

Trzcinski, Eileen

Article — Digitized Version

The Choice of Self-Employment, Wage and Salary Employment, versus Nonemployment: a Comparison of Germany and the United States

Vierteljahrshefte zur Wirtschaftsforschung

Provided in Cooperation with:

German Institute for Economic Research (DIW Berlin)

Suggested Citation: Trzcinski, Eileen (1997) : The Choice of Self-Employment, Wage and Salary Employment, versus Nonemployment: a Comparison of Germany and the United States, Vierteljahrshefte zur Wirtschaftsforschung, ISSN 0340-1707, Duncker & Humblot, Berlin, Vol. 66, Iss. 1, pp. 62-70

This Version is available at:

<https://hdl.handle.net/10419/141162>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

The Choice of Self-Employment, Wage and Salary Employment, versus Nonemployment: A Comparison of Germany and the United States

By Eileen Trzcinski*

Summary

This article provides a descriptive overview of self-employment in Germany for the years 1990 to 1994. It then turns to a multivariate analysis of the choice of self-employment, wage and salary employment, or nonparticipation in Germany and the United States. The results indicate that the determinants of the employment decision were rarely uniform across either country or gender. The lack of consistency across countries and gender suggests that an understanding of cultural, social, and public policy differences is essential in order to understand how individuals make choices concerning self-employment, wage and salary employment, and nonparticipation.

1. Introduction

In the European Economic Community and in the United States, interest in self-employment has grown due to substantial increases in self-employment among some segments of the labor force and variations of self-employment across different countries. Public policy interest also centers on self-employment as an alternative to long-term unemployment; several countries have pursued various programs that encourage entry into self-employment (Meager 1993). In both Western and Eastern Europe, the events of the late 1980s and early 1990s further intensified the development and implementation of self-employment initiatives directed at addressing structural unemployment and the need for economic restructuring and growth (Loutfi 1991). Within OECD countries, approximately 9.1 percent of the labor force was self-employed in the late 1980s, with country rates ranging from a high of over 17 percent in Italy to a low of less than 6 percent in Austria. Patterns of self-employment have also varied over time in these countries (Acs, Audretsch and Evans 1992). Since reunification, self-employment in the western states of Germany has remained relatively stable over the period 1989 to 1993, increasing from 3,011,000 to 3,046,000 million self-employed workers. Within the former East Germany, the numbers have increased rapidly since reunification, with 187,000 self-employed in 1989 and 445,000 self-employed in 1993 (Statistisches Bundesamt March 1994).

In the mid-1970s self-employment reemerged as a significant phenomenon in the United States labor market (Blau 1987; Steinmetz and Wright 1989; U.S. Small Business Administration 1994). In 1993, 12.8 million Americans chose to work for themselves and they comprised 9.5 percent of all workers in the United States (U.S. Department of

Health and Human Services 1994). One of the most remarkable features of this self-employment surge is the increasing number and share of female workers in this sector (Devine 1994).

Although self-employment has historically provided a mechanism for individual workers to exchange their labor and expertise for monetary rewards, scholars have only recently begun to study the uniqueness of this employment alternative. More recent works have begun to focus on a broad conceptualization of entrepreneurial activities and to provide demographic and earnings comparisons between self-employed persons and wage and salary employees (Aronson 1991; Casson 1991; Meager 1993). Characteristics examined in these studies include gender, age, race and ethnicity, educational levels, family composition, occupational distribution, hours worked, and income.

In both Germany and the United States, men outnumber women in the ranks of the self-employed; however, women are a faster growing segment of the self-employed in the United States (Cromie 1987; Devine 1994; Hagan, Rivchun and Sexton 1989). Self-employed persons are generally substantially older than wage and salary workers (Meager 1993) and have higher levels of education (Aronson 1991; Evans and Leighton 1989). The occupational distribution of the self-employed shows larger numbers of self-employed among white-collar occupations and skilled crafts.

Analyses of income and hours worked among the self-employed tend to reveal considerable complexity concerning the nature of self-employment. Typically, the income of the self-employed varies widely, with significant numbers of individuals in both high- and low-income classes. On average, they earn less per hour than their wage-earning counterparts and tend to work longer hours for lower wages (Meager 1993; Aronson 1991). Self-employment can, however, generate capital gains by raising the value of the enterprise as well as wage earnings. These capital gains and the longer hours worked by the self-employed may account for the finding of some studies that the self-employed tend to receive a higher rate of return on educational investments, despite their lower earnings per hour. These findings also suggest that business owners may experience nonmonetary benefits, expect relatively higher future incomes, or place a high value on being self-employed (Meager 1993; U.S. Small Business Administration 1994). In addition, self-employment is often viewed as an alternative that permits women flexibility in combining responsibilities of market and home work.

This paper first provides a descriptive overview of self-employment in Germany for the years 1990-1994. The paper examines the extent of self-employment versus wage

* This research was supported under a grant from Wayne State University, College of Urban, Labor, and Metropolitan Affairs, Summer Research Program, 1995. The author is affiliated with the School of Social Work and College of Labor, Urban and Metropolitan Affairs, at Wayne State University.

and salary employment and compares the gross monthly earnings of the two groups. The paper then turns to a multivariate analysis of the choice of self-employment, wage and salary employment, or nonparticipation in Germany and the United States.

2. Data Sources

The descriptive analyses in Tables 1 and 2 are based on the 1990-1994 waves of the German Socio-Economic Panel. All data in Tables 1 and 2 are weighted with cross-sectional person-level weights. Table 3 is based primarily on data from the GSOEP-PSID Equivalent Data File, with additional variables merged from person-level data in the GSOEP. The main data set used for Table 4, which presents the American side of the study, is the 1990 preliminary released version of the Panel Study of Income Dynamics (PSID). Individual work histories are compiled from the PSID 1979-1990 waves. Due to limited information on local labor market conditions in the PSID, 1990 United States Census summary data, which consists of information on all 3,142 counties in the United States, are also used to supplement the PSID in the analysis. The units of analysis are heads and wives in the PSID family units¹. The self-employed workers in this United States study include all who classify themselves as self-employed, either incorporated or unincorporated; using this definition, 9.4 percent of the sample are self-employed. Those who classify themselves as both working for self and for others are excluded from our sample.

3. Descriptive Results: GSOEP

Table 1 provides the percentage of employment in wage and salary versus self-employment by gender, full-time/part-time status, and sample for the survey years 1990-1994. During this period, western German men had the highest self-employment rates, ranging from 11.55 to 12.29 percent. In every year except 1994, West German women, whose rates fluctuated between 9.60 and 10.72 percent, had the second highest employment rates. Three of the groups, eastern German men and women and foreign men in western Germany, showed a steady increase during this period. For eastern German men, the rate in 1990 was 4.44 percent, but it increased to 9.67 percent by 1994.

For foreign men, the rate increased from 6.71 percent in 1990 to 10.48 percent in 1994. Table 1 also indicates that major differences exist in the pattern of full-time and part-time employment in both self-employment and wage and salary employment. Western German women had rates of part-time work in both types of employment that substantially exceeded the rates of part-time work of all other groups. Their reliance on part-time work was even more pronounced in self-employment, where the rate of part-time work ranged from 45.63 to 48.89 percent, than in wage and salary employment, where the rate ranged from 40.09 to 43.16 percent. The same pattern of greater reliance on part-

time work in self-employment than in wage and salary employment was also evident for western German men, who had rates of part-time work in self-employment that consistently exceeded their rates of part-time work in wage and salary employment. The largest difference of over 9 percentage points occurred in 1994.

Table 2 compares the mean gross monthly earnings in wage and salary employment by gender, full-time/part-time employment and sample. From 1990 to 1992, the rank order of mean gross monthly earnings in full-time wage and salary employment was from highest to lowest: western German men, foreign men, western German women, foreign women, eastern German men, and eastern German women. By 1993, the mean monthly earnings in full-time wage and salary employment for eastern German men exceeded the mean earnings for foreign women. One noticeable feature of the ratio of female to male earnings in full-time wage and salary employment is the consistency of the ratio across the 1990-1994 period and the near equivalence of the western German and foreign female/male earnings ratio. Despite differences in the mean gross earnings of western German and foreign men, the 1990-1994 female/male earnings ratio for western Germans fluctuated from 0.70 to 0.74 and for foreigners in western Germany from 0.72 to 0.75. For both groups, the lowest ratios were observed in 1990.

For all groups except western German women, the ratio of mean full-time earnings in self-employment to wage and salary employment exceeded unity, in most cases by a substantial amount. For example, in all but one year, the self-employment/wage and salary earnings ratio for western German and foreign men exceeded 1.20. For eastern German men, the ratio ranged from 1.11 to 1.25, with the highest ratios observed in 1990 and 1991. The opposite is true for West German women. In only one year, 1990, did their mean gross monthly earnings from self-employment exceed those from wage and salary. In 1994, full-time self-employed western German women earned on average only two-thirds of the amount earned by women who worked full-time in wage and salary employment. Given that self-employment and wage and salary employment earnings had different rankings for western German men and women, the ratios of female/male earnings in full-time self-employment were substantially lower than the earnings ratios in wage and salary employment. These ratios, which exhibited substantially more variation than the wage and salary ratios, ranged from 0.40 to 0.64.

¹ Since a head of a household can be either male or female (2,191 out of 7,322 heads were female) and wife/'wife' can only be female, the 1990 wave of PSID family files contains more females than males. In the study undertaken here, women can join the sample in three different ways: 1) as wives in intact families, 2) as new heads after divorce, and 3) as new heads by their own right. Men can do so only in two ways: 1) as heads in intact families, and 2) as new heads after marriage to a PSID sample member. Because this process continues for ten years in our study, 65.5 percent of our sample are females.

Table 3

Multinomial Logit Estimates of the Likelihood of Self-Employment, Wage and Salary Employment versus Nonparticipation in Western Germany, 1990¹⁾

	Male		Female	
	Self-Employment	Wage and Salary	Self-Employment	Wage and Salary
Intercept	-10.254* (1.293)	-2.921 (0.733)	-8.691* (1.466)	-0.508 (0.597)
Age	0.292* (0.067)	0.081** (0.040)	0.203* (0.073)	0.071** (0.034)
Age Squared	-0.004* (0.001)	0.002* (0.000)	-0.002* (0.001)	-0.002* (0.000)
Years Full-Time since 1984	0.441* (0.052)	0.670* (0.035)	0.377* (0.047)	0.619* (0.026)
Years Part-Time since 1984	0.757* (0.154)	0.595* (0.133)	0.415* (0.058)	0.712* (0.036)
Years Education	0.121* (0.037)	0.111* (0.029)	0.132* (0.038)	0.032 (0.025)
Household Income — Own Labor Income	4.219E-6 (3.029E-6)	2.797E-6 (1.954E-6)	8.34E-7 (2.18E-6)	-1.46E-7 (1.30E-6)
Assets	7.479E-6 (5.176E-6)	-0.00002* (5.50E-6)	0.00001* (5.47E-6)	4.50E-6 (4.90E-6)
Presence of Children	0.807** (0.321)	0.388*** (0.221)	-0.216 (0.335)	-0.883* (0.172)
Number of Children	-0.215 (0.150)	-0.139 (0.099)	0.005 (0.151)	-0.143*** (0.079)
Widowed	-0.096 (0.921)	-0.097 (0.614)	0.221 (0.946)	-0.338 (0.682)
Divorced	0.306 (0.399)	0.303 (0.276)	-0.355 (0.507)	-0.032 (0.249)
Married	0.267 (0.298)	0.618* (0.188)	-0.752*** (0.388)	-1.033* (0.176)
German	0.990* (0.224)	0.292** (0.137)	0.561** (0.262)	-0.236** (0.114)
N		3,225		3,205

¹⁾ Estimation includes all individuals aged 18 to 64 who are not in school, training, or retired; the Eastern German sample is excluded. — * Significant at 1 percent level. — ** Significant at 5 percent level. — *** Significant at 10 percent level.
Source: Author's calculations using 1990 waves of GSOEP and GSOEP-PSID Equivalent Data File.

4. Multinomial Logit Estimation of the Choice of Self-Employment, Wage and Salary, or Nonparticipation

Tables 3 and 4 present multinomial logit estimates of the choice of self-employment, wage and salary employment or nonparticipation, separately for Germany and the United States. The German analyses excluded the eastern German sample. Both analyses were limited to individuals who were between the ages of 18 and 64 and who were not in school, training, or retired. This section focuses exclusively on differences between Germany and the United States in the direction and significance of coefficients on the two employment alternatives: self-employment and wage and salary employment. A more extended discussion that includes marginal and absolute probabilities is available from the author.

Age and Experience

The specification of age is identical in the German and the United States equations; however, experience in the German equation is limited to labor market experience since 1984, while experience in the American equation refers to lifetime labor market experience. Thus, these results are not strictly comparable. In Germany, the age and age squared variables achieve statistical significance for both men and women and for both employment choices. The coefficients on the quadratic equation indicate that the choice of self-employment increases with age until age 36.5 for men and for age 50.75 for women. For wage and salary employment, the turning point is far lower, 20.25 years for men and 17.75 for women. When interpreted in conjunction with the large and significant magnitudes on recent full-

Table 4

**Multinomial Logit Estimates of the Likelihood of Self-Employment, Wage and Salary Employment
versus Nonparticipation in the United States, 1990¹⁾**

	Male		Female	
	Self-Employment	Wage and Salary	Self-Employment	Wage and Salary
Intercept	-0.355 (2.034)	0.739 (1.600)	-5.397* (1.340)	-1.976* (0.638)
Age	0.059 (0.071)	0.054 (0.054)	0.253 (0.048)	0.123* (0.022)
Age Squared	-0.008 (0.0008)	-0.001*** (0.0006)	-0.003* (0.0006)	-0.002* (0.0003)
Years Full-Time since Age 18	-0.020 (0.029)	-0.010 (0.021)	0.102* (0.019)	0.104* (0.010)
Years Full-Time since Age 18 Squared	0.0004 (0.0007)	0.0003 (0.0005)	-0.002* (0.0006)	-0.002* (0.0003)
Years Part-Time since Age 18	-0.059 (0.038)	-0.028 (0.026)	0.062* (0.017)	0.055* (0.010)
Education	0.125 (0.033)	0.142 (0.025)	0.084* (0.023)	0.170* (0.013)
Family Income — Own Labor Income	0.00004* (8.21E-6)	0.00002* (7.698E-6)	-2.050E-6*** (1.186E-7)	-5.090E-6* (9.198E-7)
Assets	0.00018* (0.00003)	-5.70E-6 (0.00003)	0.00004* (6.255E-6)	6.693E-6 (5.40E-6)
Children Aged 2 or Younger	-0.186 (0.206)	-0.297 (0.159)	-0.368* (0.136)	-0.600* (0.062)
Children Aged 3 to 5	-0.016 (0.193)	-0.353** (0.153)	-0.202 (0.125)	-0.669* (0.060)
Children Aged 6 to 13	0.052 (0.119)	0.063 (0.096)	-3.99* (0.079)	-0.192* (0.035)
Children Aged 14 or Older	-0.316 (0.255)	-0.414** (0.200)	0.182 (0.158)	0.041 (0.088)
Married	0.719* (0.234)	0.900 (0.174)	0.002 (0.172)	-0.176** (0.080)
Black	-0.910 (0.563)	-0.546 (0.403)	-1.167* (0.347)	0.073 (0.171)
White	0.940*** (0.530)	0.245 (0.395)	0.211 (0.304)	0.080 (0.164)
Metropolitan Area	0.223 (0.269)	0.050 (0.232)	-0.196 (0.169)	-0.177** (0.086)
Metro Fringe Area	-0.093 (0.289)	-0.012 (0.250)	0.203 (0.181)	0.214** (0.092)
Non-Metropolitan Area	0.143 (0.275)	0.073 (0.237)	-0.105 (0.177)	-0.251* (0.090)
North Central	0.030 (0.118)	0.099 (0.095)	0.276* (0.079)	0.029 (0.039)
Northeast	-0.031 (0.133)	-0.072 (0.107)	0.102 (0.084)	-0.012 (0.043)
West	-0.044 (0.164)	-0.086 (0.139)	0.200 (0.088)	0.094** (0.048)
County Level Variables				
Population Density	0.009 (0.058)	-0.009 (0.050)	0.097* (0.037)	0.102* (0.025)
Percent Black	2.648** (1.113)	1.568*** (0.888)	0.635 (0.721)	-0.160 (0.360)
Percent of Adult Population with High School Education	-6.198* (2.871)	-2.314 (2.411)	-2.166 (1.715)	0.478 (0.895)
County Unemployment Rate	-4.998 (6.409)	-0.956 (4.955)	-12.456* (4.336)	-11.033* (2.105)

References

- Acs, Z.J., D.B. Audretsch, and D.S. Evans. 1992. "The Determinants of Variations in Self-Employment Rates across Countries and Over Time," Discussion Paper FS IV 92-3, Research Unit, Market Processes and Corporate Development. Berlin, Germany: Wissenschaftszentrum
- Aronson, R.L. 1991. *Self-Employment Labor Market Perspective*. Ithaca, NY: ILR Press.
- Blau, D.M. 1987. "A Time-Series Analysis of Self-Employment in the United States," *Journal of Political Economy*, 95: 445-467.
- Casson, M. 1991. *The Entrepreneur: An Economic Theory*. Hampshire, England: Gregg Revivals.
- Cromie, S. 1987. "Motivations of Aspiring Male and Female Entrepreneurs," *Journal of Occupational Behavior*, 8: 251-62.
- Devine, T J. 1994. "Changes in Wage and Salary Returns to Skill and the Recent Rise in Female Self-Employment," *American Economic Association, Papers and Proceedings*, 84(2): 108-113.
- Evans, D.G. and L. Leighton. 1989. "Some Empirical Aspects of Entrepreneurship," *American Economic Review*, 79: 519-535.
- Hagan, O., C. Rivchun, and D. Sexton (eds.). 1989. *Women-Owned Businesses*. New York: Praeger.
- Loufti, M. 1991. "Self-Employment Patterns and Policy in Europe," *International Labour Review*, 130(1): 1-19.
- Meager, N. 1993. "Self Employment and Labour Market Policy in the European Community," Discussion Paper FS I 93-201, Research Unit, Market Processes and Corporate Development. Berlin, Germany: Wissenschaftszentrum.
- Statistisches Bundesamt. 1994. "Zur wirtschaftlichen und sozialen Lage in den neuen Bundesländern," *Vierteljahrszeitschrift*, March. Wiesbaden: Statistisches Bundesamt.
- Steinmetz, G. and E.O. Wright. 1989. "The Fall and Rise of the Petty Bourgeoisie: Changing Patterns of Self-Employment in the Postwar United States," *American Journal of Sociology*, 94: 973-1018.
- U.S. Department of Health and Human Services, *Social Security Administration*. 1994. *Social Security Bulletin, Annual Statistical Supplements*. Washington, DC: U.S. Government Printing Office.
- U.S. *Small Business Administration*. 1994. *The State of Small Business: A Report to the President*. Washington, DC: U.S. Government Printing Office.