

## **Nebraska's Informal Economy**

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Any measurement of Nebraska's informal economy is questionable at best, given the nature of the businesses that comprise this economic segment. Economists estimate the size of the nation's informal economy as a percentage of the GNP to range from 4.4 percent to 27 percent, with most estimates falling around 10 percent. If this figure holds true for Nebraska, we can measure Nebraska's informal economy to be \$5.6 million or 10% of Nebraska's 2001 Gross State Product of 56,967 million.

Other researchers measure the informal economy as a percentage of the nation's economically active population. Nationwide researchers estimate this figure to be up to 14%, with variations in certain occupations and locations. Areas with high immigrant populations and lower income levels tend to have a higher percentage of their population operating in the informal economy. Often these businesses are bartered day care services, specialized bakery items or produce.

To better understand what the informal economy is, we need to first define it. In a 2004 study from the Aspen Institute, titled "*The Informal Economy: Making it in Rural America*", the informal economy is defined as having four major characteristics. First, informal businesses are legal but unregulated. These business owners do not comply with standard business practices or reporting requirements, nor are they operating illegal businesses such as drug trafficking or prostitution. Legal examples may include a rancher providing furrier services for neighboring ranchers or raising hunting dogs for cash sales.

Second, informal businesses include both employed and self-employed workers. Individuals may hire themselves out regularly or on an as-needed basis, whether they are fully employed or operating their own business. Small tree trimming or snow removal businesses may operate as an informal business and still have full-time employment elsewhere.

Third, most businesses operate on a cash basis or through a bartering system. The income is not reported for taxation. For example, a producer who has extra feedlot space may allow a young person who is living in town the opportunity to start a herd in exchange for his labor. No cash changes hands, no income is reported, but both gain as a result of their barter.

Lastly, the working conditions of these businesses are often inferior, with unsafe environments, less earnings and security for the individuals. Informal businesses operate out of garages, homes, barns and automobiles. Old tools and equipment are used to start the business and monies are not usually filtered back into the business to upgrade equipment unless out of necessity. Additionally, many of the safety measures instilled by

large employers are absent in these informal businesses, due to lack of knowledge and available monies.

In the Informal Economy study, the Aspen Institute conducted 42 interviews with individuals living in seven Western Nebraska counties. Twenty-nine of the respondents met the low income requirement. The purpose of the study was to discover the nature and scale of the informal economy, how these businesses operate, what is needed to assist these businesses to mature and what are implications for national policy.

The sample study included 45 percent of the respondents from ranch households and 55 percent from towns. There were seven males and 22 females interviewed. All were white. Forty-five percent were between 31 and 45 years old and 41 percent were between 41 and 60 years old. Fourteen percent reported income below \$20,000; 52 percent had incomes between \$20,000 and \$30,000 and 21 percent had incomes above \$30,000. Most were married and had at least a high school education.

The study found most respondents operating multiple small-scale business activities along with either ranching or wage jobs. For example, a rancher may operate related businesses such as welding, custom haying, and produce sales. The 29 survey respondents conducted a total of 51 formal and 39 informal business activities. This averaged to 2.75 activities per respondent, with income from each activity averaging \$4,061 (median \$3,250). The income generated from these informal business activities represented 17 percent of household income (median 13 percent). The asset value for these businesses averaged \$3,364.

Business activities were classified into three groups. The largest group conducted business activities in areas such as arts and crafts, foods, service and animal-related industries. These business types provided the most supplemental income for the respondents. The second group offered their labor in exchange for either products or services. In one case an informal bookkeeping business offered services in exchange for repairs on automobiles and equipment. Each party agreed upon exchange rates, kept track of their costs and compared totals at the end of the year for cash payment, if needed. The third and smallest group conducted activities that had growth potential and were interested in exploring business formalization.

Choosing to operate multiple business activities instead of one full-time, formal business resulted from various motivations. The respondents, who ranched, wanted to limit the risk exposure that often comes with ranching activities. They maintained ranching as their primary business, but saw these small side businesses as a way to generate additional income during low ranch prices. A second reason was the lack of good paying employment opportunities in the area. The informal activities provided the supplement income needed to sustain the family. Third, these informal businesses generated small-scale returns which led the individuals to become more creative and enterprising with the use of their talents and equipment downtime. Thus multiple, and yet similar, activities helped to meet the income threshold. Lastly, some of the individuals chose to stay small

and informal due to a reluctance to grow, fear of failure, family commitments or their lack of vision of the business' potential.

Nebraska has a long tradition of enterprising individuals who were creative, resourceful and visionaries. The informal activities described above attempts to capture some of this creativity and resourcefulness. What is lacking is the vision and knowledge to fully capitalize on these ideas. Microenterprise development is one activity, if fully developed and coupled with supportive state policies, that can help foster and develop Nebraska's informal economy.

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Sources: Elaine L. Edgcomb and Tamra Thetford, *The Informal Economy: Making it in Rural America* (Washington, D.C: The Aspen Institute/FIELD, 2004).

2001 Gross State Product, table. (Washington, D.C: Bureau of Economic Analysis, U.S. Department of Commerce, 2003); available at (<http://www.bea.gov/bea/regional/gsp.htm>).