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**Article**

## The Nature of Self-Employment

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## THE NATURE OF SELF-EMPLOYMENT

Growth in the self-employment rate is often praised as the sign of an active and innovative economy where individuals have the chance to pursue entrepreneurial goals. However, a large proportion of self-employed individuals may also be the symptom of a highly frictional labour market, where individuals are forced into precarious and insecure jobs. This is particularly the case for workers at a disadvantage in the regular labour market, and who are not supported by a social security net.

The following essay sheds some light on the variety of European countries' experience with regard to self-employment.<sup>1</sup>

### Innovation or escape?

A worker's decision to go on his/her own-account depends on several factors. The institutional environment, for example how easy it is to start a business or obtain credit, is crucial for the implementation of business ideas. Equally important is the attractiveness of existing employment (or unemployment) alternatives. This is determined by wage premiums in other sectors, as well as social benefits for the unemployed. Finally, individual skills (education and innate talent) will also play a major part in the worker's decision. The combination of these factors will influence the sorting of workers in or out of self-employment, and the nature of their self-employment.

On the one hand, in countries where a relatively large proportion of high-skilled individuals turn to self-employment, one should expect the creation of new and innovative businesses. Moreover, a business-friendly institutional environment should reinforce this effect. On the other hand, for countries with a large concentration of low-skilled workers among the self-employed, a relatively high unemployment rate, as well as few activation policies for the unemployed, one should expect self-employment to be an escape route from unemployment. To assess the nature of the self-employment experienced by a country, it is useful to distinguish self-employment rates by education and compare them with unemploy-

ment rates, the generosity of the social security system and the ease of doing business in that country.

Table 1 ranks European countries by the proportion of self-employed (age 25–64 with lower secondary education or less) of the employed in the population with the same education level (column 1) in 2013. Columns two and three present the corresponding proportions for those with upper secondary education, and tertiary education, respectively. The next three columns (four to six) show the unemployment rate in the same age group, divided according to the same education levels. Column seven proxies the generosity of the State by the social protection benefits for unemployed in Purchasing Power Standard per inhabitant. Finally, column eight presents the country-rank in the Doing Business index from the World Bank.

As of 2013, three countries had about half of their low-skilled employed workforce being self-employed: Romania, Greece and Macedonia. This was double the average of the European Union (23.8 percent). The upper end of the table is also occupied by countries that have been severely hit by the recent European financial and banking crisis (Cyprus, Greece, Ireland, Italy, Portugal and Spain). For countries above the EU-average, the proportion of the self-employed in the employed labour force tends to decrease rapidly with education (except for Italy). Conversely, at the other end of the scale, German-speaking countries and some Eastern European countries display a relatively low level of self-employed having lower secondary education or less. Furthermore, the proportion of the self-employed increases with education levels (107.1 percent increase in Germany), and in most cases, the proportion of the high-skilled self-employed exceeds the EU-average. Hence columns one to three suggest very different characteristics of self-employment across Europe.

The relationship of the self-employment rate to the unemployment rate is not straightforward. Seven countries out of the top ten in Table 1 have a higher than average unemployment rate among low-skilled workers. Nevertheless, some countries like the Slovak Republic, Lithuania and Hungary combine a high level of unemployment in the low-skilled population and a lower than average self-employment rate. For these once-called transition economies, Earle and Sakova (2000) suggest the possibility of a “disguised unemployment”, that is enforced self-employment in a residual sector by a lack of opportunities. Interestingly, the unemployment rates of middle-educated and highly-educated individuals

<sup>1</sup> See also Hatfield (2015) for a detailed description of the socio-demographic characteristics of self-employed individuals across Europe.

are highly correlated with the concentration of the low-skilled in self-employment (coefficient of correlation of 0.51 and 0.61 respectively). These empirical facts suggest that the low-skilled, who are generally disadvantaged in terms of job competition, find self-employment to be an easier route into the labour market.

Column seven shows that the concentration of the low-skilled in self-employment is negatively correlated with the level of social benefit available to unemployed individuals (correlation of -0.18). With the exception of

Greece and Cyprus (whose governments were bailed out during the recent Eurozone financial and banking crisis), the countries with the highest concentration of low-skilled, self-employed individuals provide little monetary support to unemployed individuals. Finally, the ease of starting up and running a business also seems to influence the proportion of low-skilled individuals. The higher the ranking is, the larger is the concentration. Hence business starting by low-skilled individuals may depend less on a business-friendly environment than on the tightness of the labour market.

**Table 1**

**Cross-country comparison of self-employment rates by education, unemployment rates by education, level of social benefits and ranking from the Doing Business Index**

| Countries                     | Self-Employment rate <sup>a)</sup> |      |      | Unemployment rate <sup>b)</sup> |      |      | Social benefits <sup>c)</sup> | Doing Business <sup>d)</sup> |
|-------------------------------|------------------------------------|------|------|---------------------------------|------|------|-------------------------------|------------------------------|
| Romania                       | 56.4                               | 21.0 | 7.8  | 8.5                             | 6.6  | 4.3  | 24                            | 37                           |
| Greece                        | 51.4                               | 35.6 | 28.4 | 27.6                            | 23.3 | 16.2 | 372                           | 60                           |
| Macedonia                     | 46.7                               | 20.1 | 15.0 | 33.9                            | 25.1 | 18.1 | 71                            | 12                           |
| Turkey                        | 38.5                               | 22.4 | 13.0 | 7.6                             | 5.7  | 5.2  | 23                            | 55                           |
| Croatia                       | 33.7                               | 17.9 | 13.1 | 20.5                            | 15.4 | 9.5  | 72                            | 40                           |
| Cyprus                        | 32.4                               | 19.8 | 17.9 | 22.4                            | 14.1 | 10.8 | 337                           | 47                           |
| Poland                        | 32.3                               | 23.9 | 19.2 | 18.2                            | 8.5  | 4.3  | 55                            | 25                           |
| Ireland                       | 31.1                               | 28.0 | 18.2 | 22.4                            | 15.7 | 7.2  | 1041                          | 17                           |
| Italy                         | 28.2                               | 26.1 | 32.6 | 13.7                            | 7.8  | 5.5  | 419                           | 45                           |
| Spain                         | 25.2                               | 21.5 | 18.0 | 31.9                            | 21.6 | 13.4 | 836                           | 33                           |
| Finland                       | 25.2                               | 18.7 | 13.8 | 11.7                            | 7.6  | 5    | 612                           | 10                           |
| Portugal                      | 24.8                               | 15.3 | 17.7 | 17.6                            | 12.8 | 9.8  | 333                           | 23                           |
| Malta                         | 24.0                               | 13.6 | 13.4 | 7.9                             | 2.1  | 1.9  | 120                           | 80                           |
| European Union (28 countries) | 23.8                               | 18.5 | 18.5 | 18.1                            | 8.2  | 5.4  | 412                           | 27                           |
| United Kingdom                | 22.1                               | 20.9 | 15.6 | 10.8                            | 5.7  | 3.4  | 187                           | 6                            |
| Bulgaria                      | 20.0                               | 13.0 | 17.0 | 28.6                            | 11.5 | 6.1  | 74                            | 38                           |
| Netherlands                   | 18.9                               | 20.2 | 20.5 | 9.1                             | 6.6  | 3.8  | 565                           | 28                           |
| Iceland                       | 17.8                               | 19.4 | 14.0 | 4.9                             | 4.4  | 3    | 398                           | 19                           |
| Lithuania                     | 16.8                               | 14.1 | 12.9 | 32.2                            | 14.4 | 4.1  | 79                            | 20                           |
| Sweden                        | 16.7                               | 15.6 | 10.3 | 12.7                            | 5    | 4.4  | 387                           | 8                            |
| Slovenia                      | 16.7                               | 17.5 | 13.2 | 16.8                            | 8.8  | 4.9  | 159                           | 29                           |
| Belgium                       | 15.1                               | 18.7 | 20.4 | 13.7                            | 6.5  | 4.1  | 1.101                         | 43                           |
| Norway                        | 14.6                               | 9.9  | 6.8  | 5.4                             | 2.3  | 1.8  | 275                           | 9                            |
| Denmark                       | 13.0                               | 14.4 | 10.1 | 9.2                             | 4.7  | 4.5  | 613                           | 3                            |
| France                        | 12.9                               | 15.9 | 15.1 | 14.1                            | 8.3  | 5.5  | 548                           | 27                           |
| Czech Republic                | 12.8                               | 21.4 | 21.2 | 23.2                            | 4.8  | 2.1  | 146                           | 36                           |
| Switzerland                   | 12.4                               | 16.4 | 16.6 | 8.9                             | 3.6  | 2.8  | 312                           | 26                           |
| Latvia                        | 11.3                               | 12.5 | 16.2 | 21.2                            | 12.7 | 5.2  | 83                            | 22                           |
| Slovak Republic               | 11.3                               | 20.7 | 22.5 | 42.5                            | 11.6 | 5.6  | 145                           | 29                           |
| Austria                       | 11.1                               | 12.5 | 22.9 | 11.6                            | 4.6  | 2.8  | 498                           | 21                           |
| Germany                       | 9.8                                | 11.0 | 20.3 | 14.3                            | 5.4  | 2.2  | 390                           | 15                           |
| Hungary                       | 5.1                                | 13.4 | 19.5 | 22.2                            | 8.6  | 3.1  | 100                           | 42                           |
| Estonia                       | 4.8                                | 11.4 | 17.6 | 14.6                            | 8.7  | 5.3  | 88                            | 16                           |

Notes: <sup>a)</sup> Self-employment rate year 2013 – except Lithuania, year 2014. <sup>b)</sup> Unemployment rate year 2013. <sup>c)</sup> Social protection benefits for unemployed in Purchasing Power Standard per inhabitant year 2012. <sup>d)</sup> Doing Business 2014; for EU-28: median ranking of countries.

Source: EUROSTAT, World Bank Group, Author's calculations.

## Summary

Overall, statistics suggest a variety of situations with regard to self-employment. For most Western and Northern European countries, self-employment seems to attract low, middle and high-skilled individuals in equal measure, a *prima facie* sign of innovative entrepreneurship. Conversely, for countries severely hit by the recent crisis, the evidence supports the interpretation that (low-skilled) individuals may be pushed into own-account status by a lack of work opportunities.

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