven cases were of loans from the owners of *sari-sari* stores, who often sold to their clients on credit. Moreover there were a lot of cases of loaning from outside the *sitio*, as well as numerous cases of loaning from their neighbors, friends, and relatives just to live. Anyway, as far as *sitio* residents were concerned, it appeared next to impossible for an employee in the informal sector to have access to formal financial facilities.

Durable goods: There were 163 families (64.4 per cent) who could get electricity, but, in fact, 125 families (49.4 per cent) used it by the illegal extension called the *kabit* system,¹⁰ and of the rest, only 38 families (15.0 per cent) under the formal contract. Their principal durable goods were radios, television sets, electric fans, and so on; about 40 per cent of the residents had radios and one-fourth had television sets and electric fans respectively. Most of them, however, repaired disused articles for reuse and these goods did not always work. On the other hand, there was no formal contractor in the south part of the *sitio*, so that

¹⁰ The *kabit* system is that non-contractors use electricity by extending lines illegally from the formal contractor. The beneficiaries usually pay the formal contractor twenty to thirty pesos a month.

there was no resident who could make use of the *kabit* system because of the long distance from the north part. Consequently, there were very few families who possessed electric goods at home.

3. Education

In general, the Philippines is famous for its high educational attainment level among the LDCs. In case of the *sitio*, however, the level of educational attainment was considerably low.¹¹

The average years of educational attainment of 741 non-students excluding preschoolers was 6.4. There were 406 people (54.8 per cent) who did not finish an elementary course, including 47 non-educated. Only 88 people (11.9 per cent) finished secondary education including 7 college graduates.

As for schoolers, there were 146 elementary pupils. Among them only 67 students' ages were equal to their school age and the rest were above school age. There were 223 children who were seven years old and above but less than fifteen years old. Among them, 68 children (30.5 per cent) could not finish their course at elementary or secondary level.

4. Housing

Forty families lived in rented houses or rented rooms. Thirty-two of them paid for it and the monthly average rent was 115.0 pesos. According to the informants, when they first came to live in the *sitio*, most of them had already lived in a rented house or a rented room without considering if they had to pay or not. One hundred and seventy-six houses (70 per cent) were made of disused articles like tin plate, corrugated cardboard, and so on. They are called *barong-barong*. Only 16 were made of hard materials like concrete, and the rest, of wood and disused articles.

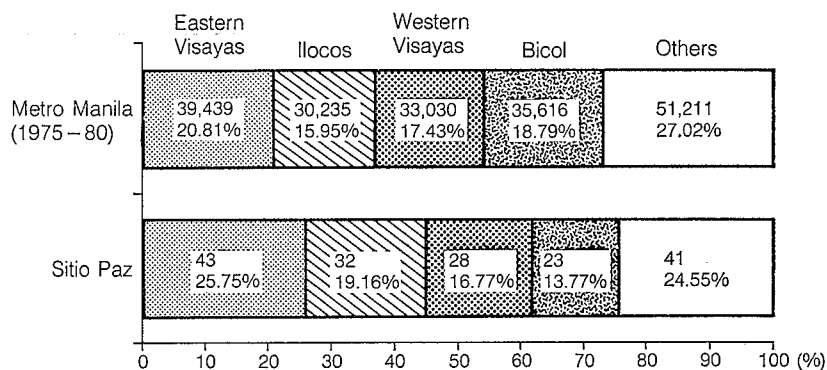
5. Others

Only nineteen households had their own toilet facilities, most of which were shacks outside the house. There was one public toilet made of garbage near the river in the *sitio*, but they did not use it even if they did not have toilets at the house. They excreted inside the house and wrapped up their discharges in newspaper and dumped them into the river (it is called wrap and throw).

Only one household had water supplied at that time. There was one public waterworks in the west of the *sitio*, but only the neighboring fifteen households used it. Most of the residents bought water everyday. One hundred and seventy households bought polyethylene containers of water (twenty-five pesos each) from water suppliers outside the *sitio*. Sixty-eight households also bought containers of water (seventy-five pesos each) from two *aguadors* who bought and brought water from the water suppliers, because of fatherless or comparatively well-off families.

¹¹ According to National Economic Development Authority, *Census of Population and Housing, 1980*, 52 per cent in the Philippines and 14 per cent in Metro Manila of the residents of thirty-five years old and above cannot finish an elementary course. In case of the *sitio*, this figure was 67 per cent.

Fig. 3. Net Migration to Metro Manila (1975–80) and the Home Regions of the Migrant Household Heads in Sitio Paz



Source: National Economic and Development Authority, *Journal of Philippine Statistics*, Vol. 36, No. 4 (1985).

C. Rural-Urban Migration

The urban informal sector or the slum areas are thought to be formed by rural-urban migration. In fact, the rural-urban migration in the Philippines has had great effect on the formation of the slum area in M.M. During the five years of 1970–75 and 1975–80, 263,058 and 378,878 people migrated to M.M. respectively.¹² They occupy 26.2 per cent and 39.6 per cent of the increase in population in M.M., 1,003,311 and 955,878 respectively. Here we will examine the effect of rural-urban migration on the *sitio* in order to understand the labor markets in the urban informal sector.

1. Birth places of household heads

About two-thirds (167) of all of the household heads (253) consisted of migrants, and about 90 per cent (222) of fathers of the household heads were born out of M.M. Their birth places were similar to those reported in the national census (Figure 3).

The top four birth regions of household head migrants were Eastern Visayas (43), Ilocos (32), Western Visayas (28), and Bicol (23). The total number was 126, which was 75 per cent of all the household head migrants. There were 14 migrants from Central Luzon. Only 6 household heads came from Mindanao Island. At the province level, the top five provinces (a total of 83 migrants) were Pangasinan (28), Samar (19), Northern Samar (12), Aklan (12), and Negros Occidental (12), which occupied about 50 per cent of the total.

¹² *Journal of Philippine Statistics* (National Economic Development Authority), Vol. 36, No. 4 (1985). In these data, the figures of Samar contain those of Northern Samar.

TABLE II
THE LAST JOB BEFORE MIGRATION

	Total	Male	Female
Landless agricultural worker	17	16	1
Fisherman	12	12	0
Tenant	10	9	1
Vendor	5	5	0
Plantation worker	4	4	0
Bus conductor	4	4	0
House boy	3	3	0
<i>Labandera/labandero</i>	3	1	2
Tricycle driver	3	3	0
Construction worker	3	3	0
Rice mill operator	2	2	0
Firm labor	2	2	0
Others	15	13	2
Unemployment	3	2	1
Non-economically active population	76	67	9
Unknown	5	4	1
Total	167	150	17

TABLE III
SOURCE OF INFORMATION IN MIGRATION

	To Metro Manila	To <i>Sitio</i>
No information	10	13
Parents	32	13
Relatives	86	94
<i>Compadre</i>	1	1
Friends in Metro Manila	22	43
Others	6	2
Unknown	10	1

2. Migration process

Seventy-six household heads (46 per cent) belonged to non-economically active population when they migrated, because they were dependents. The most typical job of household head migrants was the landless agricultural worker (17) as Table II shows. They said that they migrated into M.M. because of difficulties of life. This suggests the fact that whether they held the right of tilling land or not was crucial when they decided on migration. Including fishermen and tenants, more than 50 per cent of household head migrants belonged to the primary industry sector. There were few step migrants through local cities.

Relatives of migrants were considered as the main source of information about migration (Table III). More than 50 per cent of migrants obtained information on their destinations from relatives. Seventy-eight household head migrants (64

TABLE IV
THE REASONS FOR MIGRATING (EXCEPT DEPENDENT MIGRANTS)

Reasons	Number of Cases
1. In order to search occupation	78
a. Change of occupation	(47)
b. Difficulty of life	(11)
c. Unemployment	(19)
d. Failure of management	(1)
2. Longing for Metro Manila	19
3. Problems of succession to property	5
4. Demolition by landowner	5
5. In order to visit relatives	4
6. In order to go to school	2
7. Damage of a typhoon	1
8. Personal problems (not specified)	1
9. Family problems (not specified)	1
Unknown/no answer	6
Total	122

per cent) out of 122 independent migrants answered that job-seeking in M.M. had been the main reason of their migration (Table IV). The specific reasons reported for migration were low income (58) and unemployment (20) in the rural area.

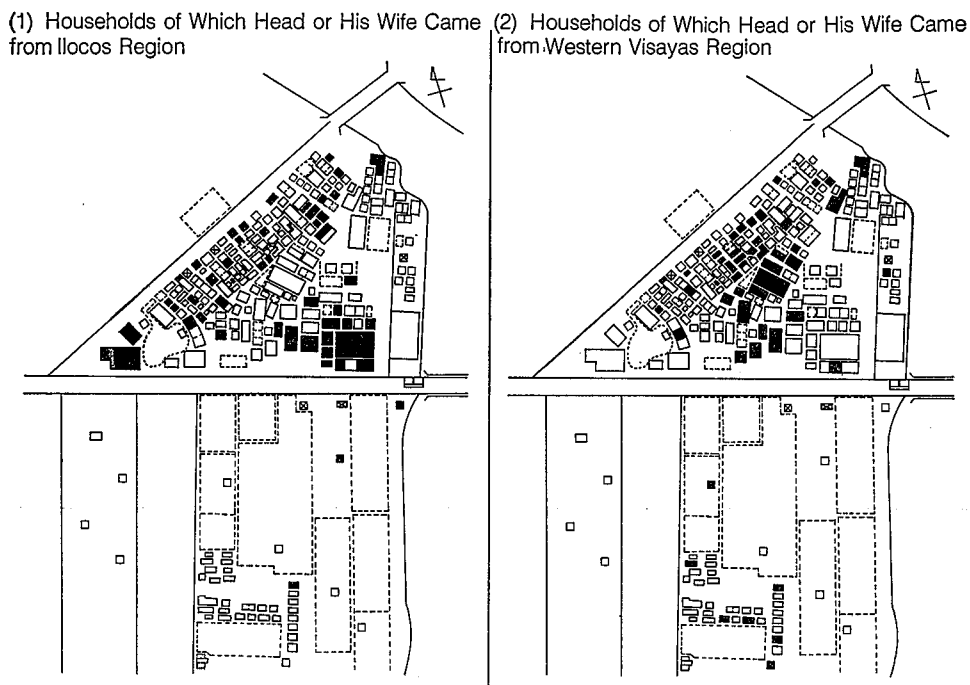
Although the migration of household heads into M.M. has occurred since 1955, the stream into the *sitio* under survey has increased since 1965. In particular, seventy-three household heads (44 per cent) have come into the *sitio* after 1980. This shows the high turnover rate in the urban informal sector, where low income workers exhibit an excessive mobility within M.M. and the spillover of the urban poor problems beyond the city of Manila. The number of unmarried migrants were 126 when reaching M.M. Most of them married in M.M. and moved to the *sitio* with their families. More than half (91) of 167 household head migrants had experienced two or three moves within M.M. before reaching the *sitio*. This does not mean, however, that there were many "step migrants" who migrated to M.M. after having lived at least in one local city, but that they often move within M.M. The number of the step migrants were only 27 (16 per cent).

The typical type of migration into the *sitio* can be described as follows: In 1964, a single man of twenty-one years old migrated into M.M. for job-searching depending on his kinship ties because of the difficulties of life. He could not get any permanent job in M.M. for ten years. During this period, he moved within M.M. several times. After marriage, he came to the *sitio* in 1976 with his family at thirty-three years old.

There were only thirty-five migrants (21 per cent) who had the experience of returning to their birth places. In some studies in Central Luzon,¹³ the existence

¹³ See Takahashi [15].

Fig. 4. Residence Distribution by the Home Provinces (Ilocos and Western Visayas Regions)



of seasonal circular migration was pointed out. There were, however, only three household head migrants out of fourteen migrants from Central Luzon, who reported seasonal return to the province.

3. *Effects of migration on the socioeconomic relations in the sitio*

It appears that socioeconomic interpersonal relationships are determined depending on ties of blood or *kababayan* (town mates) relationships, though the studies of low income strata area have not stressed it.

The political conflicts between the Pangasinan group and the Visayas group seem to cause socioeconomic problems in the *sitio*. As mentioned already, the reconciliation between those two community organizations in the *sitio* in 1987 looked rather superficial. The residence distribution also shows political segmentation of the *sitio* (Figure 4). As they got daily information through gossip with their neighbors or at the *sari-sari* store, this kind of segmentation gave distortions in the markets of the urban informal sector.

Spoken language has no direct effect on the socioeconomic relations and the economic activities of the urban informal sector in the *sitio*. Although the migrants were from different provinces, any other language apart from Tagalog was rarely heard in daily life.

TABLE V
EMPLOYMENT STATUS OF ALL OF THE RESIDENTS IN SITIO PAZ

	Male	Female	Total
Economically active population	357	157	514
Employed persons	299	142	441
Involuntary unemployed	58	15	73
Non-economically active population	286	415	701
Voluntary unemployed	1	1	2
Housekeeper	0	159	159
Student	83	92	175
Non-student child below 15 years old	191	157	348
Diseased	11	6	17
Total	643	572	1,215

II. NONCOMPETITIVE MARKETS IN THE URBAN INFORMAL SECTOR

In this section, the characteristics of market segmentation and employment absorption mechanism in the urban informal sector will be examined. After the first section overview of the urban informal sector, we now analyze the labor (scavengers) and product (*sari-sari* store) markets in Sitio Paz.

A. Overview of the Urban Informal Sector in Sitio Paz

1. The economically active population

The economically active population above fifteen years old amounted to 514 out of the total population of this *sitio* of 1,215 in 1985 (Table V). The number of employed persons was 441 including that of the underemployed. The number of involuntarily unemployed persons was 73 (the unemployment rate is 14.2 per cent). Although it seems that this figure is too low for such a low income area, it is needless to say that the form of employment is important. In fact, most of the labor in the urban informal sector is thought to be underemployed. Even many employed persons who work more than eight hours a day intended to work more.¹⁴

2. The occupations and income levels of the residents

The occupations of the residents are shown in Table VI. The most popular occupation was that of scavenger (junkman), which is understandable considering that this *sitio* is surrounded by junkshops. The total number of scavengers was 110 (67 households out of 253).¹⁵ The small-scale-factory hired workers came to 54 people. Among them only 15 workers could get the minimum wage. That is, 70 per cent of the firm hired workers are classified as workers in the urban

¹⁴ The employed who work eight hours but want to work more are defined as the invisible unemployed in the official statistics of the Philippines. See Tidalgo and Esguerra [16].

¹⁵ It seems that there were more scavengers, who worked irregularly or who were below fifteen years old. The total number was thought to be considerably above 110.

TABLE VI
OCCUPATION OF EMPLOYED PERSONS IN SITIO PAZ

Occupation	Number of Employed Persons	Average Monthly Income (Pesos)	Average Age	Average Educational Attainment
Scavenger	110 [7]	513.12	28.46	3.39
(Male)	(77) [6]	(558.87)	(26.34)	(3.80)
(Female)	(33) [1]	(411.59)	(33.16)	(2.47)
Small-scale/cottage firm worker	54 [4]	1,068.38	31.48	7.34
(Male)	(38) [3]	(1,193.89)	(33.80)	(7.06)
(Female)	(16) [1]	(775.53)	(26.07)	(8.00)
Metro aide	30	946.97	36.27	4.80
(Male)	(19)	(951.00)	(33.05)	(5.32)
(Female)	(11)	(940.00)	(41.82)	(3.91)
Vendor	30	679.41	39.90	5.45
(Male)	(8)	(613.63)	(42.63)	(2.75)
(Female)	(22)	(704.48)	(38.86)	(6.48)
Self-employed fisherman	30 [4]	573.73	41.58	5.22
<i>Labandera</i>	29	450.07	41.52	4.77
Construction worker	26 [3]	941.78	29.70	5.22
Tricycle driver	20 [3]	826.88	30.53	4.82
<i>Sari-sari</i> store owner	16 [2]	1,354.21	36.57	6.29
Junkshop helper	14	461.38	28.63	5.63
(Male)	(12) [6]	(518.83)	(26.50)	(5.33)
(Female)	(2)	(289.00)	(35.00)	(6.50)
Jeepney driver	11 [1]	1,465.60	35.20	4.20
<i>Kargador</i>	10 [1]	767.56	28.78	4.20
Maid	9 [3]	201.17	21.17	4.83
Carpenter	8 [2]	1,210.83	35.50	6.00
Broker	6	2,367.50	38.17	7.67
Junkshop owner	5	2,237.20	39.00	5.00
Painter	5	1,340.40	38.00	6.00
Overseas worker	4	5,000.00	39.25	9.00
(Male)	(3)	(6,000.00)	(40.67)	(8.67)
(Female)	(1)	(2,000.00)	(35.00)	(10.00)
Mechanician	4 [1]	1,076.33	40.67	4.33
Electrician	4 [1]	1,066.67	33.33	9.00
Waiter/waitress	4 [1]	1,057.00	29.33	4.00
Janitor	4	1,050.00	29.50	9.75
House boy	4	483.75	23.50	7.00
Manicurist	3	640.33	28.00	9.67
Battery man	3 [1]	568.00	26.50	7.50
Others	34			
Total	477	967.7		

Note: The number of employed persons includes that of sideline jobs. The number in brackets indicates that of the employed whose income cannot be calculated.

informal sector. It can be reconfirmed that most of the occupations such as scavengers, small-scale-firm hired workers, vendors, self-employed fishermen, *labanderas* (laundresses), construction workers called *piyon*, or maids are thought to be the typical occupations of miscellaneous services sector of the urban informal sector.

The occupations of the household heads are shown in Table VII. The most popular occupation of household heads was scavenging (49 employed persons). In the non-migrant category, 10 out of 86 (11.6 per cent) were scavengers, and in the migrant category, 39 out of 167 (23.4 per cent). The comparatively highly productive occupations such as tricycle drivers, *sari-sari* store keepers, and jeepney drivers were for migrants who had been in M.M. for a long time. Of those who migrated into M.M. after 1980, only 2 were *sari-sari* store owners and 3 were tricycle drivers.

The average monthly income per worker was 967.7 pesos (1,120.2 pesos for males and 655.2 pesos for females). That of household heads was 1,179.0 pesos. All of them were below the minimum wage rate.

Although the income level of the migrant household heads (1,217.2 pesos) was higher than that of the non-migrant household heads (1,099.3 pesos), that of the new migrants was lower than that of the others. The average monthly income of seventeen household heads who migrated to M.M. after 1980 was 919.6 pesos (that of all the employed persons in these family is 841.0 pesos). Among them, 60 per cent were scavenger families (10 households and 13 employed persons). On the other hand, the new residents who have stayed in M.M. for a longer period have higher income. The average income level of forty-one household heads, who migrated to M.M. before 1970 and then came to this *sitio* after 1980, was 1,155.6 pesos, while that of all the workers in these family was 945.4 pesos.

3. *Labor mobility in the urban informal sector*

The tendency that the income of a migrant who has stayed in M.M. for a long time is comparatively higher than that of a newcomer suggests that the migrants at first have entry into the low productivity informal jobs and then move up to those of the high productivity. In the following we will examine the labor mobility within the urban informal sector.¹⁶

(1) Classification of the Workers in the Urban Informal Sector

The workers in the urban informal sector¹⁷ can be classified into two categories,¹⁸ i.e., the low and high productivity urban informal sectors.

First, we term the unskilled self-employed or casual laborers as workers in the low productivity urban informal sector: scavengers, junkshop helpers, self-employed

¹⁶ The informal sector here is that in which three and more persons in the *sitio* were engaged.

¹⁷ The workers in the urban informal sector here are self-employed or employed workers whose wage rate is below the minimum one.

¹⁸ In the personal job histories of the workers, the aggregate number of jobs which cannot be classified as belonging to either of the sectors was twenty-eight. The workers who had more than two jobs in both sectors were regarded as belonging to both sectors, but those who had sidelines in the same sector were not counted as overlapping.

TABLE VII
OCCUPATION OF HOUSEHOLD HEADS

Occupation	Total Number of Employed Persons	Of which: Number of Household Heads		
		Total	Non-migrant	Migrant
Scavenger	110	49	10	39
(Male)	(77)	(42)	(10)	(32)
(Female)	(33)	(7)	(0)	(7)
Small-scale/cottage firm worker	54	34	11	23
(Male)	(38)	(33)	(10)	(23)
(Female)	(16)	(1)	(1)	(0)
Metro aide	30	18	11	7
(Male)	(19)	(18)	(11)	(7)
(Female)	(11)	(0)	(0)	(0)
Vendor	30	13	5	8
(Male)	(8)	(7)	(2)	(5)
(Female)	(22)	(6)	(3)	(3)
Self-employed fisherman	30	25	12	13
<i>Labandera</i>	29	9	0	9
Construction worker	26	15	4	11
Tricycle driver	20	17	6	11
<i>Sari-sari</i> store owner	16	10	0	10
Junkshop helper	14	2	2	0
Jeepney driver	11	9	2	7
<i>Kargador</i>	10	5	1	4
Maid	9	0	0	0
Carpenter	8	5	2	3
Broker	6	4	2	2
Junkshop owner	5	5	2	3
Painter	5	4	0	4
Overseas worker	4	3	1	2
Mechanician	4	3	1	2
Electrician	4	3	2	1
Waiter/waitress	4	0	0	0
Janitor	4	2	1	1
House boy	4	1	0	1
Battery man	3	2	2	0
Others	37	21	9	12
Total	477	259	86	173

- Notes: 1. The number of employed persons includes that of sideline jobs.
2. "Others" includes three manicurists.

fishermen, *labanderas* (laundresses), construction workers, *kargadors* (stevedores), maids, waiters, waitresses, security guards, house boys, manicurists, and vendors. Of a group of eighty-one household heads in this sector, the average age was 37.0 years old and average monthly income 827.8 pesos.

In selecting the employees, the important factor for the employer is not their educational attainment nor their technical skill but their reliability. In this sector, on the one hand, the employees cannot help depending on their relatives or acquaintances to get employment information because of limited time due to hard work for long hours. On the other hand, the employers recruit employees through personal contacts to reduce high information search cost for reliable labor. These factors hinder the competitiveness of the labor markets in this sector, cause inefficient resource allocation, and give instability to the wage rate.

[Case of a Construction Worker]

Francisco Tulio was born in 1965 near the *sitio* as a son of Jose who had migrated from Negros Occidental in 1926. He left elementary school after studying five years due to the difficulties of life. His father Jose had been jobless since 1983 because of tuberculosis. His mother was a dressmaker. Since his sister of sixteen years old was busy keeping house and another sister of twelve years old was a pupil at elementary school, his family's life was confronted with tribulation.

He had been a casual laborer of construction work (*piyon*) since July 1985. He belonged to a labor gang which had five members including him. Three of them were sons of migrants from Visayas and the other was the son of a non-migrant. Since each of them was offered a job by his intimate day-laborers' bosses, they exchanged information on work. Their contracts were verbal and different depending on laborers' bosses or employers. On the average, the wage was fifty to sixty pesos a day and dishes other than staple food were served at noon. They had to have a sideline because of instability of the labor offers.

[Case of a *Labandera*]

Luzminda Cruz, a widow of forty-two years old, came from Kalibo, Aklan (Western Visayas). Having studied four years, she left elementary school and migrated to Navotas, M.M., with her family in 1954. After marriage, she wandered from one place to another in Navotas and Malabon and reached the *sitio* in 1982 with her two sons and two daughters.

She had been a *labandera* since 1973. She changed her employers twice because of insufficient wage and employer's refusal to lending. In October 1985 she worked from 6 A. M. to 1 P.M. every day for a middle class family near the *sitio* for a monthly income of 200 pesos. She said that since the employer dependent on her reliability as a *labandera*, she always asked third parties to introduce her. The introducers were two town mates and an acquaintance in Malabon.

Second, the seventy-three household heads, who are comparatively skilled workers, can be regarded as those in the high productivity urban informal sector: jeepney drivers, tricycle drivers, *sari-sari* store keepers, junkshop owners, carpenters, dealers, painters, mechanics, electricians, and employed workers in small-scale firms. On the average, the age was 35.8 years old and the monthly income 1,399.6 pesos. These occupations require management or technical skills. In other words,

a lot of experience in the urban informal sector is necessary to get one of these jobs.

[Case of a Tricycle Driver]

Paulino Gomez was born in Pangasinan as a son of a landless agricultural worker in 1953. He finished elementary school and worked as a landless agricultural worker from the age of nine. He had been employed in the family-scale manufacturing firm for ten years since 1969. Because he was laid off in 1979, he left for Malabon near the *sitio* where his elder brother lived. Since his brother had been a tricycle driver, he was taught by his brother how to drive a tricycle and introduced to a tricycle owner.

Having married in 1981, he moved to the *sitio* where his godfather, Danilo Flores (from Pangasinan) lived. Because he shared a tricycle with another driver, he and his wife had a sideline as a scavenger with the Flores Junkshop. When his brother bought a secondhand tricycle in 1983, he left scavenging and began to drive that tricycle. He joined one of tricycle drivers' associations.

Although he paid rent of thirty pesos a day, his brother bore the expenses of gasoline and oil or maintenance cost. He worked twelve hours a day and five days a week for net income a day of thirty to fifty pesos. His friends of the drivers' association introduced him to a mechanic. He helped the mechanic and earned twenty to thirty pesos a day.

[Case of a Junkshop Owner]

Reymond Aguirre was born near the *sitio* as a son of a migrant from Bulacan in 1954. Having studied three years, he left high school and began to work as a food vendor and a dealer of jewels. After marriage, he moved to another part of Malabon to help his elder brother in managing a junkshop. In 1980, he moved to the *sitio* and built a junkshop. The source of capital was his savings and borrowing from his brother.

His wife was talkative and gathered a lot of information on scavengers or newcomers to the *sitio*. He made use of it and increased the number of his scavengers by lending money to them. The cumulative total amount of loan to his scavengers was 50,000 pesos in 1985. His junkshop had at least eighty scavengers.

Although his monthly income was 2,000 pesos according to him, it was estimated to be at least 3,000 pesos because he possessed two tricycles at the same time. Each driver paid him a rent of at least thirty pesos a day.

(2) Intersectoral Labor Mobility in the Urban Informal Sector

Table VIII shows labor mobility in the urban informal sector. One hundred and sixteen workers in the low productivity urban informal sector had experience of working in the high productivity sector only 29 times, while their experiences in the low productivity urban sector amounted to 204 times. On the other hand, the workers in the high productivity urban informal sector showed comparatively flexible intersectoral mobility between the two urban informal sectors. These figures suggest that the qualities required of labor in the two sectors are different¹⁹

¹⁹ When we chose monthly income as a dependent variable, and age as an explanatory variable as a proxy variable of skills or technical experiences, the simple regression analysis shows negative correlation in the low productivity urban informal sector (regression coefficient = -5.67, standard deviation = 3.67), but positive correlation in the high productivity sector (regression coefficient = 12.65, standard deviation = 6.11).

TABLE VIII
LABOR MOBILITY IN THE URBAN INFORMAL SECTOR BASED ON
JOB HISTORIES OF HOUSEHOLD HEADS

	In the Low Productivity Urban Informal Sector (81 Household Heads; 116 Jobs)	In the High Productivity Urban Informal Sector (73 Household Heads; 84 Jobs)	In the Urban Formal Sector (12 Household Heads)
Experiences in low productivity urban informal sector	204 times	67 times	6 times
Experiences in high productivity urban informal sector	29 times	62 times	20 times

- Notes: 1. Information was unavailable about three household heads.
2. The household heads who have a sideline in the other sector are double counted. See footnote 18.

and that it is not so easy to get a job in the high productivity urban informal sector.

It can be concluded, therefore, that the urban informal sector here as a whole does not have a free-entry competitive labor market. Not only labor mobility between the urban formal sector and the urban informal sector, but also mobility within the urban informal sector is not so active. Only a few workers in the low productivity urban informal sector can get a job in the high productivity sector.

4. *Basic hypothesis*

The traditional arguments assumed a low entry barrier and market-determined wage rates in the analysis of the urban informal sector. According to the above discussions, however, it seems that the labor markets in the urban informal sector do not always guarantee free entry. Now, a basic hypothesis can be proposed in this article as follows: the markets in the urban informal sector are not competitive, but segmented by home province of the residents. This segmentation is based on mutually beneficial interpersonal relationships, which avoid risk arising from imperfect information. And the labor market has monopsonistic characteristics. I will illustrate this hypothesis with the results of the participant observation below.

B. *Case Study (1): Labor Market of Scavengers*

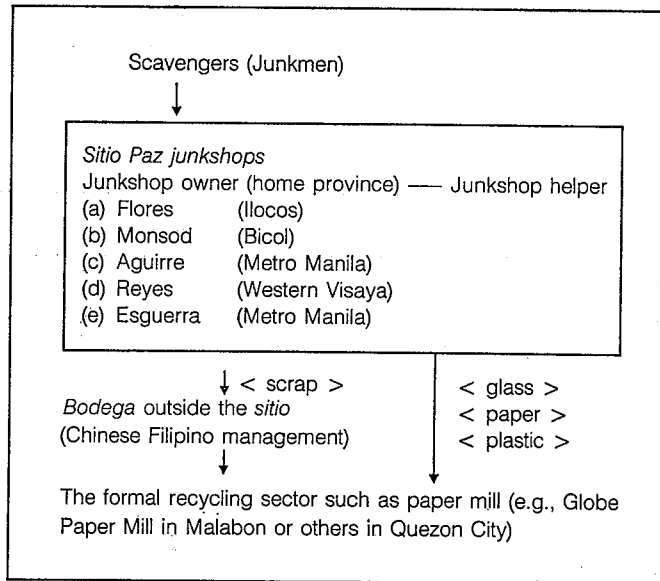
1. *The economic activities of the recycling business*

The recycling business consists of scavengers, junkshop owners (small-scale dealers), *bodegeros* (medium-scale dealers),²⁰ and large-scale firms. The process of economic activity is summarized in Figure 5.

A scavenger belongs to the informal service sector. He collects junk such as cans, paper, metals, and so on, in dumping areas such as Smoky Mountain or on the street, in a pushcart (*kariton*) borrowed from the junkshop owner free of charge, and sells the collected junk to the owner. He gets his proceeds from the junkshop on the spot. There were 110 scavengers in this *sitio* in 1985. Although

²⁰ *Bodega* is a Spanish word, which means a warehouse.

Fig. 5. The Process of Recycling Industry



they worked for 6.7 hours a day and five days a week, most of them felt that they needed to work more to satisfy the BHN. Many of the scavengers were new migrants. More than 40 per cent of the scavengers (46) migrated into this *sitio* after 1980. A newcomer can be engaged in scavenging immediately (if he has relatives or acquaintances in this *sitio*), while searching for another job. Or it can be considered that scavenging is a sideline for many to compensate for the instability of jobs such as construction work or as self-employed fishermen. Most of them had implicit contracts with the junkshop owner. No scavenger had contracts with two or more junkshops.

There were five junkshop owners in this *sitio*, that is, Reymond Aguirre (from M.M.), Danilo Flores (from Pangasinan), Arthur Reyes (from Negros Occidental), Rodolfo Monsod (from Masbate), and Dionicio Esguerra (from M.M.). According to the interviews, the average monthly income of the junkshop owners was 2,237.2 pesos, which was much higher than the average of 967.7 pesos in the *sitio*. Aside from initial investment, good interpersonal relationships with scavengers and *bodegeros* are necessary for a junkshop owner to manage his shop.

2. Monopsonistic nature of the buyers in the labor market for scavengers

Although it seems that the market for junk collected by the scavengers is competitive in such a narrow area, there are differentials of junk prices among the junkshops (Table IX).²¹ In this situation, it would seem impossible for junkshop

²¹ There was no difference in the prices of junk such as plastic which were traded a lot.

TABLE IX
BUYING AND SELLING PRICES OF JUNK PER ONE KILOGRAM

(P_b : buying prices; P_s : selling prices; r : profit rates)

Junk		Reyes	Aguirre	Flores
<i>Karton</i> (corrugated cardboard)	P_b	0.25	0.20	0.20
	P_s	0.40	0.40	0.40
	r	0.60	1.00	1.00
<i>Lata</i> (empty can)	P_b	0.15	0.15	0.15
	P_s	0.20	0.22	n.a.
	r	0.33	0.47	n.a.
<i>Bakal</i> (scrap iron)	P_b	0.50	0.60	0.50
	P_s	0.75	0.90	0.80
	r	0.50	0.50	0.60
<i>Yero</i> (galvanized iron)	P_b	0.20	0.20	0.20
	P_s	0.25	0.35	0.40
	r	0.25	0.75	1.00
<i>Sako</i> (gunny sacks)	P_b	0.30	0.25	0.20
	P_s	0.60	0.35	0.50
	r	1.00	0.40	1.50
<i>Plastic</i> (plastic scrap)	P_b	2.50	2.50	2.50
	P_s	3.50	3.50	3.50
	r	0.40	0.40	0.40
<i>Bubog</i> (scrap glass)	P_b	0.15	0.15	0.20
	P_s	0.20	0.30	0.30
	r	0.33	1.00	0.50
<i>Bote</i> (empty bottle)	P_b	0.20	0.15	0.15
	P_s	0.40	0.32	0.30
	r	1.00	1.13	1.00

Notes: 1. $r = (P_s - P_b) / P_b$.

2. Reyes, Aguirre, and Flores are junkshop owners.

owners to maintain stable employment relationships with scavengers who have perfect information of junk prices system, but they do. Here we consider the labor market's mechanism.

In the labor market for scavengers, it is revealed that the relations between a junkshop owner and a scavenger can be understood as the mutually beneficial patron-client relation. A client (scavenger) needs shelter for emergency, because he cannot get a stable job under the given conditions. On the other hand, a patron (junkshop owner) finds difficulty in getting sufficiently stable and reliable labor. It is often pointed out that new migrants from the provinces exhibit an excessive mobility within M.M. To have a stable employment relationship with scavengers is, therefore, a serious problem for the junkshop owner. Here, by lending money

to scavengers, the junkshop owner may be able to get a stable supply of scavengers. In such a situation, it is convenient for both of them to agree on an implicit contract which conforms to the traditional norm, *utang na loob* (debt of gratitude).²² A junkshop owner lends money to scavengers on condition that they always use only his junkshop. Being able to borrow in an emergency results in an *utang na loob* which the scavenger cannot in fact repay. They will not use other junkshops even if they know that some junk prices are higher, and their family will also use the same junkshop. They even tolerate dishonest practices of the owner in putting junk prices such as use of a false balance.

In the interview, seventeen out of forty-five households answered that borrowing from the junkshop was the reason for deciding on the selection of a junkshop.²³ According to the informants, most of the scavengers borrow money from their junkshop owners. In fact, it was verified that all of the scavengers of Reymond Aguirre Junkshop had borrowed money from the owner.

Furthermore, in this case, the *kababayan* (town mate) relationship plays an important role. It seems that the *kababayans* guarantee the junkshop owner reliability for scavengers to whom he lends money. The interview was conducted on 52 households of scavengers out of 110, randomly sampled: 14 households of Flores Junkshop (from Pangasinan), 25 of Aguirre Junkshop (from M.M.), 7 of Reyes Junkshop (from Negros Occidental), and 6 of Monsod Junkshop (from Masbate).²⁴ In Flores Junkshop, there were no scavengers born in Visayas, but half the scavengers were Ilocano of whom 5 were from Pangasinan. There were no Ilocano in other junkshops. On the other hand, in Reyes Junkshop, 6 households out of 7 came from Western Visayas and only one from M.M. Aguirre Junkshop, which is one of the biggest junkshops in the *sitio*, had many scavengers who lived in the southern part of the *sitio* (12 households out of 25), and one-third of the scavenger households (9 households) came from Eastern Visayas. Monsod Junkshop had 3 households from Eastern Visayas, who lived in the southern part of the *sitio*. Flores Junkshop, however, had no one from Eastern Visayas, although many of the scavengers from Eastern Visayas lived near this junkshop.

Therefore, we can conclude that the labor market for scavengers is segmented by the province of the junkshop owner and that it has monopsonistic characteristics.

[Case of a Scavenger]

Leopoldo Sabiera, who is engaged in scavenging and driving a tricycle, was born in 1953 as the eldest son of a vendor in Albay. Because he was unemployed after leaving elementary school, he left for Paite, Laguna, in 1972, where he was engaged

²² This norm is peculiar to the Filipino people. In general, they hold *amor propio* (pride) in high esteem and have special value judgment for behavior to avoid *hiya* (shame) or to attain smooth interpersonal relations. Therefore reciprocity is a very important social behavioral principle. If they received some favors from a third party, they would be requested to feel *utang na loob* (debt of gratitude) to him and repay him in some degree for such kindness as far as possible. If they did not do so, they would be denounced as *walang hiya* (shameless) and socially punished.

²³ I have conducted interviews with forty-five people belonging to different households.

²⁴ Esguerra Junkshop was not the objective of the research here since it had been temporarily closed at that time for the owner's illness.

in cutting trees under a three-year contract. Then he returned to Albay, married, and worked in a restaurant for eight years. Since the restaurant went bankrupt in 1983, he left for Calanba, Laguna, where his uncle lived. After he worked as a vendor for one year, he decided to go to M.M. to seek a higher income job.

In 1984, he arrived at Sitio Paz, where his town mate Ernest Patola lived. He lived with his wife (thirty-one years old as of 1985) and his only son (one year old) in the so-called *barong-barong*. His housing area was twenty-four square meters. They could use electricity at only ten pesos a month by extending lines illegally from the Patolas (*kabit* system). They had no durable goods except a radio which Leopoldo found in a dumping area. They spent fifteen pesos on food every day. They often borrowed money from the neighborhood *sari-sari* stores.

He drove Patola's tricycle and earned thirty to fifty net pesos a day excluding rent of thirty pesos. Since he shared a tricycle with another driver, he worked only two days a week. He was engaged, therefore, in scavenging as a sideline, having contracts with Aguirre Junkshop introduced by Patola. He scavenged seven hours, four to eleven in the morning and earned 300 pesos a month.

He said that although income fluctuation was large, he worked for his junkshop owner, Reymond Aguirre, because he could borrow money from the owner in emergency such as illness of his family. Scavenging seems relatively secure for him. He looks to the junkshop owner for help in daily life in spite of the lower income and worse working conditions compared with those of a tricycle driver.

C. Case Study (2): Goods Market of Sari-sari Store

1. Sari-sari store in the low income area

There were fifteen *sari-sari* stores²⁵ in the *sitio* in 1985. Two of these had independent counter space and were larger than that of the others, and they sold almost the same commodities in kind and quantity as in the large-scale *sari-sari* stores outside the *sitio*, while the others had counter space inside the house and sold a limited number of groceries.

Being an owner of *sari-sari* store means that not only can family members be self-employed stably, but also that they can save various kinds of goods for their emergency use. For example, they can use medicine for sale when they themselves are sick. Such real savings give the low income bracket high utility. It can be said that the expected income from keeping a *sari-sari* store is high compared with that of the other jobs in the urban informal sector. To open the store, not only are initial capital and management knowledge needed, but an established status in the community with respect to interpersonal relationships is indispensable. It thus seems that the entry barrier is comparatively high.

²⁵ *Sari-sari* store or *tindahan bayan* is defined as a small retail store of which the total value is not above 2,000 pesos according to the Bureau of Commerce in 1948. It is a small grocery which sells separately or on credit, or lends foodstuffs or luxury foods such as rice, bread, vegetables, fruits, canned goods, sweets, beverage, cigarette, seasonings, and miscellaneous goods such as medicine, kerosene, charcoal, soap, toilet paper, stationery, comics, etc. It has been argued that it plays the role of providing benefit of piecemeal retailing which cannot be played by market places, to the low income bracket which cannot store such goods.

2. *The hypothesis of coexistence of sari-sari stores*

It is said that the basic role of the *sari-sari* store for the buyer is that of a medium for piecemeal retailing for the low income bracket which can buy only the daily necessities they really need at the moment. In reality, however, the residents generally buy daily goods in the public market near the *sitio*. This suggests the existence of another function of the *sari-sari* store.

The number of *sari-sari* stores increased by six, from fifteen in 1985 to twenty-one in 1988. It is impossible to explain the actual coexistence and expansion of *sari-sari* stores in such a narrow area, only from the viewpoint of price mechanism in the market for goods and services. The following analysis tries to explain the coexistence of stores and to inquire whether the present situation is compatible with utility maximization of individuals or not.

According to my field research, the residents have some interpersonal relationships, such as *suki* relationships (customers relations or a kind of patron-client relations), with the *sari-sari* store owners. For them, purchasing goods has the same meaning as paying for using the store as an information station (*puesto*). If given various places for gossiping, it is easy for the residents to get reliable information in the network of smooth interpersonal relationships, which is one of the Filipino traditional values. In this sense, the *sari-sari* store plays a crucial role for the residents who live in such a narrow area and therefore can hardly guard their privacy. It appears that there exists no commodity discrimination among the same scale *sari-sari* stores. Supposing the *sari-sari* store plays only the role of piecemeal retailing for the low income bracket, it is impossible to understand why there can coexist so many small *sari-sari* stores, which are apparently inferior to the outside big *sari-sari* stores from the viewpoint of the consumer's individual decision-making.

In these situations, if we adhere to the hypothesis of the retail function of the *sari-sari* store, it is only possible to assume that the consumer's decision-making is regulated by noneconomic factors such as some altruistic community value to use a *sari-sari* store whose commodities and services are inferior to the others.

Our hypothesis of coexistence of the *sari-sari* stores is as follows: the small-scale *sari-sari* store has its *raison d'être* in becoming a place for customers of the same province as the shopkeeper to collect various kinds of information, rather than just being a medium for piecemeal retailing. The purchase of goods is recognized as paying the *puesto* for using the store. In other words, the *sari-sari* store itself, which supplies a place to gossip, is a discriminated commodity.

3. *The sari-sari store as the objective*

A *sari-sari* store that belonged to my host family, the Antarans (from Aklan), will be discussed below and used for illustration of the hypothesis mentioned above. They started Aling Linda Sari-sari Store in 1986 with initial capital of 1,000 pesos by saving.

The commodities they sold were inferior in kind and quantity to any common *sari-sari* store. Most of them were sweets. They could not sell rice, vegetables, fruits, nor soft drinks because of the shortage of capital. Their counter space was

part of a room. The mother, Aling Linda, and her five daughters kept the shop by turns every two or three hours. They had no holiday and no rest time. The store was open from 6 A.M. to 9 P.M., but they used to sell at any time. The proceeds of the day before were checked at 8 A.M. when there were few customers. The peak hour for customers was 5 to 6 P.M., when they came home after work. When I conducted the research, fifty-two customers ordered sixty-six items of commodities during such a peak hour. The Antarans sometimes lent money as a form of sale on credit, but they did not do so as often as in the other comparatively large-scale stores because of the lack of capital.

Their daily proceeds were around 400 pesos and the net profit was 30 pesos. On the day of the research, the revenue was 394.05 pesos (Table X). They purchased stocks in the public market of the neighboring *barangay*, which was ten minutes by jeepney from the *sitio*. The commodities of this market were cheaper than those of the market in their *barangay*. Only in case of emergency did they purchase in the latter market.

4. *The illustrative test of the hypothesis*

I took the participant observation method to illustrate the hypothesis: making a list of all of the customers and commodities they bought, and examining the interpersonal relationships between the shopkeeper and the customers and among the customers.²⁶

On August 22 (Monday), 1988, there were 410 customers and 526 items were sold in total from 5 A.M. to 9 P.M. in Aling Linda Sari-sari Store, one of the smallest stores in the *sitio*. The average number of customers per hour was more than twenty-five. Among the customers, there were many who came from Visayas, and the owner was, indeed, from Western Visayas. More than 40 per cent of the customers came from Visayas; 110 items ordered by 15 households (Western Visayas) and 119 items ordered by 17 households (Eastern Visayas). On the other hand, only 7 households which came from Ilocos ordered 36 items. This can be understood as socioeconomic segmentation by the birth place.

[Observations: 1]

Jose Riezgo was a twenty-five-year-old man born in Leyte, Eastern Visayas, who had been mistakenly arrested as a criminal in a gunfight during the Paz Festival of 1988. He was bailed once, but was released temporarily. Since there was no witness, he was afraid of rearrest and of repaying more than 2,000 pesos of bail. He visited this store many times and consulted the other customers. He bought six cigarettes and some sweets.

[Observations: 2]

After 5 P.M., many people visited the store after work. Many customers sat down in front of the store, calling others to join them. It was so crowded that the customers could not light a cigarette. The friends of the shopkeeper came inside the store and gossiped. This was the peak hour for customers. According to the shopkeeper, the main topics of conversation were about overseas workers in the

²⁶ For the detailed list of customers, see Nakanishi [6, pp. 242-57].

TABLE X
ALING LINDA SARI-SARI STORE: REVENUE

(August 22, 1988)

Item	Quantity	Total Value Sold (Pesos)
Cigarette:		
Casino	134	26.80
Champion	37	11.10
Hope	81	32.40
Marlboro	42	21.00
Philip Morris	35	21.00
Sweets:		
Baga	19	9.50
Chicharon	32	3.20
Chicharon Baboy	9	4.50
Chicharon Shrim	17	1.70
Delis	8	2.00
Expo Peanuts	17	4.25
Fish Cracker	2	1.00
Lechon Manok	35	17.50
Nognog Curls	2	0.50
Ube	4	1.00
Gum	56	2.80
Bread	55	27.50
Candy	188	47.00
Chocolate	85	8.50
Coffee	30	15.00
Food:		
Garlic	3	1.50
Onion	6	3.00
Egg	7	9.80
Salt	2	0.50
Patis	—	4.25
Peppers	9	2.25
Sugar	40	10.00
Soy sauce	—	0.50
Coconut oil	—	8.50
Vinegar	—	3.75
Chemical seasoning	10	5.00
Others:		
Ajax	2	5.50
Aloe Vera	1	1.25
Cream Silk	1	0.25
Gard Shampoo	1	1.50
Mr. Clean	1	2.70
Shampoo	3	4.50
Soap	1	2.25
Tide Bar	11	29.70
Posporo	5	3.50
Medicine	—	7.85
Comics (lending)	37	27.75
Total		394.05

Middle East or Japan, or newcomers to the *sitio*, as well as health problems. In fact, some customers asked me, while helping the shopkeeper, about the possibility of getting a job in Japan.

Thus the role of *sari-sari* stores in settling complicated interpersonal relationships in a high density area should be stressed. The *sari-sari* store plays the role not only of piecemeal retailing, but also of giving customers a place for exchanging daily information in the community or just having a rest. If we take this fact into account, it will not be difficult to explain the present coexistence and expansion of the *sari-sari* stores. The reason that there exist so many is that it is possible for the residents to select easily different kinds of customers as different sources of information and to avoid conflicts among them.

It is thought that this fact illustrates segmentation of information. In such a narrow area with a large population, the assumption of perfect information hides the crucial characteristics of the urban informal sector. The price or quality of commodities are not signals of the adjustment function of market clearing. The customers of the *sari-sari* store themselves are the important determinant factor for using the store. That is, the *sari-sari* store itself is chosen by the customers.

III. APPLICATION: SOME CHARACTERISTIC ASPECTS IN THE URBAN INFORMAL SECTOR

In this section, some characteristic aspects of the urban informal sector are explained by applying the basic hypothesis mentioned above to the noncompetitive market.

A. *The Labor Absorption Mechanism of the Urban Informal Sector*

The following is often pointed out as the background of accelerated rural-urban migration: (1) the aggravated unequal income distribution among regions and between tenants and landless agricultural workers, resulting from biased land reform or skewed technical innovation, and (2) the formal sector's low absorption of educated or skilled workers at the minimum wage rate.²⁷ These discussions neglect the role of the urban informal sector itself and therefore we cannot understand well the absorption mechanism of surplus labor into the urban informal sector. In the traditional theoretical argument which is a revised version of the two-sector model, there is as yet no admitted necessity to study a mechanism as being peculiar to the urban informal sector. A new reference frame should be proposed from the viewpoint of the urban informal sector itself to understand its labor absorption mechanism.

1. *Hypothesis*

In the previous section, it is argued that because the labor market in the urban informal sector is segmented by the worker's home province, the information on employment conditions is imperfect, and that this is one of the reasons for

²⁷ For detail, see Nakanishi [7, pp. 8-19].

inefficient resource allocation in the sector. As a result, productivity will be hindered and the BHN for labor in the urban informal market cannot be met. In this situation, the employee may try to make use of the patron-client relation to meet the BHN as much as possible.

On the other hand, the employer has an incentive to accept the contracts originating from the patron-client relation. The turnover rate in the unskilled labor market is said to be high because the low income bracket exhibits an excessive mobility within M.M. It can be said that the sufficient stable supply of reliable labor is crucial for the employer.

In these circumstances, the possibility of making implicit contracts based on the patron-client relation is high. These contracts meet incentive compatibility. They urge, however, the segmentation of the economy of the low income strata and disturb efficient resource allocation in the urban informal sector at the same time. The hypothesis I propose is that the *kababayan* (town mates) relationship plays a crucial role in acceptance of new migrants.

2. *Illustration of the hypothesis*

Although it is impossible to prove the hypothesis of this article, the following facts will illustrate it.

(a) There were two community organizations in such a narrow area, which reflected the social or political conflicts between those born in Visayas and those born in Ilocos (mainly in Pangasinan). This was shown by the distribution of residence. This segmentation has a serious effect on economic activities, because various kinds of information for workers in the urban informal sector had their source in gossip or chat inside the *sitio* such as that in front of the *sari-sari* stores.

(b) A junkshop owner lent money to the scavengers on condition that they always used only his junkshop. Furthermore, when scavengers wanted to quit their jobs or when the junkshop owner needed more scavengers, he could easily make up for the lack of labor with the help of his clients, that is, they might introduce him to their town mates like Ernest Patola in the sample case of the previous section. The interpersonal networks of employees in their home provinces guaranteed the employer a potential supply of reliable workers.

(c) In the case of the *sari-sari* store, the relationships the owner may have with his customers depend on the *kapitbahay* (neighborhood) relationships based on the *kababayan* (town mate) relationships. This tendency leads economic activities in the *sitio* to be segmented.

(d) Most of the migrants come to the *sitio* from the provinces, depending on information obtained from their relatives in the *sitio* or in M.M. The migrant workers themselves can be a source of supply of potential migrant workers for the employer.

B. *Rural-Urban Migration and the Vicious Circle of Poverty in the Urban Informal Sector*

1. *A two-step migration of small tenants or landless agricultural workers*

Potential poor migrants such as small tenants or landless agricultural workers cannot gain access to the labor market in the urban formal sector, where there exist

high entry barriers such as educational attainment, high technical skill, and so on. The migrant cannot gain access even to the urban informal sector if he has no acquaintances there. The crucial problem for him is, therefore, whether employment in the urban informal sector is guaranteed or not, in other words, whether or not he has strong interpersonal relationships with the existing workers in the urban informal sector.

Furthermore, as mentioned in Section II, these poor migrants seem to have a two-step migration plan: in the first step they work in the urban informal low productivity sector as scavengers, *labanderas*, or construction workers, and in the second they get a job in the urban informal high productivity sector as junkshop owners, jeepney drivers, or *sari-sari* store owners.

The poor migrants will make their decisions by making a comparison of the income in the rural sector with the expected income in the urban informal sector. Here, the expected income in the urban informal sector mainly depends on the following factors except for the wage rate in the two urban informal sectors: (1) strength of interpersonal relationships in the urban informal sector, and (2) acceptability or entry barriers of the urban high productivity informal sector. The former means the degree of guarantee or risk in the urban area. The latter seems to have no correlation with educational attainment, technical skill, and so on, unlike in the urban formal sector. It depends on the potential migrants' acquaintances in the urban high productivity sector. Under these conditions, he can estimate the wage rate in the urban high productivity sector, or how long it will take to enter to this sector.

2. *Vicious circle of poverty in the urban informal sector*

Vicious circle of poverty in the urban informal sector occurs in the labor market in the urban low productivity sector, which is ruled by the vertical patron-client relation. I regard this relation, such as that between junkshop owners and scavengers, as the cause of the vicious circle.

In Sitio Paz, the lowest income bracket is occupied by scavengers as mentioned before. A scavenger must obey junk prices bidden by his junkshop because he has no better job. It is clear that this vertical relation becomes an obstacle for market efficiency, as a worker puts up with low productivity or low wage rate. Then he cannot afford even to meet the BHN, and he cannot help asking his patron for help again. The vertical patron-client relation determines the vicious circle of poverty in the urban informal sector.

C. *Social Productivity of the Urban Informal Sector*

Some arguments have been presented which show an appreciation of social productivity of noncompetitive markets in the urban informal sector. Jagannathan [3] emphasizes that intangible social assets or social behavioral relations based on implicit contracts are productive. With the exception of the corruption system, therefore, such assets should be protected as social wealth. Not stated clearly, his arguments are assumed to be based on the second best argument in welfare economics. If the conditions for optimal resource allocation, which are the equivalence of prices and marginal costs for each economic actor, are not met

even by one sector in the economy for some particular reason, this economy cannot enjoy optimal resource allocation. And in other sectors, marginal cost pricing is not a necessary condition for improving efficiency. That is, the competitive market mechanism in the informal sector is not a second best solution. Jagannathan seems to regard the social behavioral relations system based on implicit contracts as a second best solution. Jagannathan does not, however, explicitly develop theoretical discussion on this matter. We will reconsider his argument by observations in Sitio Paz.

In the *sitio*, in March 1989, a Christian cooperative began a pushcarts project for scavengers, supported by the *barangay* church. The church lent money to this cooperative with no interest, and with this, the members of the cooperative made pushcarts for communal use. Each user had to pay back little by little in the long run, together with share maintenance cost. In September 1989, the cooperative had thirty members, most of whom were new migrants. This project was realized on the basis of my observation that scavengers had to use only one junkshop although bidden junk prices varied depending on junkshops, because of the implicit contracts with their junkshop owner.

Indeed this cooperative is not a fully voluntary association because of being supported by the church, but it is true that some scavengers prefer a competitive price mechanism to a system based on the vertical patron-client relation. Such vertical social relation can hardly be regarded as a second best solution for the urban informal market in this sample case.

It may be right to assume that such vertical social behavioral relations on the basis of implicit contracts should disappear and that it is necessary for the low income bracket to improve efficiency in the informal market. This illustration shows at least that from the viewpoint of social welfare, the competitive market mechanism may be superior to the vertical implicit contracts system.²⁸

CONCLUSION

In this article, I have proposed the noncompetitive market hypothesis for the urban informal sector, on the basis of participant observation in a certain squatter area in Metro Manila. It was illustrated by analyzing labor mobility within the urban informal sector, the labor market in the recycle business, and the goods and services market in the *sari-sari* store.

This hypothesis is contrary to the traditional understanding. It can explain, however, some characteristic aspects in the urban informal sector, such as its labor absorption mechanism, migration to the urban area of the rural poor, vicious circle of poverty, and so forth. And it was pointed out that the labor market in the urban informal sector often had monopsonistic characteristics arising from the vertical patron-client relation system. This system does not give a second best

²⁸ If there are no input-output relations between the urban formal and informal sectors as Oshima [12] pointed out, that is, the urban informal sector is completely closed, the competitive market is regarded as the best.

solution for the economy, however. It seems necessary to improve market efficiency by policy intervention for alleviating the poverty of the urban area, given the conditions in the urban informal sector.

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