

Informal Suppliers in the Underground Economy

By Kevin F. McCrohan and James D. Smith*

Over the last several years a few academic economists have hypothesized [1] and the press has publicized [2] the existence of a so-called subterranean or underground economy involving cases of moonlighting, gross receipts skimming, and generally working off the books to evade payment of tax. These claims have been supported with indirect circumstantial evidence, anecdotes and theoretical arguments. Direct empirical evidence to support the thesis of a thriving underground economy in the United States, however, has generally been inadequate.

In determining the overall magnitude of unreported income for this study, a major problem faced by IRS analysts was how to estimate taxable income flows to individuals engaged in activities involving cash-related informal arrangements. The technique adopted for an earlier IRS report which dealt in part with informal suppliers [3] was a consumer expenditure-based approach in which estimates of the proportions of major expenditure categories likely to have involved payments to informal suppliers were applied to levels of expenditure by category as measured for the Bureau of Labor Statistics (BLS) 1972-1973 Consumer Expenditure Survey. While this approach seemed reasonable, a major concern was the lack of a credible empirical basis for assumed proportions of total dollar expenditures by category flowing to the informal suppliers.

To obtain the necessary empirical basis for estimating the major consumer expenditures flowing to informal suppliers, a national consumer expenditure survey was conducted [4]. To assure respondent cooperation and confidentiality, the IRS entered into a contractual agreement with the Institute for Social Research of the Survey Research Center (SRC) at the University of Michigan to conduct the research. The SRC report, The Measurement of Selected Income Flows in Informal Markets [5], is the basis for this article.

In conducting the survey, both the IRS and the SRC were concerned about thoroughly protecting the confidentiality of the data to be collected. By contractual agreement, the IRS did not receive, nor did the SRC prepare, any data that allowed for the identification of individual respondents.

CONCEPTUAL ISSUES

Although entrepreneurs operating in the informal economy are not likely to be as sensitive to a researcher's questions as those in the illegal

economy, it is nevertheless difficult, if not impossible, to prepare national measurements of informal economic activity by interviewing the vendors. Although the source of their income may be legitimate, they frequently operate at the margin of conformity with technical requirements for licensing, permit filing, and performance codes. Even if they did not owe taxes, some are in technical violation of filing requirements at State, local, and Federal levels. Hence they were cautious about discussing their entrepreneurial activities. Even if informal suppliers were willing to provide information to researchers, it would be extremely difficult to design a probability sample from which national estimates could be derived.

The earnings of informal suppliers include income from all types of informal economic activity, income which is conceptually included in the National Income and Product Accounts, but which may be understated due to the informal business styles of vendors. Put another way, these activities generate income which is within the definitional scope of the national accounts, but not always captured for lack of administrative records and survey data that adequately reflect informal activity. Some expenditures on what are here called informal suppliers may well be reflected in the Gross National Product (GNP). This can happen since consumption expenditures, which form part of GNP, are estimated by tracing the flow of commodities from manufacturers through wholesalers to consumers without distinguishing between informal and formal transactions. Additionally, not all informal supplier income is unreported income. For example, the income of teenage babysitters does not have to be reported for Federal tax purposes until the return filing requirements are met. Therefore, the aggregate amount of total informal transactions should not be equated with the total amount missed by the national accounts.

To estimate the unreported income of informal suppliers, the cost of goods sold and other business expenses must first be subtracted from their gross sales. The remaining net income of informal suppliers, however, is still too large a base from which to calculate tax loss. Some informal vendors file tax returns and pay all taxes due on their incomes. Others may file tax returns and perhaps underreport their incomes, but after exemptions, deductions, adjustments, and credits, they may still have no tax liability. Some may be nonfilers but owe no tax since excess withholding or payments of tax on formal income may offset their taxes due on unreported

*Kevin F. McCrohan is an Associate Professor of Marketing at George Mason University, Fairfax, Virginia. James D. Smith is a Program Director at the Institute for Social Research (ISR), University of Michigan, Ann Arbor, Michigan. They were Project Coordinator for IRS and Principal Researcher for ISR, respectively, for the Internal Revenue Service Informal Supplier Study. They thank Dennis Cox, Chief, Compliance Estimates Group, Research Division, for his comments on earlier versions of this paper and James Swartzwelder, former Chief of the Unreported Income Research Group who assisted in the research design for the study. (The views expressed are those of the authors and do not necessarily reflect IRS policy.)

Informal Suppliers in the Underground Economy

income from informal sources. Still others may not be required to file returns, having incomes that fall below the filing requirements. These different categories should be recognized in assessing the impact of informal transactions on tax reporting gaps. All the same, the starting point in estimating the tax gap associated with unreported informal supplier incomes begins with a determination of the size of the informal economy.

The approach taken in the IRS/SRC study was to measure the size of informal activities by measuring the expenditures of households in the informal economy. Although the original intent of the study had been to measure proportions of total expenditures that go to informal suppliers, it became apparent that respondents would have more difficulty reporting on proportions than on their actual expenditures. Consequently, it was decided to measure actual dollar expenditures on a selected list of goods and services. By definition, a dollar spent by one person is a dollar of gross income to another. An approach based on this theory has both advantages and disadvantages. The advantages are that purchasers are willing to talk about their transactions with informal suppliers and that it is relatively easy to design a national probability sample of households. The disadvantages are that purchasers are often hard-pressed to differentiate between informal vendors and other vendors, and frequently require additional questions to help isolate informal from formal expenditures. In addition, only purchases by households, as distinguished from those by businesses, can be identified through a consumer survey.

In this approach, it was thought consumers may have difficulty distinguishing an informal from a formal supplier. SRC focused group interviews showed, however, that people have a well-developed sense that there are vendors who work "off the books" or "on the side." Indeed, the latter terminology was found in both the focused discussion groups and in national pretests to be very much a part of the national vocabulary. It also became clear from the focused discussion groups that there is a general belief that "on the side" vendors are evading their tax obligations.

Research confined to individual consumption expenditures means that only one portion, albeit the major portion, of informal vendor activity would be captured. The extent to which informal vendors are used by businesses, rather than individuals, is not known. The decision to exclude business purchases from the study was based on two methodological concerns. Although it would be fairly simple to design a national probability sample of commercial establishments, there would be difficulties in selecting who within the firm should respond to the survey. Decisions to use off-the-books sources may be made by persons as different from each other as a vice-president of manufacturing, an office manager, or a night supervisor who may occasionally hire an informal cleaning service. Additionally, formal businesses were expected to be more hesitant than consumers in discussing somewhat questionable purchasing practices, particularly when such discussions have to borrow time from often crowded business schedules [6].

THE SIZE OF THE INFORMAL ECONOMY

The earnings of informal suppliers, as defined here, are estimated to have been about \$41.8 billion in 1981. This compares to a gross national product

of \$2,938 billion and personal consumption expenditures of \$1,843 billion during the same period. Based on an analysis of the IRS Taxpayer Compliance Measurement Program (TCMP) an estimated \$7.3 billion of this amount was reported on personal income tax returns. This \$41.8 billion was the gross value of sales and should not be construed as the taxable income of informal vendors. Some informal vendors who cut lawns or babysit are children with no taxable income. Also, whether a business operates in the formal, informal, or illegal economy, it faces operating expenses which reduce net income. Net profit i.e., income subject to tax, is but a fraction (sometimes a negative fraction) of gross receipts. IRS records indicated that individual income tax returns with Schedule C (business) income that appeared to come from informal sources (as defined in this study) reported, on the average, net profits which were 59% of gross receipts.

The range of goods and services sold in the informal economy is quite extensive. The table below shows the value of informal transactions in 15 broad classes of goods and services measured in this study.

Table 1
Value of Purchases from Informal Vendors
by Type of Goods and Services, 1981
(In Millions of Dollars)

Goods and Services	Amount Purchased
Home repair and additions	12,245
Food	9,003
Child care	4,955
Domestic service	3,882
Auto repair	2,810
Sidewalk vendor goods	1,782
Flea market goods	1,698
Lawn maintenance	1,447
Lessons	933
Fuel	749
Appliance repair	744
Adult care	442
Cosmetic service	411
Sewing	392
Catering	300
Total	41,793

The two largest components of the informal economy are home repairs and food, which accounted for about \$12.2 billion and \$9.0 billion, respectively, in 1981. Food, which is sold in informal markets by producers, has a relatively capital-intensive production process. Home repairs, on the other hand, are labor-intensive. While they are quite different in their underlying production processes, these two areas do have in common with all informal market activities the fact that they can be carried on by a sole proprietor working alone or with the assistance of only one or two employees.

Also, approximately \$5.0 billion was spent for child care in unlicensed establishments and/or in the home of the family buying care. Where child care was provided in the purchaser's home, the vendor was most appropriately classified as an informal supplier. While some child care provided in the vendor's home may have been of the formal economy, it does not appear that a lot of such misclassification occurred. Domestic services were classified as formal or informal, respectively, depending on

whether the provider was employed through a cleaning service firm or directly engaged by the consumer. Very little of the former was found. It appears that \$3.9 billion was spent in this sector of the informal economy. The repair of automobiles accounted for another \$2.8 billion of expenditure in the informal economy. The classification of automobile repair services presented greater problems than did domestic service or child care, since in automobile repair the purchaser was not as likely to have a significant knowledge of the vendor's characteristics.

All purchases made at flea markets and from sidewalk vendors were classified as taking place in the informal economy. Flea markets are a more organized form of informal activity than is sidewalk vending, but the degree to which flea markets are organized varies a great deal. Depending upon the political jurisdiction, vendors in a flea market may be required to acquire permits or a license in addition to paying a booth fee, but otherwise the flea market vendor has the earmarks of an informal economy entrepreneur. In 1981, flea markets and sidewalk vendors accounted for \$1.7 and \$1.8 billion in purchases, respectively.

Respondents to the Survey of Consumer Attitudes (SCA) were also asked about the purchase of lawn and garden services. In spite of a growing lawn and garden care industry in the more affluent suburbs, these services are traditionally supplied by high school and college age youths. Respondents were queried about whether the service was provided by a firm providing lawn care services, or by a person operating more casually. Very little of the \$1.4 billion of reported transactions related to lawn maintenance seem to have been part of the formal economy. Lessons, ranging from academic tutoring to dancing, accounted for \$0.9 billion of informal supplier receipts, while appliance repair accounted for another \$0.7 billion.

Soaring fuel costs have renewed interest in coal and wood as a source of heat. State and Federal tax incentives to use wood as a fuel have further increased homeowners' demand for the fuel. Respondents were accordingly asked about their purchases of coal and wood from vendors operating on the side, as opposed to purchases from established businesses. For all practical purposes, no informal market was found in the case of coal, but a substantial informal firewood market of \$0.7 billion was uncovered by this study. Also, although the care of adults represented a much smaller part of the informal economy than child care, nearly \$0.4 billion was spent with unlicensed suppliers of such services. Finally, about the same amount was spent in the informal economy for cosmetic services, while smaller amounts, totaling \$0.7 billion, were spent for catering services and sewing.

Informal Supplier Income Reported on Federal Tax Records

As previously indicated, it is not possible for consumers to have certain knowledge of an informal supplier's taxpaying behavior. They may suspect that the individual who painted their hallway is not reporting the earnings, but any statement to that effect would be pure conjecture on their part. Additionally, some taxpayers providing services which a consumer would view as being informal could be expected to file returns and report that income and others, "moonlighters" for example, might simply report wages and have their informal income established on an audit of their tax return. For

this study two types of informal income were identified in the IRS Taxpayer Compliance Measurement Program (TCMP).

1. Misclassified informal income,
2. Properly classified informal incomes.

Within the TCMP file, an informal supplier was defined as a taxpayer who had income which appeared to be from an occupation which was covered by the informal supplier study and did not have any of the following business deductions: taxes, rent, insurance, legal and professional fees, pension and profit sharing plans, employee benefit plans or bad debts.

1. Misclassified Informal Income

The analysis of TCMP data for 1976 revealed small amounts of misclassified income (taxpayers reporting the proper amount of income, but on the wrong line of the return). Typically the taxpayer reported net self-employment income as wages. The TCMP examiner reclassified the income to Schedule C to properly reflect gross receipts. The occupation and industry codes on these taxpayers were of types commonly thought to be part of the informal sector. The kinds and amounts of expenses allowed suggest that the individuals operated in an informal manner. The total amount of gross receipts was projected forward from 1976 by using changes in nonfarm proprietor income as measured in the National Income and Product Accounts. This amount was equal to \$0.49 billion for 1981, as shown in Table 2.

Table 2.--Estimated Reported Gross Income and Net Profit of Informal Suppliers Who Filed Tax Returns, 1976 and 1981

[In millions of dollars]

Type of informal income reported on Schedule C	Gross receipts	Net profit
	(1)	(2)
<u>1976</u> ¹		
Total.....	5,452.0	3,053.3
Reported correctly.....	5,089.2	2,722.2
Reported but misclassified.....	362.8	331.1
<u>1981</u> ²		
Total.....	7,316.6	4,097.5
Reported correctly.....	6,829.5	3,653.0
Reported but misclassified.....	487.1	444.5

¹Based on 1976 TCMP results.

²Projected forward by changes in nonfarm proprietor income as measured in the national income accounts.

NOTE: The weighted average of the ratio between gross receipts and net profit is 59 percent.

2. Properly Classified Informal Income

The analysis of the 1976 TCMP file additionally revealed substantial amounts of correctly reported income that quite possibly would be perceived as informal income by respondents to the informal supplier income study. An estimate of \$6.83 billion of gross receipts were projected to have been correctly reported informal self-employment income for 1981. These results indicate that of the \$41.8 billion that consumers reported they purchased from informal suppliers approximately \$7.3 billion was reported to the IRS.

Informal Suppliers in the Underground Economy

Table 3.--Comparison of Estimates From the Informal Supplier Study, the 1972 Consumer Expenditures Survey, and the National Income Accounts, as of 1981.

[In billions of dollars]

Expenditure category	Informal Supplier Study (ISS)		
	Informal suppliers	Formal suppliers	Total
Food.....	9.0	246.3	255.3
Housing.....	11.5	16.0	27.5
	Consumer Expenditure Survey (CES) (adjusted) ¹		
Food.....		240.3	
Housing.....		23.5	
	National Income Accounts (NIA)		
Food.....		270.7	
Housing.....		24.7	

¹The original estimates from the CES were adjusted to 1981 by multiplying the original estimates by the ratio of 1981 personal consumption expenditures to personal consumption expenditures for 1972, as recorded in the National Accounts. Food and housing expenditures were compared because of their significance in the ISS (51 percent of gross receipts) and the existence of comparable data sets.

COMPARISONS WITH OTHER DATA BASES

In order to validate their estimates of the gross receipts of informal suppliers, SRC compared the results of the informal supplier study with other data bases that, in principle, measured the total of both formal and informal transactions. There were no systematic measures of informal supplier receipts to which the estimates developed from the SRC survey could be directly compared. There are, however, survey data which measure total consumption of households, such as the Bureau of Labor Statistics' 1972 Consumer Expenditures Survey. There are also estimates of the total value of transactions for selected industries. These come from the Bureau of Economic Analysis and the Census Bureau in the Department of Commerce and from the Department of Agriculture. The informal supplier study was designed so that for nearly all measurements of expenditures with informal suppliers, a comparable measurement was simultaneously made for expenditures with formal suppliers. Therefore, it is possible to add the study estimates of informal supplier receipts to arrive at a total which, in principle, can be directly compared to estimates derived from studies which measure total consumption. Unfortunately, the results of any such comparison must be qualified because of a number of conditions which preclude direct alignment of the informal supplier study results with those of other studies. These have to do with the differing times at which the informal supplier study and other studies were done, the differing scope of transactions which were measured, differences in the populations surveyed, and other factors. Despite these difficulties, comparisons can be made for some areas of expenditures which shed light on the credibility of the informal supplier study estimates. Table 3 presents such comparisons for food and for housing-related expenditures.

Comparison of Food Transaction Expenditures

The approach used to measure food purchases from informal vendors was to ask respondents if they had purchased food classified in any one of five

categories: fruits and vegetables, dairy products, meats and fish, jams and cakes, and other food products. If they had, they were then asked questions about the nature of the establishment from which they had purchased it--whether directly from a farmer, or from a roadside stand, a farmer's market, an itinerant vendor with a truck, or some other source. Based upon the results of these questions, it was estimated that approximately \$9 billion was spent to purchase food from informal vendors. Respondents were also asked the amount they had spent in formal sources of food supply such as a grocery store. As may be seen in Table 3, this amounted to \$246.3 billion. Thus the informal supplier study estimated a total of \$255.3 billion of food expenditures for 1981. The 1972 Consumer Expenditures Survey (CES) asked a national sample the amount they spent for food to be consumed at home. "Food" was taken to mean food and nonalcoholic beverages purchased at specialty stores, regular grocery stores, bakeries, dairy stores, vegetable stands, farmer's markets and directly from farmers. The CES estimated that Americans spent \$93.1 billion for such food in 1972. When this figure is adjusted by multiplying it by the ratio of personal consumption expenditures in 1981 to personal consumption expenditures in 1972, as reported in the National Income and Product Accounts (NIPA), the estimate of 1981 food expenditures based on the CES comes to \$240.3 billion. Estimates of total food consumption are also available from the NIPA's. The amount reported for 1981 was \$270.7 billion.

Further evidence of the reliability of the informal supplier study estimates of food transactions is provided by a 1977 study [7] conducted by the Economic, Statistics, and Cooperative Service of the U.S. Department of Agriculture (USDA). Section 4 of the 1976 Direct Marketing Act required the USDA to conduct surveys to determine the extent of direct marketing of agricultural products in the United States. The USDA, using a national probability sample of shoppers in 1977, estimated that 60 percent of American households brought food from farmers, roadside stands, curbside vendors, pick-it-yourself farms and orchards, farmer's markets, and truck vendors selling door-to-door in neighborhoods. The corresponding estimate from the IRS/SRC informal supplier study was virtually identical, 61.8 percent.

Comparison of Housing-related Expenditures

By combining several categories of measurement in the informal supplier study--appliance repair, furniture repair and re-upholstering, child and adult care, domestic services, lawn and garden care and repair of lawn equipment--a housing expenses concept can be constructed which is roughly equivalent to both CES and NIPA concepts of housing expenses. As seen in Table 3, the total value of such housing expenses estimated for 1981 in the informal supplier study was \$27.5 billion. This compares favorably to the \$24.7 billion measured in the 1981 National Income and Product Accounts and to a 1972 CES-based extrapolation of \$23.5 billion for 1981.

RESEARCH METHODOLOGY

The results of the Survey Research Center (SRC) study are based on a national probability sample of approximately 2,100 households which were interviewed by phone. Questions about purchases in the informal economy were included within a set of questions broadly economic in nature which were asked in the monthly Surveys of Consumer Attitudes conducted by the SRC [8].

The questionnaire used for the informal economy study was developed after focused discussion group sessions with members of families who lived in both urban and suburban areas and whose incomes were representative of a cross-section of American households. The questionnaire proceeded through three pretests before a final instrument emerged.

Three waves of final interviews, each consisting of a sample of about 700 households, were conducted between September and November of 1981. Respondents were asked to report amounts spent on a variety of goods and services during the past 12 months. The three waves were pooled and treated as though they were a single interview taken at one point in time. The information collected represents the annual purchases of consumers during the period from November 1980 through October 1981.

The questions on informal transactions were asked in the context of many questions about related economic activities. The focused discussion groups and the pretests had indicated that the term "on the side" was a well-established part of the national vocabulary. Therefore, the interviewer, before asking respondents the questions related to the informal economy, stated the following in a straight-forward manner:

We would like to ask you some questions about the opportunities people have to buy goods and services from persons who sell them on the side.

For each of the areas of consumption, the focus on the term "on the side" was reinforced by examples, or by restating the request for information about purchases made from vendors doing business on the side. A number of items of information about the vendor's occupation, the place where services were done or goods sold, how respondents learned about the vendor, and whether payment was requested in cash were solicited to help filter out the estimates of any formal economy activities that might have crept into respondent's answers.

CONCLUSION

This study estimated the amount of informal supplier receipts by measuring the value of household purchases from informal suppliers. Based on a national probability sample of approximately 2,100 households the upper limit of informal supplier receipts, as defined here, is estimated to be about \$42 billion in 1981.

Since this was the first systematic survey measure of informal supplier receipts, there are no other survey data to which the estimates from this study can be directly compared. However, a comparison to existing data on food transaction expenditures and housing-related expenditures indicates that respondents were fairly accurate in reporting their purchases from informal suppliers.

While the receipts of informal suppliers are significant, they do not appear to be as large as those implied in discussions which refer to an "underground economy." Furthermore, taxable receipts would be only a portion of the amounts reported by suppliers. It is estimated that more than \$7 billion of the \$42 billion informal supplier receipts were reported by them as gross receipts on their Federal income tax returns for 1981. In addition, some was earned by those without a tax return filing requirement and much of the remaining balance, if reported, would be reduced by allowable expenses and deductions.

Although the comparison between \$1,843 billion in personal consumption expenditures and \$42 billion total received by informal suppliers does not indicate large amounts of income "on the side", the perception of large amounts of such income may be due, in part, to its pervasiveness in small amounts throughout the economy. Over 80 percent of those questioned in the survey indicated at least a small purchase from informal suppliers. Thus, anecdotal evidence abounds throughout the population even though total amounts are not large relative to purchases in the formal economy.

NOTES AND REFERENCES

[1] For example see:

Feige, Edgar L. "A New Perspective on the Macroeconomic Phenomena: The Theory and Measurement of the Unobserved Sector of the United States Economy: Causes and Consequences and Implications." Paper presented at the September 1980 Meeting of the American Economic Association, Denver, Colorado.

Feige, Edgar L. "How Big is the Irregular Economy?," Challenge Magazine, November/December 1979.

Feige, Edgar L. "The Irregular Economy: Its Size and Macroeconomic Implications." Mimeograph. Madison, Wisconsin: Social Systems Research Institute, the University of Wisconsin, 1979.

Gutmann, Peter. "Latest Notes from the Subterranean Economy," Business and Society Review, Summer 1980, pp. 15--30.

Gutmann, Peter. "The Subterranean Economy," Taxing and Spending, April 1979, pp. 4-8.

Gutmann, Peter. "Statistical Illusion, Mistaken Policies," Challenge Magazine, November/December 1978.

Gutmann, Peter. "The Subterranean Economy," Financial Analysts Journal, November/December 1977.

Simon, Carl P. and Ann D. Witte. Beating the System: The Underground Economy. Boston, MA: Auburn House Publishing Company, 1982.

[2] For example see:

Bleiberg, Robert. Surfacing the Scratch, Tax Cut Might Raise Billions from the Underground Economy. Barrons, 1981.

Business Week. "Answers That Unveil the Underground Economy." October 11, 1982, p.14.

Detroit Free Press. "Underground Economy Zips Along on Hot Cash," January 1, 1978, D-1.

The Economist. "An Not so Clair de la Lune." May 5, 1979, Volume 272, 9:95.

Malabre, Alfred L. "The Underground Economy Grows and Grows," The Wall Street Journal, October 20, 1980.

Ross, Irwin. "Why the Underground Economy is Booming," Fortune, October 9, 1978, pp. 92-98.

Informal Suppliers in the Underground Economy

[3] U. S. Department of the Treasury, Internal Revenue Service, Estimates of Income Unreported on Individual Income Tax Returns, U.S. Government Printing Office, 1979.

[4] In this survey, informal suppliers were identified as follows:

1. Any supplier of the following goods and services who was thought by the respondent to be working "on the side" was conditionally considered an informal supplier. The focused group interviews and pretests conducted as part of this study had indicated that respondents had a good understanding of what is meant by working "on the side."

- a) Home repair and additions
- b) Food purchases from roadside stands
- c) Child care
- d) Domestic service
- e) Auto repair
- f) Sidewalk vendors
- g) Flea market vendors
- h) Lawn maintenance
- i) Lessons
- j) Fuel
- k) Appliance repair
- l) Audit Care
- m) Cosmetic service
- n) Sewing
- o) Catering

2. To reduce the chance that the respondent was confusing a formal supplier with an informal supplier, additional screening questions were asked concerning the vendor's occupation:

- a) Regular job
- b) Unemployed or laid off
- c) On strike
- d) Retired
- e) Informal establishment or vendor
- f) Housewife
- g) Student
- h) On the side operator
- i) Part-time worker
- j) Student with regular job
- k) Friend or relative
- l) Nurse
- m) Babysitter
- n) Day care center
- o) Nursing home
- p) Friend or relative and day care operator
- q) Other
- r) Don't know
- s) Undetermined
- t) Does not apply

The place where the transactions occurred:

- a) Roadside stand
- b) Farm market
- c) Farmer
- d) Roadside stand and farmer market
- e) Farmers market and farmer
- f) Roadside stand and farmer
- g) Roadside stand and farm and farmers market
- h) Own home
- i) Vendor's home
- j) Commercial market
- k) Garage/studio/shop

- l) Own home and vendor's home
- m) Vendor's home and garage/studio/shop
- n) Own home and garage/studio/shop
- o) In home
- p) Outside home
- q) Back of truck
- r) Self provide
- s) Delivered
- t) Back of truck and self provide
- u) Self provide and delivered
- v) Back of truck and delivered
- w) Other
- x) Don't know

How the respondent found out about the vendor of the good or service:

- a) Word of mouth, from a friend, neighbor, relative, or co-worker
- b) Knew the vendor personally
- c) General knowledge of familiarity; "just knew where to go," "there's a lot in this area," "been there for years"
- d) Noticed in transit; walked/drove past it, "saw it from the bus"
- e) Roadside sign; sign on the vendor's building, home, stand, etc.
- f) Vendor came to respondent, i.e., solicited door to door
- g) Card, notice left at respondent's home; notice on bulletin board
- h) Newspaper ad
- i) Radio or TV ad
- j) Billboard or yellow pages ad
- k) Other published material, booklet, pamphlet, or brochure
- l) "Saw an ad" somewhere; ad or brochure received in the mail and whether payment in cash had been requested.

3. In general, if the respondents noted that they found out about the vendor by newspaper, radio, TV, billboard, or yellow pages ad, the transaction was classified as a formal transaction.

4. On the basis of these criteria, the research team at SRC classified the transaction as:

- a) Definitely or probably informal, or
- b) Definitely or probably formal.

[5] James D. Smith, Terry Moyer, and Eileen Irzcinski, "The Measurement of Selected Income Flows in Informal Markets;" Appendix A: Questionnaire; Appendix B: Codebook; Appendix C: Univariate Tables, Part I and II; Appendix D: Total Income Flows in Informal Markets; Appendix E: Transcripts of Focused Discussion Groups: Port Huron, Detroit, Casa Grande; Report Prepared for Internal Revenue Service Contract No. IIR-81-28, Survey Research Center, Institute for Social Research, The University of Michigan, Ann Arbor, MI, December 1982. Copies of this report or of the individual appendices can be obtained for a nominal cost from the Survey Research Center.

[6] Interviewing representative of business establishments would also call for much better trained interviewers, who would be expected by the respondents to be familiar with technical business and accounting concepts.

[7] See H.S. Linstrom and Jon Weimer, "USDA Research on Farmer-to-Consumer Direct Marketing," Proceedings for a Tennessee Valley Authority

Sponsored meeting on Marketing Alternatives for Small Farmers, Atlanta, Georgia, February 12-21, 1979.

- [8] The study of the informal economy was a supplement to the SRC's existing Surveys of Consumer Attitudes. SCA's use telephone interviews conducted with adult men and women living in randomly-selected households in the conterminous United States (48 states and the District of Columbia). Telephone surveys differ from most personal interview surveys in that the telephone medium is used both to identify sample households and to interview them. National

telephone surveys use ten-digit telephone numbers as elements for selecting a sample. The Surveys of Consumer Attitudes employ a technique, Random Digit Dialing (RDD), which makes random selections based upon the last four digits of a telephone number after stratification by geography and size of exchange has been accomplished using the area code and central office code digits of the number. Stratification by area and central office codes assures sample representation of different regions, states, and metropolitan size categories, giving every number in the conterminous United States an equal chance of being selected.