Table 56

DISTRIBUTION OF ENTERPRISES BASED ON MAXIMUM WAGE PAID TO FEMALE WORKERS

Wage	Number of Enterprises	Percentage Distribution
Less than ₱5.00	2,024	81.2
₱5.00 to ₱9.99	251	10.1
Greater than ₱10.00	217	8.7
T o t a l	2.492	100.00

Fro Table 55 we get the information that 10.5 per cent of the 2,492 enterprises in the sample pay a maximum wage of ₱10.00 or higher to male employees, and from Table 56, 8.7 per cent of the whole pay this maximum wage to female employees. We cannot tell whether the latter 8.7 per cent is a subset of the former 10.5 per cent. Most likely the intersection of the two subsets approaches the size of the former. The point here is that if an enterprise can pay a wage, even to female employees, equal to or greater than the wage in the organized capitalist sectors of the economy, whether this enterprise employs more at lower wages, or even at no wage at all, then such an enterprise must have reached a point where it would rather have such a high-wage employee than without, that is, calculations based on the contribution of the worker to output must have been made. In short, such enterprises must already be classified as capitalist enterprises. Hence, based on Tables 55 and 56, at least 8.7 per cent of the 2,492 enterprises must be capitalist enterprises.

Similarly, consider Tables 57 and 58. We have here the 2,492 enterprises in the sample distribution on the basis of minimum wages pa paid to employees, both male and female.

Table 57

DISTRIBUTION OF ENTERPRISES BASED ON MINIMUM WAGE PAID TO MALE WORKERS

Wage	Number of Enterprises	Percentage Distribution
Less than ₱5.00	2,235	89.7
₱5.00 to ₱9.99	172	6.9
Greater than ₱10.00	85	3.4
T o t a l	2,492	100.0

Table 58

DISTRIBUTION OF ENTERPRISES BASED ON MINIMUM WAGE PAID TO FEMALE WORKERS

Wage	Number of Enterprises	Percentage Distribution
Less than ₱5.00	2,292	92.0
₱5.00 to ₱9.99	42	5.7
Greater than ₱10.00	58	2.3
T o t a l	2,492	100.0

From Tables 57 and 58, respectively, 10.3 per cent of the 2,492 enterprises paid a minimum wage higher than ₱5.00 to male employees while 3 per cent of them paid such a minimum wage to female employees. A 5-peso wage is not very high (in fact it is half of the legal minimum) but in the context of high unemployment rate, it may not be far from the level to which competitive pressures will push minimum wages if there were no wage legislation. Precisely, it is in the unorganized sectors where the free market rate may be establsihed. (This is not dissinilar to black markets in foreign exchange and in other commodities.) Thus, a capitalistic enterprise in the informal sector will push its employment where the wage approaches this free market rate. Thus, we can say that at least 8 per cent of the 2,492 enterprises in the sample are capitalistic enterprises.

Based on the preceding criteria, 8 per cent to 10.5 per cent of the 2,492 enterprises in the informal trade sector are capitalistic enterprises. But the actual percentage may well be higher than 10.5 per cent. The reason is that for those enterprises employing workers other than the entrepreneur, capitalist exploitation of the worker may take place such that the wage paid is even lower than ₱5.00. Or for the one-man enterprises, there is no necessity that the enterprise is not a capitalist enterprise; in fact, precisely the reason employment is not greater than one is because the next worker can no longer pay for himself.

If it is true that some enterprises tried, and succeeded, to hire workers at wages below what are considered as the competitive level, then a reflection of this fact can be found in the difficulty of such enterprises

in recruiting labor. In the sample, 2.6 per cent always experienced difficulty in recruiting labor, while 9.5 per cent sometimes experienced such difficulty. (This adds up to 12.1 per cent, while a similar question in terms of kind of labor hired, showed 13 per cent encountering difficulty in recruitment.) The 12.1 per cent total will certainly include some of those enterprises which in Tables 57 and 58 were paying less than the legislated minimum wage of ₱10.00 but greater than ₱5.00. Thus, if we take the 6.9 per cent figure in Table 56 as also experiencing difficulty in labor recruitment, then 5.2 per cent (12.1 - 6.9 per cent) would be accounted for by enterprises paying a minimum wage smaller than ₱5.00 but which are organized as capitalist enterprises. From Table 57 we note that 89.7 per cent of the 2,492 enterprises pay less than ₱5.00. Out of these 89.7 per cent, those that are not capitalistically organized may not as a rule experience difficulty in labor re recruitment since such enterprises will recruit labor not only through the enticement of wages that it pays to workers, but also through other non-economic means. On the other hand, enterprises paying at least the legislated minimum wage as a rule will not experience difficulty in labor recruitment in a situation of unemployment. Thus, to the 10.3 per cent (Table 57) considered as capitalistic enterprises we add this additional 5.2 per cent giving a total of 15.5 per cent of the 2,492 enterprises operating as capitalistic enterprises. This figure actually coincides closely with the 15.1 per cent of the total which close only on Sundays and fixed holidays (the others close at will), a mark of regular, capitalist enterprises.

This 15.5 per cent figure need be corrected only for the one-man enterprises which are capitalistically organized, if there are any. Of the 2,492 enterprises 22.9 per cent have total employment of zero or one (0 or 1). Only a portion of this of course constitute the truly one-man enterprises. From the data on hand, there is no way to tell how much this portion really is. Nor is there a way to tell how many enterprises constitute one-man capitalist enterprises. As a rough estimate, one can take the proportion of the latter to the total equal to the portion that the 15.5 per cent accounts of those enterprises with employment greater than one to arrive at a 4.0 per cent value. The actual figure could be closer to zero, since one-man enterprises would in general be small enterprises (in sales, among other criteria), and we have indicated in the discussion of the model that the force of competition hardly allows the existence of capitalist enterprises. Nevertheless, we can take 20 per cent as a reasonable maximum estimate of enterprises out of the 2,492 which operate as capitalist enterprises, with 15.5 per cent as lower upper bound.

Another indirect way to add confirming evidence to the model involves verification of the competitive assumption. In the development of the model above it was seen that of the enterprises supplying goods consumed daily by households, the Class I enterprises supplying low income consumers will hardly be affected by the existence of big enterprises. On the other hand, the Class II enterprises have to compete with the big enterprises, so that both price and locational considerations are crucial for these enterprises. And for the enterprises dealing with durable and

semi-durable goods, competition with big enterprises is also the name of the game, although these serve mainly a low income market. Moreover, in our discussion in relation to Table 46 we have seen that 41.2 per cent of the 2,492 enterprises in the sample have been identified as the enterprises largely competitive with the big enterprises. Now consider Table 53 which shows the distribution of enterprises on the basis of whether and how the existence of large enterprises producing similar goods or services affect the revenue of the small enterprises. Here, of course, the figures are based on what the corresponding entrepreneurs of each enterprise think so that the subjective element enters. Nevertheless, the close correspondence to model assumptions lend credence to the model and its conclusions. The 44.7 per cent of total enterprises strongly indicating competition with big enterprises correspond closely to the 41.2 per cent identified in Table 46 as constituting informal sector enterprises (Class II and Class III enterprises) competing with large enterprises. In fact if we add the 3.3 per cent of the total considered in the model as class I enterprises attempting to break into Class II category, the correspondence is much closer indeed. Similarly 18.2 per cent of the enterprises are not affected at all by the large enterprises (Table 59) while from Table 46 we note that 15.3 of enterprises belong to the smaller segment of class I enterprises. If we bear in mind that Class I enterprises, in the model, are considered mainly complementary, and not competitive with large enterprises, then we can just see how close the correspondence is. All these do not prove anything, and only a cross-tabulation of the two tables can completely verify such a correspondence. Nevertheless, all these indicate that at

least the assumptions in the model are not completely divorced from the reality the model intends to present at the analytical level.

Table 59

DISTRIBUTION OF ENTERPRISES BASED ON THE EFFECT OF LARGE ENTERPRISES ON THE REVENUE OF SMALL ENTERPRISES

Degree of Effect	Number of Enterprises	Percentage Distribution
Yes, very much	1,114	44.7
Yes, but not much	867	34.8
No	454	18.2
Not applicable	57	2.3
T o t a l	2,492	100.0

All these can also be better appreciated after a look at Table 60, presenting the reasons why large enterprises affect the revenue of the small enterprises. Cheapness and locational advantages are chiefly the reasons large enterprises affect smaller enterprises. These are precisely the main reasons which allow Class II enterprises within the informal trade sector to survive. Conversely, these must be the main reasons small entrepreneurs will perceive as the causes bringing about decline in enterprise revenue, ultimately brought about the competition with larger enterprises.

Table 60

DISTRIBUTION OF ENTERPRISES BASED ON THE REASONS LARGE ENTERPRISES AFFECT REVENUE OF SMALL ENTERPRISES

Goods or Services/Reason	Number of Enterprises	Percentage Distribution
Cheaper goods	966	38.8
No, but better quality	168	6.7
Cheaper and better quality	223	3.9
Large enterprise is more accessible	473	19.0
There is variability of goods, better facilities	112	4.5
Goods are badly needed	41	1.6
Not applicable	509	20.4
T o t a l	2,492	100.0

The Entrepreneur

In the discussion of the model above, what was considered as a basic reason for the survival of small trading enterprises was low levels of income of consumers. For as long as households have incomes less than some threshold level, petty trading will perform a useful social and economic role. But this is only one side of the picture, because even if this were so, it is not necessary that these small trading enterprise do not behave in any predictable manner at all. For as long as such enterprise are economic units using both capital and labor, then we must expect some predictable relationship between output and levels of utilization of

inputs, unless, as indicated above entrepreneurs do not calculate returns on these inputs as others do in a basically capitalist milieu.

Thus, we have indicated in discussion of the model that unless capital attains some minimum value, it will remain locked-in in a low yielding use, that is, it is not mobile. Returns to it may vary considerably and yet it will remain where it is. In this situation, relating capital use to value added, say, will not be predictable. But this is not all, What about the entrepreneur, the head of entrprises? Certainly if there is an alternative employment for these entrepreneurs, entrepreneurial returns can only go down far enough to equate these returns to income from alternative employments. Thus, entrepreneurial returns can vary considerably too, without any tendency for enterprise heads to move out if there are no remunerative alternative employment for the entrepreneurs. This fact must be reflected in the sample data if confidence in the use of the model is to be strengthened.

Consider the fact that 2,004 or 80 per cent or 2,492 enterprise heads consider working in the enterprise as their main occupation. Besides 39.3 per cent of them (1,790 heads) have no subsidiary occupation, i.e., 71.8 per cent of all enterprise heads are really full-time with the enterprise. These figures are presented because there is some vagueness in the following figures. The enterprise heads were asked how their present jobs were attained by them. The heads could have interpreted the question as relating to their main occupation or to their occupation as heads of enterprise. Anyway, 80 per cent of enterprise heads list entrepreneurship as their main occupations. Now regarding case of job attainment,

the sample results show that 1,071 heads, or 43 per cent of the total attained the present job quickly, without effort, 1,095 or 43.9 per cent attained it after considerable search and delay, while the remainder, 13.1 per cent, attained it after a great deal of search and delay. On the other hand, only 706 heads or 28.3 per cent of the total feel that they can get a similar job quickly if they leave the present job; 48.6 per cent think that they can get it with some difficulty; and 23.1 per cent think they can only get it with a great deal of difficulty.

These figures merely suggest that entry to the informal trade secto is easier than exit from it. There does not seem to be wide opportunitie outside for the enterprise heads already in that trade. Another interestin fact turned out by the survey is that 2,034 enterprise heads, or 81.2 per cent of the total are satisfied with their present occupation, while the rest are looking for similar jobs (12.0%) or for jobs in a different occupation (6.8%). This is interesting when one notes that 60 per cent of enterprise heads receive less than ₦20.00 a day (Table 52), and in fact 23 per cent receive less than ₦7.00 a day (Table 52). Thus the minimum wage of ₦10.00 a day, we expect that those looking for other jobs should be greater than the 18.6 per cent of all the entrepreneurs who have actually expressed such a desire.

The reason for this divergence between our expectation and what actually is shown by the data may be the one suggested above, viz., that employment opportunities are scarce. This may be true, but what seems clear from other data is that this is only a partial explanation, if it is an explanation at all. The enterprise heads were also asked if they

would change occupations if new skills were taught them. Surprisingly, 2,036 or 31.7 per cent of the total emphatically answered no, under all circumstances. The reason for this may be seen from the following. When asked if they would leave GMA if a similar or a better job were provided them, only 23 per cent of enterprise heads answered yes, while 25.9 per cent said no because the transfer would affect children's education, 7.5 per cent said no because it would affect earning opportunities of other members of the household, and 24.8 per cent said no because it affects earning of the respondent (conceivably from other sources). The respondents were actually allowed more than one answer to the question, and it turns out that for second answers, 20 per cent said no because of the effect on income of the respondent.

It seems clear from all these that the reasons enterprise heads went into trade are many, and not all of these reasons are economic. For this reason, entrepreneurial earnings could vary within wide ranges and the enterprises need not fold up, i.e., no return is defined as that level that determines entry or exit of enterprise.

Conclusion

The model of the informal trade sector developed above was formulated to explain the absence of any regularity in the relationships between economic variables which normally are found in other sectors and in other economies. Some conclusions from the model as well as assumptions have been sustained by the data strengthening confidence in the use of the model.

However, the more significant conclusions remain to be established beyond doubt, and for this purpose some suggestions for future work (on the same set of data but with specified cross tabulations and perhaps other statistical exercises performed) were put forward. It is unfortunate that major policy conclusions must await results of this work.

Moreover, a description of the sector in the sense of presenting one of the results of the survey (answers to various questions) was not attempted anymore, because until and unless the inherent interconnections of these bits of information are unraveled, all these bits, however presented, will remain a set of jumbled data.

Nevertheless, to the extent that some trust can be put on the model very general policy conclusions may be attempted. First is recognition of the very useful social and economic function of small trading enterprises so that conclusions to the effect that such enterprises are uneconomic may be illusory. Thus, the model pre-empts policy that may restrict operation of the small trading enterprises. Second is the possibility indicated by the model that the optimum size trading enterprise may be found among its numbers so that, while this optimum size remains unknown until after further work suggested above, it already suggests a policy of restricting growth of mamoth trading enterprise. We can not be categorical about this because even if a small size is shown to be optimum, it still remains a problem to show that a bigger size is non-optimum. After all, the optimum size need not be unique, if constant returns to scale prevails.

5. Framework for Policy Formulation for the Trade Sector

An analytical framework that may be used to analyze distributional trade is to assume that it does not contribute anything to output as income. More concretely, let us say that the output of the economy in tangible goods is equal to a hundred units, and income in real terms is of course equal also to a hundred units. Assume that all these will be consumed. These hundred units of output have been produced as if at a point in space, and for it to be consumed, the spatial distribution must be fulfilled. It is here where trading activity comes in, and it is for this reason that trading can be thought of as being productive. The traders get hold of the goods produced and distribute them to the consuemrs, and for their effort must be compensated. The traders by no amount of effort can change the volume of these goods. All that they can do is to give to the producers of the 100 units of goods, say, 80 units only, and keep for themselves the 20 other units. The producers of the goods can still be thought of as consuming 100 units of output, but the 20, in addition to the 80 in terms of tangible goods, consists of "services" or "productive mark-up" contributed by traders. Thus, in terms of conventional national accounting framework, the total output or income of the economy is actually 120 and not a mere 100.

The model presented above is necessarily a simplification but it seems to capture the essential character of trading activity. We tie in this essential characteristic of trading activity to what crucially determines, and defines, economic growth as an ever increasing production and consumption of tangible goods (and services). Certainly, while trading

does not add to the flow of tangible goods, it may use up more resources than is necessary to produce the "services" it renders and thus, to a certain extent, reduce the amount of resources which will have been used more productively in the production of tangible goods. Thus, the goal of policy with respect to trade is simply to see to it that no more of the economy's resources should be devoted to it than will efficiently distribute the economy's output of tangible goods. This is of course no more than a re-statement of the classic economic problem in the context of trade.

[illegible] this points to the fact that the matrix of policy for this sector of economic activity must be directed to the whole sector and not merely to some segments of it, like the informal trade sector. However, the result of the analysis in the earlier sections of this paper indicates that there are cerain areas where policy is constrained. Even if we assume that the small enterprises can be encouraged to expand to attain some optimum size via liberal credit facilities extended to them, no significant change may be realized, for the character of the informal trad sector eventually leads to enterprise size which may be smaller than this optimum. Indeed, the existence of the informal trade sector, and of many sub-optimal units in it depends in the final analysis on low levels of income for the population. Thus, these enterprises can neither be legislated away, nor can they be forced to operate in some optimal fashion

Nevertheless, the analysis, while not conclusive due to absence of a complementary study of the larger enterprises in the formal sector and the incomplete nature of the data collected and processed, points

to the existence, as well as possible development, of an optimal enterprise within the class of small-scale enterprises. The emergence of such enterprises follows the emergence of relatively higher income classes. If, for instance, these enterprises can be shown to utilize both capital and labor more productively than do larger enterprises, then the obvious policy that emerges is to limit the growth of giant trading enterprises and at the same time encourage such small enterprises which can operate optimally. At this point, one can not be categorical about this policy prescription since we have failed to compare the performance of the small scale enterprises and the large enterprises.

However, to the extent that trading is essentially an adding of the spatial dimension to production, then to that extent can we say that the smaller enterprises that have attained optimal levels of operation should be favored more than the bigger enterprises. The effect of large enterprises is to concentrate even the provision of distributional services at a point in space, while distribution has to be more widely dispersed to follow concentrations of people. Why this has come about may be due to the fact that such enterprises have come into existence, and these enterprises have developed the snob-appeal to make consumers go to them in spitee of additional transportation cost, among other things. Moreover, our data does not show conclusively that the larger enterprises can operated more efficiently, if we base this on cheapness of goods being sold by the larger enterprises, because if they were more efficient this would have been reflected in more than 38.8 per cent of the surveyed small scale enterprises indicating that it is cheapness of goods

that has produced the negative effect of large enterprises on the revenue of the smaller enterprises. If at all, the data may in fact show the opposite, that some of the smaller enterprises can and do operate more efficiently than the larger ones. We have seen in the analysis in preceding sections that most of the smaller enterprises will have to sell at higher prices than larger enterprises, for doing the important social function of breaking up goods into finer units to help the low-income households make both ends meet. It will not be surprising that with the growth of the big enterprises in the formal sectors, these are the same enterprises who constitute a big portion of the 38.8 per cent of enterprises being affected by cheapness of goods sold in bigger enterprises.

In short, there are some indications that firmly support a policy of restricting the growth of big-scale trading enterprises; in fact, such a policy may extend towards ultimately reversing the growth trend until small-scale but optimal trading enterprises will have been located in various points in GMA to service given concentrations of population. The indirect effects of such a policy may also be enormous. To reverse the concentration of trading enterprises is also to reverse the inevitable necessity for the movement of people to such concentrated points in space. In addition to this negative policy is the positive policy of promoting the growth of the optimum-size small scale enterprises.

Such a policy may be served by a policy which has as its targets the Class I enterprises that we have identified in the preceding section. Whatever the government does save forcible closure, such enterprises will

nevertheless continue in existence for as long as low-income classes exist. The irony here is that these low-income households are in fact the ones which end up paying more per unit of consumption goods they purchase. This, as previously discussed, is quite inevitable. A policy that naturally comes to mind which has equity as its objective is for government to see to it that prices in these enterprises do not settle at levels higher than prices in the small enterprises operating at optimal sizes, or prices in large enterprises, whichever is smaller. This objective may be achieved by setting up a government or semi-government entity that can supply these small enterprises at controlled prices. In other words, these enterprises will buy goods at given prices, and the mark-up that they can add will be controlled. Licensing and inspecting will naturally be concomitant elements of this policy. In the course of time, this policy, together with a policy of limiting the growth of large-scale enterprises, may result in optimum-size enterprise optimally located in space. The precondition is that incomes will have increased even for the lowest income classes, that the services of the inefficient small-scale enterprises will no longer be necessary.

APPENDIX

The equations estimated were:

(1) VAE = f(LFE, QLF, VFA, CUR, SCR, YOE, YOE^2, LST, FLK, BLK)

(1.1) VAW = f(KLE, YFE, AGH, PTW)

(1.2) VAK = f(LKE, YFE, AGH, PTW)

(2) LFE = f(ADW, VAE, VFA, CUR)

(3.1) EHE = f(VAE, EHP, HWE, SXH, AGH, YFE, FIF)

(3.2) HYE = f(VAE, HWW, SKL, SJB, SXW, AGU)

VAE: value added per enterprise as defined by total revenue from sales minus cost of goods and services bought, in pesos

LFE: total employment per enterprise as defined by the number of full-time and part-time workers and working owners

QLF: quality of the labor force as defined by the number of workers with formal schooling:

most or few of the workers	-1
one, none, don't know, not applicable	-0

VFA: value of fixed assets, in pesos

CUR: daily capacity utilization rate as defined by hours of daily operation + 24 hours x 100.

SCR: credit sources for big expenditures:

banks and other big financial agencies	-1
otherwise	-0

YOE: age of enterprise as defined by the number of years of operation

LST: legal status as defined by whether the enterprise is subject to government inspection or regulation

yes	-1
no	-0

FLK: forward linkages as defined by types of buyers of services sold by the enterprise

big commercial/government enterprises	-1
otherwise	-0

BLK: backward linkages as defined by the seller of goods and services to the enterprise

large enterprises, government agencies, or combination of both	-1
otherwise	-0

VAW: value added per worker as defined by VAE ÷ LFE

KLE: the value of fixed assets per worker per enterprise as defined by VFA ÷ LFE.

YFE: years of formal schooling of the enterprise head as defined by midpoints of ranges of years of schooling coded as follows:

Years	Code
2.5	1
5.5	2
8.5	3
10.0	4
12.0	5
14.0	6
18.0	7

AGH: age of enterprise head as defined by mid-points of the age rangescoded as follows:

Years	Code
8.0	1
18.5	2
23.0	3
28.0	4
35.0	5
45.0	6
55.0	7

PTW: (proportion of part-time workers out of the total full-time and part-time workers) x 100

VAK: value added per unit of capital as defined by VAE ÷ VFA

LKE: labor capital ratio as defined by $\frac{1}{KLE}$

APPENDIX B*

THE INFORMAL TRADE SECTOR AS INDICATOR OF CHANGES IN INCOME DISTRIBUTION

Equation (1) in the text can be specified more completely as

(1) $NS = aH\overline{Y}$

where N = number of informal trading enterprises

H = number of households with incomes less than or equal to some threshold income Y_s

$\overline{Y}$ = average income of households belonging to H

S = average size of enterprises in peso sales volume per period

a = constant.

Tha rationale for this equation is that for low-income households receiving income less than or equal to some threshold income level, purchases of basic consumption commodities will be made at small trading enterprises dealing in such commodities. (These enterprises are sari-sari stores mainly.) If such households allocate a fixed proportion of their income on basic consumption commodities, the right-hand side of equation (1) equals the total volume of such pruchases, where the constant a measures this proportionality of consumption to income.

Thus, equation 1 simply says that total purchases (NS) equal total sales (LHS).

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*This appendix is not a part of the report to ILO.

However, it may be argued that proportionality of consumption of basic commodities to income is a weak assumption. This may be so, but a possible interpretation of $\bar{Y}$ is that for low-income households it is the amount which they allocate to consumption prior to allocating the remainder to other purchases. Given this interpretation, the constant a simply takes care of making the LHS comparable with the RHS. Either interpretation is consistent with the use to which we put equation 1.

The number of households H having income less than the threshold income Y_s is

$$(2) \qquad H = P H_T$$

where P = percentage of total households with incomes smaller than or equal to Y_s

H_T = total number of households.

Substituting (2) in (1), Taking logarithms and differentiating with respect to time yields

$$(3) \qquad n + s = p + h_t$$

where n = rate of change of the number of informal trading enterprises

s = rate of change of average size of enterprise

p = rate of change in percentage of total households with income smaller than or eaual to Y_s

h_t = rate of change of total households.

Thus, if (1) is correct, specification of Y_s is not even necessary in order to say something about the distribution of households with respect to income. Assuming that n, s and h_t in (3) are measurable then p can be estimated. From the survey we found n to be about 11 per cent, and h_t roughly 6.4 per cent. Under the assumption that s = 0, then p = 4.6 per cent, indicating that "low income" households in GMA have increased relatively.

All this suggests a possible use of informal trade sector data as indicators of changes in income distribution.