

Salowsky, Heinz

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The Decline of Self-Employment in Industrial Countries

by Dr Heinz Salowsky, Cologne *

The existence of adequate numbers of self-employed persons is regarded as crucial for effective competition. The decline of self-employment which could be registered in all the Western industrialized countries has therefore given rise to concern. This article analyses the corresponding trends over the past 25 years for 14 countries.

Between 1960 and 1977 900,000 persons in the Federal Republic of Germany have ceased to be self-employed; 3,300,000 had been working in their own businesses or the free professions in 1960, by 1977 their number was down to 2,400,000. More than half the farmers had given up farming on their own. The public service on the other hand has added 500,000 wage- and salary-earners to its payroll in the last ten years alone. This is a trend which must arouse misgivings, for the existence of adequate numbers of self-employed persons is crucial for effective competition.

The decline of self-employment has not been confined to the Federal Republic of Germany. Its attractions compared with employee status have waned in all industrialized countries of the West. In 14 of these countries the number of self-employed persons and family members helping them in their gainful work has contracted in the last 25 years — between 1950 and 1975, to be exact — by about one-third, and this period did not include the world-wide recession of the last few years which has probably caused more businessmen and members of the free professions to surrender their independence than was the case in the average of the years with more favourable economic conditions.

The proportion of self-employed and family members helping them in the total labour force varies today between 30% in Japan, Spain and Ireland and just under 10% in the USA, Sweden and Great Britain. Before World War I rather more than 20% of all gainfully employed persons in the area of the Federal Republic of Germany were self-employed (not counting family members helping them). Since then the rate has been going down slowly; by 1975 it was down to 10%, and the downtrend continued in the following years. The decline of self-employment in the Federal Republic shows up even more clearly if family

members helping the head of the family are also counted as self-employed which most of them are. The number of self-employed and family members helping them (some countries do not distinguish between the two categories) has fallen from 31.4% (in 1950) to 15.5% (in 1975).

The decline was in all countries most marked in agriculture, but the number of self-employed is also receding in the crafts and industry and in some sections of the distributive trade. In the catering trade and in the "other services" which include the free professions, on the other hand, self-employment is if anything on the increase. One reason for this is a shift in domestic services away from the households themselves. As a result the number of self-employed has risen in this field in absolute and relative terms — especially in the USA, Canada and Japan. In the listed industrial countries (see Table) altogether 47,000,000 persons were self-employed or helping self-employed heads of family in 1975 — in 1965 there had been 56,000,000. The statistical data are not comprehensive enough to provide reliable figures for 1950 but all the evidence suggests that in that year over 70,000,000 persons had been working for the most part on their own account. In 25 years the number of the self-employed has thus fallen by over 30%. The only deviation from the general trend was observed in Great Britain where the share of self-employed persons is traditionally very low and the share of wage- and salary-earners has always been high; here the proportion of self-employed stayed more or less unchanged at 8%.

Countries with a continually high proportion of self-employed persons are those which were originally predominantly agricultural — Italy, Ireland, Spain. But self-employment has been on the retreat even in these countries, as it has been in all countries chiefly because of the declining importance of the agricultural sector. The importance of the primary sector, in which agri-

* Institut der Deutschen Wirtschaft.

culture, forestry and fishing are included, is dwindling in the industrialized countries. In Germany, Belgium, Great Britain, Denmark, the Netherlands, Sweden, the USA and Canada less than 10% of the labour force is employed in the agricultural sector, in some of these countries much less. Many small and medium-sized farmsteads have had to be abandoned in these countries.

Of 3,400,000 self-employed persons in the Federal Republic in 1950 1,300,000 (= 38.2%) were working in agriculture and forestry. By 1975 their number had fallen to 613,000 and their share of all self-employed to 25.5%. The decline of the number of family members helping them is also worth noting. No less than 85% of 3,200,000 such family members in 1950 were working in agriculture; of the 1,300,000 left in 1975 no more than 67.3% were thus engaged.

A similar trend, with varying deviations, was observed in all industrial countries. In Japan for instance the percentage share of self-employed farmers in the total of self-employed persons declined from 61 (in 1950) to 34 (in 1975), in the USA (over the same period) from 46 to 23, in Italy from 53 (in 1954) to 34 (in 1972) and in Canada from 59 (in 1951) to 34 (in 1975). The number of family

members helping out in agriculture has also fallen quite markedly in these countries. In Japan it declined between 1950 and 1975 by 7,500,000, i.e. from 86 to 47%, in Italy it dropped from 2,500,000 (in 1954) to 7,00,000 (in 1972), in the Federal Republic of Germany from 2,700,000 (in 1950) to 870,000 (in 1975), in the USA from 900,000 (in 1950) to 380,000 (in 1975). In 1950 agriculture accounted for 82% of all family members helping their self-employed heads of family in the USA, in 1975 only for 44%.

This development was and is the result of several factors operating in all countries: The value added is rising more slowly in agriculture than it does in the industrial areas, labour has been released in the agricultural sector by the big increase in productivity, the change to larger farming units is continuing, and people are less willing to help out on farms than they were in the past.

In the secondary sector, in manufacturing industry and crafts, self-employment is traditionally less wide-spread than in other economic sectors. Besides, the number of employees tends to rise and that of the self-employed to recede in all countries as industrial and artisan units become larger and salaried managers carry more weight. Formerly, the typical artisan for instance used to work for himself, but the number of one-man operations has declined in the crafts – in the Federal Republic to an estimated 25%. Of the 756,000 self-employed persons in German manufacturing industry and crafts production in 1950 no more than 443,000 were left in 1975, which means that 18.4% of all the self-employed in the Federal Republic are now working in this sector. Self-employment is of similar importance in the manufacturing industries and crafts of Italy (20%), Switzerland (22%) and Japan (14%).

There has been an overall decline of self-employment in industry and crafts although it has not gone as far as in agriculture. A contrary trend was observed in the past 25 years only in Italy, where the self-employment rate rose from 16 to 20%, and in Japan, where it increased from 8 to 14%. In the Federal Republic a decline was registered: in 1975 18% of all self-employed persons were engaged in manufacturing industry and crafts production as against 22% in 1950.

In the construction industry, which is grouped with the secondary sector, self-employment has been on the increase everywhere except in Austria and Spain where the rate has receded and in the Federal Republic where the number of self-employed building operatives has dropped from 221,000 (in 1950) to 157,000 (in 1975). Self-employment in the German construction industry began to fall drastically when the phase of reconstruc-

Gainfully Employed Persons by Professional Status

(Total Labour Force = 100)

Countries	Year	Wage and Salary Earners	Self-employed	Helping Family Members	Self-employed + Helping Family Members
Germany	1950	68.5	15.9	15.5	31.4
	1975	84.5	9.9	5.6	15.5
France	1955	65.3	—	—	34.7
	1975	80.9	—	—	19.1
Italy	1955	54.6	27.2	18.1	45.3
	1975	72.4	21.3	6.2	27.5
Netherlands	1950	73.2	—	—	26.8
	1975	84.5	—	—	15.5
Belgium	1950	71.5	21.7	6.7	28.4
	1975	83.2	13.0	3.8	16.8
Great Britain	1950	92.0	—	—	8.0
	1975	92.2	—	—	7.8
Ireland	1950	58.1	26.9	14.9	41.8
	1975	70.8	—	—	29.2
Denmark	1965	77.7	—	—	22.3
	1975	81.4	13.8	4.8	18.6
Sweden	1960	84.3	12.3	3.4	15.7
	1975	91.5	7.1	1.4	8.5
Austria	1950	63.8	—	—	36.2
	1975	80.5	—	—	19.5
Spain	1950	54.7	22.6	12.7	35.3
	1975	69.8	—	—	30.2
USA	1950	79.5	17.4	3.1	20.5
	1975	90.3	8.6	1.1	9.7
Canada	1950	70.7	—	—	29.3
	1975	88.9	9.4	1.7	11.1
Japan	1955	41.0	25.3	33.7	59.0
	1975	69.8	18.0	12.2	30.2

Sources: OECD, Paris; Institut der Deutschen Wirtschaft, Cologne.

tion drew to an end. The USA and Canada, countries in which 11% of all self-employed are engaged in the construction industry, have the highest self-employment rates in this field among the 14 listed countries, and Austria and Spain, with less than 3% of all self-employed in this industry, the lowest. In the secondary sector generally the self-employment trend varies from country to country. The construction industry is however one of the areas which in most countries offer absolutely and relatively expanding outlets for those working on their own account.

While the number of self-employed in agriculture and forestry and, likewise, the number of enterprises in manufacturing industry and crafts production – especially that of one-man operations and small firms with 2–9 employees – is declining in almost all countries, the services sector has experienced an increase in the number of independent firms and free-lance operators. Unlike the more capital-intensive production of goods which normally requires a substantial capital for establishment of new enterprises, this sector appears to offer considerable scope for entrepreneurial initiative. The growing demand for services, and the change in the structure of overall demand which makes for growth or contraction in the various economic sectors, have led to an increase in total employment and also in self-employment in the services sector. It is this sector which will carry most weight in the future for the establishment of independent livelihoods.

Changes in the structure of demand have brought about structural changes in the services sector irrespective of the ongoing expansion. In the distributive trade in particular new types of operation have given rise to a growing number of large establishments – department stores, supermarkets, discount shops and big retail chains and caused a rapid decline of the number of retail shops, especially in the food trade. That the number of self-employed persons in the distributive and catering trades is nevertheless rising in almost all countries is due to the opening of specialized shops (boutiques) and even more to the growing number of new eating and drinking places. The situation in the USA, Sweden and Denmark is exceptional in that the absolute number of self-employed in this area is declining but their relative importance is nevertheless growing because the total number of self-employed is diminishing.

Generally the share of the services sector in the total number of self-employed has been growing: as compared with the 1950s, a number of countries experienced an absolute increase of self-employed in this sector. Nevertheless, a structural

change can be noticed also in this field: restaurants and pubs, boutiques and free professions are a big draw for self-employment, while some traditional forms of trade have become less attractive for entrepreneurial initiative. This is also valid for part of the crafts the character of which has in the course of functional change by and by shifted in the direction of services.

All the examined countries, especially the Federal Republic, Italy, Belgium, Austria, Japan and Spain, have witnessed an increase in the number of self-employed in the distributive trades and in the hotel and catering trades. Belgium ranks here highest with 42% of all self-employed persons engaged in this sector and Sweden comes last with 16%. In the Federal Republic of Germany 29% of all self-employed are working in this sector; for Italy the figure is the same.

In other services (transport, banking, insurance, free professions) self-employment has followed an upward trend except in Belgium and Austria where it has been regressive; the uptrend was strongest in the USA, Canada, Japan and the Federal Republic. In the USA, the leader, as many as 38% of all self-employed are working in this field, in Austria, at the tail end, 9%. In the Federal Republic nearly 25% of the self-employed are engaged in this area.

Of special interest is the development of self-employment in Japan. While the number of self-employed in agriculture and forestry has fallen off quite considerably, the total number of self-employed remained almost unchanged during 1950 to 1975. There was a shift in self-employment towards retail shops and other modest establishments in the secondary and tertiary sector, i.e. into downstream manufacturing and service activities. The high number of small businesses in these sectors can be explained in terms of the particularities of the Japanese social security system. Japan's social insurance provides only relatively small retirement pensions, so that employers' lump-sum payments on retirement are often used to start in a new occupation.

Four reasons in particular suggest that all countries will experience an even more marked shift of self-employment towards the services sector in the future:

- The demand for services is rising at a rate at least slightly above the average;
- The opportunities for small-scale specialist operations are greater than in other sectors;
- The minimum unit size for profitable activities is smaller than for instance in industry;
- New enterprises need less capital than elsewhere in the economy.