



S0197-3975(99)00012-0

Informal Markets: Street Vendors in Mexico City

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ABSTRACT

The central question this article addresses is: What are the functions of street vendor organizations? The study of street vending in Mexico City shows that vendor organizations perform mainly two central functions. (1) Organizations as negotiators or deal-makers; street vendors choose to become members of these organizations as a means to overcome red tape or complex bureaucracies. (2) Organizations as managers of social assets; organizations limit membership and access to informal markets and manage conflicts among vendors. The article shows that social capital, family, friends, etc., play an important role among street vendors whenever access to stalls in the informal market is at stake.

The article raises questions regarding the way policies to formalize street vending are being implemented. Governments are attempting to control and regulate street vendors without taking into account their organizations. The article points out that future policies need to be designed in such a way that government and social institutions, like street vendor organizations, share responsibilities for the smooth functioning of informal markets. Finally, the article concludes that social institutions could represent an efficient solution to problems such as service delivery and others that people in developing countries face. © 1999 Elsevier Science Ltd. All rights reserved.

Keywords: street vending; informal sector; social capital; Mexico; markets

INTRODUCTION

In recent years, city governments throughout the developing world, such as those in Mexico City and Lima, have begun to implement plans to control the problem of street vending.¹ However, the outcomes are mixed and have generated a great deal of tension between the government and street vendors.

This article focuses on street vendor organizations and their importance in the policy-making process. By having a clear understanding of the role and function of street vendor organizations, local governments² could design plans that are more in accordance with the current situation and they would then have a higher probability for success. The key question this article addresses is: *What are the functions of street vendor organizations?*

Street vendor organizations in Mexico City are used as a case study to address the question posed above. This article is divided into five sections. The first section

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analyzes the theoretical debate that frames this problem concerning the state's role in the development process. The second part explains the methodology employed to answer the above question. The third section describes the context of the different types of informal markets and the way they operate in Mexico City. The fourth section discusses findings of the study. The final section presents the conclusions and focuses on the importance of this study to the policy-making process regarding ways to manage and control street vending.

THE ROLE OF THE STATE AND THE INFORMAL SECTOR DEBATE

In recent years, the debate about the informal sector has revolved around the views put forward by Hernando De Soto (De Soto, 1989) and Alejandro Portes and others (Castells and Portes, 1989; Portes, 1994, 1995; Portes and Benton, 1984; Portes and Schauffler, 1993a). The role the state has performed in the development process appears to be at the center of the debate between De Soto and Portes. On the one hand, De Soto (1989) believes the state has deleted or affected negatively the development process. On the other hand, Portes (Portes, 1994; Portes and Schauffler, 1993a) argues that state intervention is a key factor in fostering development. So, each view offers different alternatives to address the problem of street vending in developing countries.

Bromley (1990) describes De Soto as “the Milton Friedman of the Third World” because, like Friedman, De Soto prizes the virtues of the *laissez-faire* system as the means to development. De Soto believes state regulations and red tape are set in such a way as to protect and maintain the privilege of certain groups in society (e.g. formal sector activities), denying opportunities to other groups (e.g. informal sector). Because of the state's bias, people find ways to overcome the red tape and regulation; as a consequence, they choose the informal path. In summary, the state straightjackets people's entrepreneurial spirit, becoming instead an obstacle to development.

Portes (1994) believes that a system with well-defined rules and an agent that would protect property rights and enforce contracts is a necessary condition for the development of a well-functioning market economy. Portes (1994) points out that lack of governmental regulation would have some paradoxical results. One paradox is that “the more it approaches the model of the true market, the more it depends on social ties for its effective functioning” (Portes, 1994: 430). In short, according to Portes, if the state foregoes its regulatory function, the result would be not a true *laissez-faire* system but a system based on pure social trust to enforce rules and contracts.

De Soto (1989) and Portes (1994) are two extremes of the debate concerning the role of the state in the development process. De Soto (1989) believes the best government is the least government whereas Portes (1994) believes a stronger government is a better one. Teltscher (1992) and Bromley (1990) recognize the need for more research concerning the role of the state as a cause and/or solution of the informal sector. Bromley (1990) points out that new research needs to be done concerning the efficiency of different types of small enterprises and the appropriate levels and types of state involvement. Teltscher (1992) emphasizes the need for research that would look into the relationship between vendors, their associations, and the state.

This article addresses some of the research needs identified by the authors above. The article focuses on a key issue — the functions that informal institutions (i.e. street vendor organizations) have on the survival strategy of people — and attempts to reconcile the two extremes of the debate. Empirical findings show that people engaged in market activities, such as street vendors in Mexico City, have the need for an agent or institution that would regulate them. The key issue for future

policy is whether government should be the regulatory institution or if alternative ways can be found in which both the state and social institutions are engaged.

SAMPLE AND RESEARCH SITES

Street vendor organizations in Mexico City are used as a case study to analyze the role and function of informal institutions. Case studies of this nature provide valuable knowledge about social institutions and how they fill gaps left by governmental institutions.

This article relies heavily on fieldwork undertaken in the summer of 1997; the fieldwork includes participant observation, in-depth interviews with city officials and leaders of street vendor organizations, and standardized questionnaires. The paper also relies on personal experience and knowledge of the researcher who worked as a street vendor in Mexico City for almost 15 yr— first helping his father at the age of 10 and then as an independent entrepreneur until 1991.

The survey is nonrandom and the cases were drawn from a convenient sample. External validity, which refers to the generalization of findings (Goldenberg, 1992), is perhaps the biggest limitation of the study because of its size (49 cases) and the lack of randomness. On the other hand, the strength of the sample procedure is that the researcher was able to obtain answers with better accuracy, which is difficult to achieve given the current social and political context.³ In short, according to Teilhet-Waldorf and Waldorf (1983) there exists a “trade-off of a lower response error for higher sampling error.” (Teilhet-Waldorf and Waldorf: 1983: 589)

The sample of informal markets and street vendors was generated at five different locations in Mexico City: (1) Ciudad Neza⁴[45%], (2) Downtown [14%], (3) Tepito [16%], (4) San Juanita [12%], and (5) vendors located elsewhere in the Federal District (DF) [13%]. The selection parameter of the research sites was determined based on whether the researcher had contacts to introduce him to vendors in the above markets. As stated before, this approach is a trade-off between lower response error and higher sampling error. This is important because the quality of the vendors’ responses will give a more accurate assessment of the organizations. Informal markets in Ciudad Neza and the San Juanita market are considered *tianguis* or mobile markets. The downtown and Tepito areas are described as commercial concentrations. The characteristics of each type of informal market are discussed in the next section.

The demographic characteristics of the people that were surveyed are as follows: 65% of the people surveyed are males; mean age is close to 40 yr with a minimum age of 19 and a maximum of 72. The mean education is 7.54 yr. When queried about the highest grade completed, 21% had fewer than six years of formal education, 25% finished elementary school, 46% attended at least one year of secondary school (grades 7–12), and 8% of the sample had some college education. The majority (66%) of the vendors were born in Mexico City — the mean number of years since migration of people born outside the city is about 30.⁵ Also, 61% of the people were married and 77% have children; the mean total number of children is 3.21.

INFORMAL MARKETS: STREET VENDORS IN MEXICO CITY

The dichotomy between developed and developing economies has made us believe that informality is an exception rather than the norm. However, street vending in Mexico and other parts of the world is not the exception but rather has been the norm in commercial activities. Prior to the arrival of Spaniards in Mexico, the native Aztecs had markets in public areas. Known as *tianguis*, they operated in the

Table 1. Informal markets: street vendors' typology

Commercial scheme	Mode	Characteristics
Informal markets	<ul style="list-style-type: none"> ● Mobile markets ● <i>Tianguis</i> ● Concentrations ● Bazaars 	<ul style="list-style-type: none"> ● They complement the formal schemes that supply basic products ● Some are mobile but some have permanent locations ● Operate mainly in working class neighborhoods

Source: Adapted from DDF (1997)⁷.

same way informal markets operate today. Street vending is an activity that people have performed for years and it has deep cultural roots⁶ among the Mexican people.

In recent years, street vending has grown due to the implementation of structural adjustments in Mexico which forced people to expand their survival strategies (Beneria, 1992). Street vending became one of the main activities where people found a way to help survive economically. The Departamento del Distrito Federal (DDF), which is the main city government authority, developed a study and created a typology that describes street vending in Mexico City (DDF, 1997). The DDF classifies informal markets where street vendors operate as shown in Table 1.

Mobile markets and Tianguis

Mobile markets or periodic markets are found in streets, empty lots, sidewalks, etc. (DDF, 1997). The main characteristic of this type of market is that it uses different working areas each day of the week, meaning that vendors use the same location 52 days out of the year. They operate under a fixed schedule from 8:00 to 16:00 h and are supervised by a city inspector for compliance with weights and measurements. Another important characteristic of this type of informal market is that it is part of a strategy for the supply and distribution of food staples to the city. This strategy was originally created by city government with the idea of eliminating intermediaries and to bring food to working class areas at reasonable prices (Martinez, 1996). These markets also offer complementary or secondary articles such as shoes, clothing, and costume jewelry.

The leader of one of the mobile markets describes their function in a more eloquent way: "We are an important part in the control of staple products in Mexico City. We are the valve that regulates the prices [of basic products] ..." (LO,⁸ June 11, 1997). Products of first, second, and third quality can be found and, consequently, people can find a great variety of prices. Like those in pre-Hispanic times, these markets attract vendors from different areas of the city or nearby states to offer a wide range of products typical of some specific areas.⁹ However, over the years, their mission has been eroding and there is no longer a significant difference between these mobile markets and other types of informal markets.

Concentrations

Concentrations usually operate on a daily basis in a fixed location 365 days a year. Some of these types of markets are well known because of specialized products that they sell; for instance, the informal market of Tepito, located near downtown, has been known for years as the market where imported illegal merchandise or *fayuca*,¹⁰ especially electronics, could be found. Other areas are known for selling auto parts, tools, clothing, or other products.

Concentrations differ from *tianguis* in different ways: (A) The range of products that people sell in concentrations are more of a luxury nature and are linked to the

global market. (B) The level of profits among vendors in this group is higher due to the kind of products they sell which are more income-elastic. (C) Government regulations are lax and copyright violations and piracy are common practices. (D) The population tends to be younger with more males than females (CANACO, 1988).

Bazaars

The creation of bazaars by street vendors has been a response by vendors to the uncertainty with respect to the location where they operate; vendors have usufructuary rather than *de jure* rights (Jagannathan, 1987) to their locations. In recent years, the construction of bazaars has been booming in Mexico City as a response to the uncertainty merchants feel when they have to move and start building the business and getting new customers all over again. Bazaars are an intermediate status of ownership, or *usus* right (Jagannathan, 1987) where vendors can use and work the location but somebody else is the *de jure* owner of the piece of property who charges vendors a start-up fee as well as weekly or monthly rent. Bazaars normally operate during weekends and open daily during certain seasons such as Christmas. Bazaars are also characterized by product specialization; the main product sold at the weekend bazaars is clothing. While some goods are imported, a considerable quantity is domestic.

FUNCTION OF STREET VENDORS' ORGANIZATIONS

As stated in the introduction the key question of this article is: *What are the functions of street vendor organizations?* This question was approached by asking street vendors why they joined the organization and how it benefits them. Table 2 shows the results. This question provides specific information regarding what organizations do for their members.

Two answers stand out in Table 2. The majority of the vendors (51%) believe they benefit from being members because the organization negotiates on their behalf with the local government authorities regarding issues that directly affect their work. Almost a third (29%) of the vendors also believe that they benefit from the organization because it is a mechanism to address the problems of distribution of work spaces in the market. In short, Table 2 identifies two important functions that organizations perform: (1) Organizations as negotiators or deal-makers and (2) Organizations as managers of what Jagannathan (1987) calls social assets.

Table 2. *Ways the vendor benefits from belonging to an organization of street vendors*

Benefits	Percent mentioning the benefit ¹¹
The organization takes care of problems with government authorities concerning bureaucracy, taxes, police, regulations, permits, etcetera.	51%
The organization assigns spaces to merchants and enforces respect among members and newcomers	29%
The organization fees are low considering the benefits	8%
The organization helps the merchant when merchandise is stolen	6%
The organization offers legal services	2%
The organization offers private security	4%
The organization offers life insurance	4%

Source: Sample data, $N = 49$.

Organizations as negotiators and/or deal makers

Organizations are vendors' means of overcoming government regulations and red tape. It is easier for a potential street vendor to become a member of an organization and let the organization deal directly with government authorities rather than doing it himself. Acting alone, a vendor without personal connections (social capital) would lose time and sales trying to navigate the bureaucracy to get such things as permits necessary for the business. In short, it is more cost-effective for the vendor to let the organization represent him.

The benefits a vendor receives from an organization are not without cost. Vendors must pay fees to the organization and attend political rallies to support candidates from the Revolutionary Institutionalized Party (PRI).¹² Vendors pay daily or weekly fees to the organization leader; in the sample, these fees varied from 1 peso to 25 pesos a day. These fees are used by the leader to bribe or give gifts to government officials in exchange for tolerance so that vendors can work without problems. Also, the fees are used as a means for public relations activities in the neighborhoods where they work.¹³ Requiring vendors to attend political rallies is another cost in the form of time and loss of sales; it is, in effect, a way of paying for government tolerance. If a vendor does not show up at those rallies, the organization's leader may prohibit the vendor from working one or more days.¹⁴

The ability to negotiate effectively with government authorities is one of the most important functions of street vendor organizations. The function of the organization is to ensure that members will always have a place to work where government authorities will tolerate their activities. In short, organizations are an efficient way for vendors to meet or avoid requirements for operating in the streets, such as permits, licenses, and taxes. Through their organizations, vendors as a group are able to solve problems that, on an individual basis, could be impossible to overcome.

Social assets management

Table 2 shows that the organizations, in addition to being negotiators between vendors and authorities concerning permits, bureaucracy, etc., also have the function of managing what Jagganathan (1987) calls the "social assets" and DeSoto (1989) refers to as "special rights of ownership." Social assets as defined by Jagganathan (1987) are informal property rights that are utilized by groups for their own benefit, restricting entry to non-group members. In other words, vendor organizations enforce and monitor a system of informal property rights; in that way, conflict among members is avoided. Table 3 shows different ways vendors obtained a fixed location in the street where they operate their business, supporting Jagganathan's (1987) claim that organizations restrict entry into the group.

Table 3. Different ways vendors obtained a fixed location

How vendor obtained a fixed location	Frequency	Percent
The organization leader assigned it	17	34.7
A family member gave it to the vendor	9	18.4
The vendor saw an empty space and acquired the <i>de facto</i> right with time	2	4.1
The vendor uses empty spaces when the "owner" does not show up to work	1	2.0
The vendor paid a one-time fee for the location	9	18.4
The vendor pays monthly rent for the space	3	6.1
Missing	8	16.3

Source: Sample data, $N = 49$.

The leader of the organization has a great deal of coercive power and makes vendors accept what he deems to be just and correct based on the norms established in the organization; in other words, the leader uses his coercive power to administer justice among the members of the organization. For instance, whenever a conflict arises among street vendors, the leader is the one that determines the outcome of the problem and people have to accept the leader's proposed solution.

The organization leader, especially the one managing the mobile markets or *tianguis*, has several issues to manage: first, the leader manages and ensures that stalls are allocated according to the norms established by the organization. The leader manages potential sources of conflict among vendors selling similar products in the market; for instance, vendors with similar goods would be dispersed throughout the market and not next to each other (LO, June 11, 1997).

In general, vendor organizations have similar systems to assign spaces among their members. Normally, organizations have waiting lists and, as spaces become available, the leader of the organization assigns them by giving priority to those who have been waiting the longest. This was the case for almost 35% of the sample as shown in Table 3.

Vendors also mentioned that another rule is that if the de facto owner of a certain location is absent without permission from the leader, then another vendor can claim rights to the space by occupying it on three consecutive work days. However, this mechanism does not happen very often judged by the low response rate (4.1%) in this category given in Table 3.

In other markets characterized by a large pool of potential customers such as Downtown and Tepito, the informal "rights" are often transferred or rented by the vendor who previously had the de facto right to the location. Table 3 shows that 18.3% of the people paid a one-time fee to get access to the space and 4.1% pay rent for use of the space. Based on the survey information, 80% of the vendors in Tepito paid for the access compared with only 10% of the vendors in Cd. Neza and none in the San Juanita market.

Tepito market is well known not only among city residents but also outside the city. Located next to downtown, the market specializes in a wide variety of imported goods. For years, when imports into Mexico were highly restricted due to high tariffs and complex regulations, Tepito enjoyed some degree of monopoly power because it was one of the few places where imported goods could be found at a relatively low price. Furthermore, an important percentage of the imported merchandise was brought into the country illegally without paying import duties, giving Tepito a competitive edge. Thus, potential sales and profitability make this informal market attractive to vendors, creating a higher demand for stalls in Tepito.¹⁵

Table 3 also shows that a considerable number of vendors (18.4%) obtained their stall through inheritance or transfer from a family member.¹⁶ The leader of one of the organizations of mobile markets pointed out that spaces are not generally transferable among non-family members — "The organization owns the spaces and they are occupied according to the rights that each vendor has. A vendor who has 20 years with the organization and who has occupied the same space, that is his space. But if the vendor dies and his family comes and wants to continue using the space, they can do it" (LO, June 11, 1997). This shows how family links play an important role in gaining access to the group.

As a matter of fact, Table 4 shows that more than half of the sample considered family (parents, brother, and relatives) to be an important contact that helped them get access to a stall in the informal market. Almost 16% of the sample considered "other person" to be important. That other person could be somebody with whom the street vendor has some form of social relationship such as *compadrazgo*¹⁷ or, as seen before, the leader of the organization.

Table 4. Contacts that help street vendors get access to a stall

Contact	Frequency	Percent
Parents	13	26.5
Brother	9	18.3
Relative	8	16.3
Friend	3	6.1
Former employer	1	2.0
Other person	7	14.3
Nobody	5	10.3
Missing	3	6.2

Source: Sample data, $N = 49$.

POLICY-MAKING IMPLICATIONS

This article has shown that people engaged in market activities always have a need for an agent to regulate their activities. Often that agent is the state, who lays out the rules in which the market operates. However, when the state is absent,¹⁸ people develop their own institutions to regulate themselves. This article identified two main functions that street vendor organizations perform: (1) Organizations as negotiators or deal-makers who get tolerance or the *de facto* recognition of their activities by government authorities. (2) Organizations as managers of social assets (Jagganathan, 1987); that is, vendor organizations are an alternative to solve the problem of a lack of defined property rights.

The study of street vendor organizations in Mexico City has shown that these organizations provide an important mechanism to manage conflict among the vendors — conflict that government officials perhaps see as trivial or difficult to monitor on a daily basis. On the other hand, better and more transparent rules are needed in those informal markets. Among the issues that established vendors, residents, and customers express concern about are copyright violations, consumer protection, public safety, and public health (CANACO, 1990).

Three policy options are available to address the problem of street vending. First, there is the option prescribed by Portes (1994), who believes state presence is important for the development process; therefore, the state should be the key regulatory institution. Second, there is De Soto's solution, allowing street vendor organizations to continue regulating their own market activities. Finally, the middle ground suggests options where street vendors and governments would negotiate spheres of action.

In recent years, Mexico City government has pursued a policy closer to the first option identified above — relocation and stricter control of street vending (DDF, 1997). City government in Mexico City, through the DDF, began to implement "El Programa de Reordenamiento del Comercio en la Vía Pública" (Street Commerce Reordering Program) in 1996. The program mainly has focused on two broad issues: (1) helping street vendors make the transition from the streets into more established types of markets called Plazas and (2) tighter control by city government through the issuance of licenses to street vendors to practice their activity. Licensing is another important component of the reordering program. The issuing of licenses for street vending has two main objectives: (a) generate revenue for the government, and (b) tighten control of street vending by government. By issuing licenses, the government attempts to create direct links with vendors, putting street vendor organizations aside.

This paper has shown that organizations are an important component for the functioning of street vending. If this policy is to be successful, government will have to perform functions similar to those of organizations. In order to replace organizations completely, government will have to mobilize a great deal of human and

economic resources to enforce the reorganization program; however, it is doubtful that the benefits of enforcement will exceed the costs.

An alternative approach would be to make the organizations an important component of the reorganization process. City government needs to think of how street vendor organizations can participate in and improve the reorganization process. This paper has shown that organizations are very effective negotiators that have developed efficient monitoring tools that impose control and discipline among their members. Consequently, government should incorporate this existing social infrastructure into its plans. Governments can set the normative rules and organizations could become the mechanism that implements and monitors these rules. Government and vendor organizations should negotiate a new social contract with clearly-defined rights and obligations for each.

The findings and policy implications of this article, although focusing on street vending, can be applicable in other areas as well. For instance, social institutions and community-based organizations play an important role in the formation of squatter settlements. Like street vendors squatters face a similar dilemma — the lack of well-defined property rights that needs to be overcome. Also, community-based organizations play an important role in managing the provision and distribution of urban services such as water and electricity. This article shows that governments, instead of ignoring social institutions (e.g. street vendor organizations, community-based organizations, etc.), need to find ways to make them participate so that efficient solutions to people's needs are found — specially, in an era of fiscal crisis, like the present one.

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NOTES

¹In 1996, Mexico City authorities passed a city ordinance that attempts to control and regulate street vending. The ordinance is commonly referred to as Street Vending Reorganization Plan (Departamento del Distrito Federal: DDF, 1997). In addition, the government built plazas to move vendors from the streets into established businesses; however, vendors have started to move back to the streets. For a study of Lima, see Andersson and Robertsson (1996), who discuss the relocation of street vendors in Lima, Peru.

²It is important to mention that street vendors in Mexico City are affiliated with organizations. However, when designing the plan, the city government not only did not consult with the organizations but did not include them at all in the plan.

³For instance, people are very afraid of surveys because vendors have heard rumors that the government is trying to collect information to make vendors pay taxes or permit fees. The news media often report on government crackdowns on street vendors in which officials confiscate merchandise.

⁴Although outside the boundaries of the DF, Ciudad Neza is considered part of the Mexico City metro area.

⁵Unlike assumptions by groups such as the International Labor Organization, informal sector workers are not recent migrants but rather people who live in the city or who have migrated a long time ago.

⁶In their study in Peru, Andersson and Robertsson (1996), also emphasize the cultural aspect of street vending inherited from the Inca Empire. The authors point out the cultural clash between Perez (formal sector inherited from western traditions) and the Mamani (the informal sector or marketing inherited from Indian traditions). For a discussion of *tianguis* in Mexico, see Pyle (1978).

⁷The DDF also recognizes other activities that are performed in public areas such as markets created as a strategy to reorganize the vendors, people that supply services, and vendors associated with festivities and fairs. These activities, however, are not the focus of this paper.

⁸For confidentiality reasons I will refer to this person as LO hereafter.

⁹For a history of the *tianguis* from pre-Hispanic times to the present, see Romero (1990).

¹⁰*Fayuca* is a term used in Mexico to refer to merchandise introduced illegally into the country or imported without paying duties. Tepito for years has been known for selling electronics and other imported items. Since NAFTA and trade liberalization, the monopoly power that Tepito enjoyed for years has eroded due to the lifting of trade barriers and stiff competition from other markets.

¹¹The form of the question was open. The vendor was asked to mention some benefits that the organization provides him; he could describe more than one. The percent numbers do not add to 100 because of multiple responses.

¹²Until recently, organizations were officially affiliated with the PRI through the National Confederation of Popular Organizations (CNOP), which is one of three sectors of the party. For a description of the Mexican political system, see Padgett (1976).

¹³The leader of one of the organizations pointed out to me that often the money is used for payoffs to government officials and also to provide gifts to neighborhood associations and schools in the areas where they work. See also Copil and Aguilera (September, 1998), which reports that the leader of the downtown vendors distributed 5000 toys to neighborhood children. The same is done in Tepito.

¹⁴As a street vendor, this researcher once refused to attend a rally and was barred from work on the most profitable day of the week, resulting in loss of profits.

¹⁵The researcher worked for his brother in the Tepito market for a few years. First my brother started his business by renting a really small space — half meter by 1 meter. After a couple of years, an opportunity came and he bought a stall twice the size. This transfer had to be authorized by the leader of the organization, who often draws monetary benefits from transfers, especially transfers to newcomers.

¹⁶When the researcher became an independent entrepreneur selling in the streets, the transition was smooth because my father transferred his stall to me.

¹⁷*Compadrazgo* is a tie that people create by becoming the godparent of a child of another person.

¹⁸Smith (1988) points out four reasons why the state is absent from these informal market activities: (1) because it may be seen as part of a lifestyle, (2) these activities may be seen as too trivial to be tracked or regulated, (3) they may be important but ignored because of the monitoring costs, and (4) they may provide some gains to the state in the form of offering cheap goods to low-income people or in gaining political supporters, as is the case of street vendors in Mexico City.