

## Chapter 5

# THE PARTIAL RENAISSANCE OF SELF-EMPLOYMENT

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### Summary

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During the 1990s, self-employment grew faster than civilian employment as a whole in most OECD countries. This contrasts with the 1970s, when the share of self-employment tended to fall. At the same time, the proportion of self-employed with employees, which had been falling during the 1970s and 1980s, stabilised during the 1990s. This chapter aims to identify the areas of the economy where self-employment has increased fastest, and to investigate the forces that have caused these signs of renaissance. It also discusses the concerns that are sometimes expressed about the working conditions of the self-employed.

Self-employment growth has been concentrated in the fastest-growing parts of the economy. In some countries, an important part of its growth, particularly during the 1980s, has come from women. The structure of self-employment is thus tending to become more like that of employment as a whole. Indeed the distinction between self-employment and wage employment may have weakened, as suggested by the growth of certain forms of employment, such as franchising, which have features of both forms of employment. In addition, several countries, at different times, have seen growing numbers of self-employed people who work for just one company, and whose self-employment status may be little more than a device to reduce total taxes paid by the firms and workers involved – the phenomenon of so-called “false” self-employment. On average, the working conditions of the self-employed seem to be less favourable than those of employees doing similar work, and they are less likely to report training, or the use of computers. Nonetheless, they tend to report higher job satisfaction, especially if they are employers.

An examination of the countries where self-employment has grown fastest, including Canada, Germany and the United Kingdom, suggests there is no unique set of causes. Some of the growth in self-employment may have been generated by the opportunities it offers to pay less taxes; some stems from changes in industrial organisation, such as the increase in outsourcing; and some is no doubt simply a response to the new opportunities offered by OECD economies. Policy may also have played a role, as governments in an increasing number of countries have sought to use self-employment both to reduce unemployment and foster entrepreneurship. In connection to this, a number of governments have recently introduced special policies to facilitate entry into self-employment for women and young people.

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### Introduction

Self-employment has become a significant source of job growth in many OECD countries. In several it has recently grown considerably faster than civilian employment as a whole – notably in Canada and Germany. The recent picture contrasts with the 1970s, which saw the share of self-employment in total employment fall in the majority of countries. Self-employment is also an important source of entrepreneurship and small business growth – bringing with it a potential for longer-term employment growth [OECD (1998*a*)]. On the other hand, concerns have been expressed over the working conditions, training, security, and incomes of some self-employed.

A number of overlapping reasons have been put forward for these signs of renaissance in self-employment. First, there have been suggestions that it might be a reaction to overly-rigid labour and product markets and high levels of taxation. Second, some analysts have pointed to changes in industrial organisation. A greater stress on outsourcing of non-core activities may have increased the amount of work sub-contracted to the self-employed. Some networks or “clusters” of small, self-employment businesses have shown greater flexibility and speed of response than traditional firms. Third, it has been argued that the increase in the numbers of self-employed is best understood as the response by individuals to the new opportunities becoming available in OECD economies.<sup>1</sup>

In addition, over recent years, many governments have increased their efforts to foster self-employment. Barriers to entry, such as overly-complex or expensive procedures for setting up companies, have been addressed. Potential shortfalls in various types of capital have been tackled through policies to provide easier access to finance, training, and networks of contacts. Special attention has been given to groups under-represented in self-employment, including young people and women. However, in some countries there has been concern that taxation systems, and perhaps labour market policies as well, might have encouraged the development of “false” self-employment – people whose conditions of employment are similar to those of employees, who have no employees themselves, and who declare themselves (or are declared) as self-employed simply to reduce tax liabilities, or employers’ responsibilities.

In order to illuminate the nature of the recent growth in self-employment, and the role of government policy, this chapter addresses the following questions:

- Which countries have seen the strongest growth in self-employment, and what forces lie behind this?
- What are the main structural changes in self-employment?
- How do the working conditions of the self-employed compare with those of employees? How do they compare as regards job satisfaction? How many of the population express a preference for self-employment and what types of people are they?
- What are the recent trends in labour market policies in favour of self-employment and what can be said about their effects?

According to the standard international definitions, self-employment jobs are ones where remuneration is directly dependent upon profits, and incumbents make operational decisions or are responsible for the welfare of the enterprise (see Annex 5.A for further details). Most data on self-employment come from national labour force surveys, which ask respondents to classify themselves as employees or self-employed according to their status in their main job. In general, this method gives results which correspond fairly closely to the definition required. However, there are some important exceptions, particularly owner-managers of incorporated businesses, who represent a substantial proportion of self-employment in some countries – 31.4 per cent in the United States in 1998, for example.<sup>2</sup> These are people who own their business and are responsible for its operation, but who are, legally, employees of the business. For labour market analysis, they are best classified as self-employed. However, because their legal status is that of an employee of their company, they

may identify themselves as employees in response to a labour force survey. Annex 5.A describes what is known about national classification systems in this respect. The tables below are annotated accordingly.

Statistics on self-employment distinguish three main sub-categories: self-employed without employees, or “own-account workers”; self-employed with employees, or “employers”; and unpaid family workers. The analysis in this chapter generally excludes unpaid family workers on the grounds that, according to the international guidelines, they are not entrepreneurs, but rather the assistants of entrepreneurs. The term, “self-employed”, thus generally refers to the sum of “own-account workers” and “employers”. This omission probably tends to understate the true level of women’s entrepreneurship. Some women classified as unpaid family workers in national statistics might better be treated as equal partners with the self-employed person who is in formal charge of the business [Felstead and Leighton (1992); Marshall (1999)]. However, in 1996, the proportion of unpaid family workers among women working outside agriculture was only 3 per cent (unweighted average for the 23 countries for which data are available).

Apart from unpaid family workers, the analysis in the chapter also excludes the agricultural sector, except where otherwise stated. This sector has a relatively high proportion of self-employed workers, but it has been declining in size in all Member countries over recent years.

The structure of the chapter is as follows. After identifying where self-employment has been growing fastest, Section I analyses the changing structure of self-employment, in particular, the proportion of the self-employed who are employers and may add to employment growth through employing others. An analysis of flow data in Section II provides evidence on the proportion of unemployed people who become self-employed, and the numbers of own-account workers who become employers. Section III discusses the working conditions of the self-employed, including newly-available information on the job-satisfaction of the self-employed, and preferences for self-employment. Section IV reports the results of econometric analyses designed to investigate the importance of some commonly-cited explanations for the development of self-employment. This leads into the final two sections, which summarise recent policy developments, and draw some conclusions.

## Main findings

- Self-employment has tended to increase its share of non-agricultural civilian employment over the past three decades. Over the 1990s, its growth rate exceeded that of civilian employment in most OECD countries

and the proportion of self-employed with employees stabilised, after falling in the 1970s and 1980s.

- The growth in self-employment has been concentrated in the fastest growing sectors of the economy, notably business and community services. The strongest growth has been seen in the higher-skilled occupational groups.
- The proportion of women entering self-employment, as opposed to wage and salary employment, picked up at the beginning of the 1980s. Since then, women have increased their share of self-employment in the majority of OECD countries.
- The link between self-employment and wage and salary employment is strong. Most self-employed people were previously in wage and salary employment, and a substantial proportion of the self-employed enter (or re-enter) wage and salary employment. Franchising – an example of a form of self-employment which shares a number of the characteristics of wage employment – has been growing rapidly in many OECD countries.
- Only a very small proportion of unemployed people find employment through self-employment, as opposed to wage and salary employment. Surprisingly, this inflow appears to be relatively unaffected by recessions.
- Very few own-account workers (self-employed people without employees) become employers, over the course of a year. Most employers report no change in their status over the previous year, but those who do are as likely to have been employees as to have been own-account workers.
- The working conditions of the self-employed differ from those of employees in a number of ways, even after allowing for a number of differences in the types of jobs they do. Self-employed people tend to report poorer working conditions, including longer hours of work, and (unless they are employers) less training, less use of computers, and feelings of lower job security. Nevertheless, the self-employed consider they have greater control of their working conditions than employees, reflecting their higher degree of independence. This may be one of the main reasons why the self-employed generally report higher levels of job satisfaction than employees – especially if they are employers.
- Employees and labour market entrants display a considerable degree of interest in self-employment, particularly young men with above-average educational qualifications. However, in Europe, almost a fifth of self-employed people report wishing to change to wage and salary employment, at least in the short-term.

- An econometric investigation has failed to find a consistent set of explanatory factors across countries. One possible exception is the growing share of national income accounted for by capital. This is a development which might be expected to favour self-employment, whose income comes partly from their capital and partly from their labour.
- Governments in almost all countries have introduced schemes to assist unemployed people become self-employed. In addition, a number of countries have recently introduced programmes targeted on young people and women. In general, the absence of an “evaluation culture” in most countries makes it very difficult to assess the cost-effectiveness of these schemes. However it seems clear that schemes for unemployed people can appeal only to a small minority of the unemployed, particularly those with above-average educational qualifications and previous work experience.

## I. Changes in size and structure<sup>3</sup>

In many countries, the growth in non-agricultural self-employment has overtaken total non-agricultural employment over the past 25 years (Tables 5.1 and 5.2). For the broad economic cycles, 1979-90 and 1990-97,<sup>4</sup> self-employment growth was faster than civilian employment, overall. Over the recent period its growth outstripped civilian employment growth in 15 out of 24 countries. This contrasts with the 1973-79 cycle, when the average growth rate of self-employment was considerably lower than total employment. A number of countries stand out for their particularly rapid growth in self-employment, relative to total civilian employment, over the 1990s – Canada, Germany,<sup>5</sup> Iceland, Mexico and the Netherlands.

Chart 5.1 shows the change in the distribution of self-employment rates for the 20 countries for which data are available for 1979, 1990 and 1997. It can be seen that the median value has risen, as has the highest value. However, there is no evidence of any convergence in the rates between the different countries. In 1997 the share of self-employment in total employment varied from 5 per cent in Norway to almost 30 per cent in Greece and Mexico.

In demographic terms, the most striking development is that the growth rate of the numbers of women self-employed has increased over the past two decades, and outstripped men in the large majority of countries (Table 5.3). The proportion of self-employed who are women has also grown. To a large extent these developments mirror the increase in the proportion of women in civilian employment as a whole. However, in addition, the

Table 5.1. Non-agricultural self-employment,<sup>a</sup> 1973-1998

Thousands and percentages

	1973	1979	1983	1989	1990	1994	1996	1997	1998
Numbers									
Australia <sup>b</sup>	508	706	707	947	958	943	933	1 016	958
Austria <sup>c</sup>	294	242	230	202	208	230	235	242	254
Belgium <sup>d</sup>	394	397	416	460	469	508	513	517	516
Canada <sup>d</sup>	..	1 007	1 204	1 490	1 563	1 804	1 940	2 160	..
Czech Republic <sup>c</sup>	..	..	..	..	..	454	539	554	642
Denmark <sup>e</sup>	201	208	188	170	179	161	177	171	178
Finland <sup>e</sup>	115	118	146	194	198	183	201	201	207
France <sup>e</sup>	2 111	2 051	2 047	2 104	1 926	1 817	1 783	1 808	1 750
Germany <sup>e</sup>	2 259	2 024	1 821	2 037	2 092	2 934	3 112	3 191	3 247
Greece <sup>e</sup>	..	732	691	745	775	840	848	834	..
Hungary <sup>d</sup>	..	..	..	..	..	274	457	440	437
Iceland <sup>c</sup>	6	6	7	13	13	18	19	19	20
Ireland <sup>e</sup>	81	94	99	118	127	144	151	159	182
Italy <sup>c</sup>	3 583	3 234	3 683	4 229	4 296	4 117	4 280	4 245	4 279
Japan <sup>b</sup>	6 390	6 790	6 910	6 820	6 670	6 130	5 940	6 000	5 940
Korea <sup>e</sup>	..	..	..	..	3 233	3 949	4 371	4 562	4 357
Luxembourg <sup>c</sup>	15	14	13	13	13	..	..	..	..
Mexico <sup>e</sup>	..	..	..	..	3 600	5 953	6 852	7 241	7 703
Netherlands <sup>e</sup>	..	400	404	448	469	596	656	693	695
New Zealand <sup>c</sup>	..	106	..	193	193	221	246	249	266
Norway <sup>f</sup>	114	112	119	120	114	116	109	111	113
Poland <sup>e</sup>	..	..	..	..	..	1 301	1 327	1 399	1 991
Portugal <sup>c</sup>	307	323	539	583	640	750	781	758	..
Spain <sup>d</sup>	1 584	1 499	1 524	1 874	1 901	1 983	2 093	2 119	2 136
Sweden <sup>e</sup>	172	177	190	304	313	340	351	345	349
Turkey <sup>e</sup>	..	..	..	2 523	2 615	2 863	2 927	3 018	3 054
United Kingdom <sup>e</sup>	1 748	1 620	1 949	3 210	3 257	3 002	3 005	3 050	3 027
United States <sup>b</sup>	5 451	6 751	7 540	8 561	8 669	8 955	8 929	9 017	8 924
Share of non-agricultural civilian employment									
Australia <sup>b</sup>	9.5	12.4	12.1	12.9	12.9	12.5	11.8	12.9	11.8
Austria <sup>c</sup>	11.7	8.9	8.1	6.6	6.6	6.6	6.9	7.0	7.4
Belgium <sup>d</sup>	11.2	11.2	12.3	12.9	12.9	14.1	14.1	14.1	13.9
Canada <sup>d</sup>	..	9.9	11.4	11.8	12.3	14.0	14.7	16.0	..
Czech Republic <sup>c</sup>	..	..	..	..	..	9.9	11.7	11.9	13.2
Denmark <sup>e</sup>	9.3	9.2	8.5	6.9	7.2	6.8	7.1	6.7	6.9
Finland <sup>e</sup>	6.4	6.1	7.0	8.7	8.8	9.9	10.3	10.0	10.0
France <sup>e</sup>	11.4	10.6	10.5	10.5	9.3	8.8	8.5	8.6	8.2
Germany <sup>e</sup>	9.1	8.2	7.4	7.8	7.7	8.5	9.0	9.2	9.4
Greece <sup>e</sup>	..	32.0	27.9	27.2	27.4	28.0	27.5	27.0	..
Hungary <sup>d</sup>	..	..	..	..	..	8.1	14.0	13.4	13.1
Iceland <sup>c</sup>	8.3	7.1	7.3	11.2	11.3	14.5	15.0	14.2	14.8
Ireland <sup>e</sup>	10.1	10.4	10.7	12.9	13.4	13.6	12.8	12.9	13.4
Italy <sup>c</sup>	23.1	18.9	20.7	22.4	22.2	22.3	23.0	22.7	22.7
Japan <sup>b</sup>	14.0	14.0	13.3	12.0	11.5	10.1	9.7	9.7	9.7
Korea <sup>e</sup>	..	..	..	..	21.8	23.0	23.8	24.4	24.9
Luxembourg <sup>c</sup>	11.1	9.4	8.8	7.4	7.1	..	..	..	..
Mexico <sup>e</sup>	..	..	..	..	19.9	24.7	25.8	26.2	25.7
Netherlands <sup>e</sup>	..	8.8	8.6	7.8	7.8	9.4	9.8	10.0	9.7
New Zealand <sup>c</sup>	..	9.4	..	14.7	14.6	15.8	15.7	15.7	16.9
Norway <sup>f</sup>	7.8	6.6	6.8	6.4	6.1	6.1	5.5	5.4	5.4
Poland <sup>e</sup>	..	..	..	..	..	11.7	11.4	11.6	16.0
Portugal <sup>c</sup>	12.7	12.1	17.0	16.4	16.7	19.2	19.8	19.1	..
Spain <sup>d</sup>	16.3	15.7	17.0	17.6	17.1	18.7	18.5	18.1	17.6
Sweden <sup>e</sup>	4.8	4.5	4.8	7.1	7.3	9.0	9.1	9.0	9.0
Turkey <sup>e</sup>	..	..	..	26.3	26.6	26.4	25.4	25.3	25.1
United Kingdom <sup>e</sup>	7.3	6.6	8.6	12.4	12.4	12.0	11.7	11.7	11.4
United States <sup>b</sup>	6.7	7.1	7.7	7.5	7.5	7.5	7.3	7.2	7.0
<b>Unweighted average<sup>g</sup></b>		<b>9.8</b>	<b>9.9</b>	<b>11.2</b>	<b>11.2</b>	<b>11.8</b>	<b>11.9</b>	<b>11.9</b>	

.. Data not available.

Note: See Table 5.A.1 for more information on the classification of owner-managers of incorporated businesses.

a) Excluding unpaid family workers.

b) Excluding owner-managers of incorporated businesses.

c) Classification of owner-managers of incorporated businesses is unclear.

d) Including owner-managers of incorporated businesses.

e) Including most owner-managers of incorporated businesses.

f) Excluding most owner-managers of incorporated businesses.

g) Excluding Belgium, the Czech Republic, Greece, Hungary, Korea, Luxembourg, Mexico, Poland and Turkey.

Sources: OECD database on annual labour force statistics; except Canada, national submission.

Table 5.2. Annual average growth rates of self-employment<sup>a</sup> and total civilian employment

	Percentages					
	1973-1979		1979-1990		1990-1998	
	Self-employment	Civilian employment	Self-employment	Civilian employment	Self-employment	Civilian employment
Australia	5.6	1.0	2.8	2.4	0.0	1.1
Austria	-3.2	1.3	-1.4	1.2	2.5	1.2
Belgium	0.1	0.1	1.5	0.2	1.2	0.3
Canada <sup>b</sup>	..	..	4.1	2.0	4.7	0.9
Denmark	0.6	0.9	-1.4	1.0	-0.1	0.4
Finland	0.4	1.2	4.8	1.5	0.6	-1.0
France	-0.5	0.8	-0.5	0.6	-1.2	0.4
Germany	-1.8	0.0	0.3	0.8	5.6	3.2
Greece <sup>b</sup>	..	..	0.5	1.5	1.1	1.3
Iceland	-0.3	2.7	6.3	2.2	5.7	2.3
Ireland	2.5	2.1	2.8	0.4	4.6	4.6
Italy	-1.7	1.0	2.6	1.1	0.0	-0.3
Japan	1.0	1.2	-0.2	1.8	-1.4	0.7
Korea	..	..	..	..	3.8	2.1
Luxembourg	-1.7	1.0	-0.6	2.0	..	..
Mexico	..	..	..	..	10.0	6.5
Netherlands	-0.2	1.1	1.5	2.4	5.0	2.3
New Zealand	..	..	5.5	1.4	4.1	2.2
Norway	-0.3	2.7	0.2	0.8	-0.1	1.6
Portugal <sup>b</sup>	0.9	1.1	6.4	3.5	2.4	0.5
Spain	-0.9	-0.3	2.2	1.5	1.5	1.1
Sweden	0.5	1.5	5.3	0.8	1.4	-1.3
Turkey	..	..	..	..	2.0	2.7
United Kingdom	-1.3	0.3	6.6	0.5	-0.9	0.1
United States	3.6	2.7	2.3	1.8	0.4	1.3
<b>Unweighted average<sup>c</sup></b>	<b>0.2</b>	<b>1.2</b>	<b>2.2</b>	<b>1.4</b>	<b>1.7</b>	<b>1.0</b>
<b>Unweighted average<sup>d</sup></b>			<b>2.3</b>	<b>1.4</b>		

.. Data not available.

a) Excluding the agricultural sector and unpaid family workers. For some countries, all or part of owner-managers of incorporated businesses are excluded from self-employment. See notes to Table 5.1 and Table 5.A.1.

b) 1990-1997 instead of 1990-1998.

c) Excluding Canada, Greece, Korea, Luxembourg, Mexico, New Zealand and Turkey.

d) Excluding Greece, Korea, Luxembourg, Mexico, New Zealand and Turkey.

Sources: OECD database on annual labour force statistics; except Canada, national submission.

growth rate of the numbers of women in self-employment moved strongly ahead of that of women in total civilian employment in the 1980s, after lagging behind in the 1970s.<sup>6</sup>

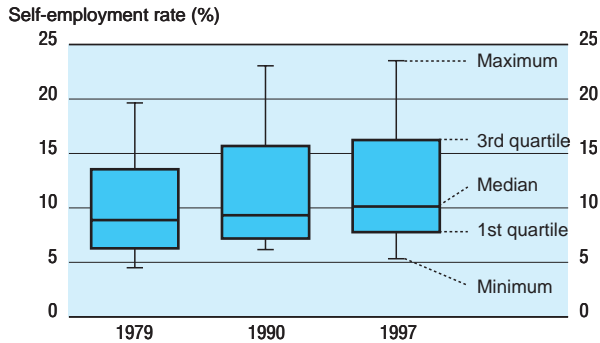
The proportion of employed people in self-employment tends to increase with age. In most countries, both the better- and the less-well-educated have above-average probabilities of being self-employed [Blanchflower (1998)].

Other things being equal, the higher the proportion of employers in total self-employment, the higher the contribution of self-employment to the total number of jobs. Comparing the situation in 1997 with that in 1990, the proportion of employers in self-employment rose in over half the countries for which the comparison can be made (Table 5.4). This contrasts favourably with the period 1983 to 1990, during which the proportion of employers declined in most countries. Nevertheless, it is striking that two countries where self-employment grew particularly

fast relative to civilian employment as a whole over the 1990s, Canada and Germany, both displayed sharp falls in the proportion of employers. This parallels the situation in the 1980s, when the United Kingdom displayed both the fastest growth of self-employment and the fastest drop in the proportion of employers among the self-employed (Chart 5.2). In all three cases, this suggests that a certain proportion of the growth might be attributable to “false” self-employment, in the sense outlined above.<sup>7</sup>

The distribution of self-employment by industry and occupation differs from that of civilian employment as a whole. Understandably, mining and quarrying, and electricity, gas and water supply, account for only a very small proportion of self-employment, much less than for employment as a whole, and there are also relatively few self-employed people in manufacturing. Outside the agricultural sector, self-employment tends to be concentrated in wholesale and retail

**Chart 5.1. Distribution<sup>a</sup> of self-employment rates across OECD countries<sup>b</sup>**



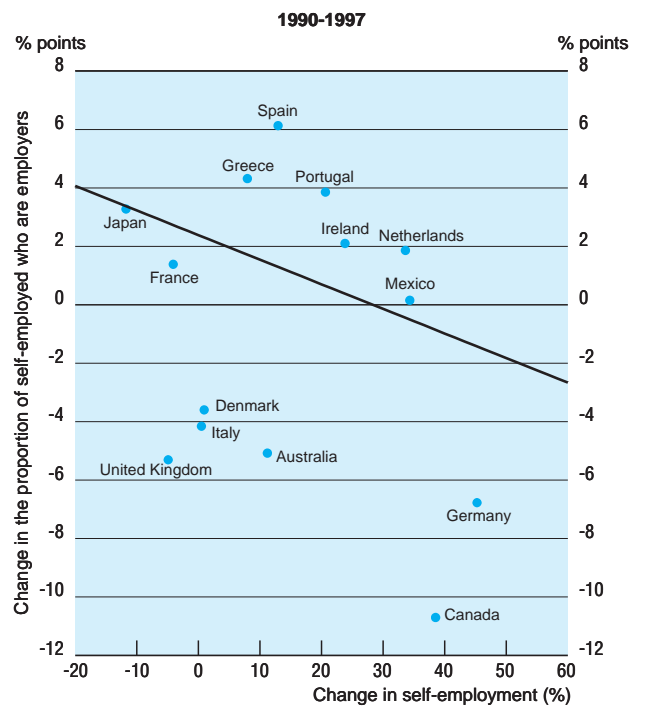
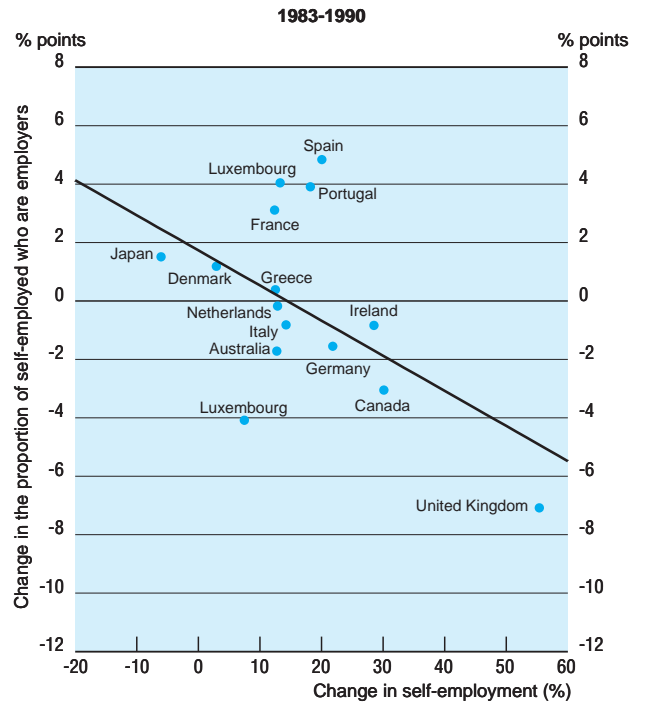
- a) The boxplots show the minimum, first quartile, median, third quartile and maximum of the distribution of the self-employment rate, defined as the ratio of self-employment to civilian employment, excluding the agricultural sector and unpaid family workers.
  - b) Countries are those where data are available for 1979, 1990 and 1997: Australia, Austria, Canada, Denmark, Finland, France, Germany, Iceland, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, the United Kingdom and the United States.
- Sources: OECD database on annual labour force statistics; Canada, national submission.

trade and repairs, and hotels and restaurants [within the former sector, the more detailed analysis in OECD (1986) shows the importance of retail trade]. The patterns vary considerably from country to country. For occupational groups, the differences between self-employment and civilian employment are less marked. Legislators, senior officials and managers represent a larger share of the self-employed population than of civilian employment as a whole, while clerks and elementary occupations account for relatively few self-employed people.<sup>8</sup>

Over the 1990s, the industry sectors which tended to contribute the most to the growth in self-employment were financial intermediation, real estate, renting and business (FIRE); followed by community, social and personal services (Services). For employers, the contribution of wholesale and retail trade, hotels and restaurants was also important. The contribution of these sectors to the growth of self-employment was greater than for employment as a whole. There were distinctive patterns in some of the countries experiencing the fastest growth in self-employment over the 1990s. In Canada, own-account working grew in all sectors, including agriculture. The Netherlands stands out for the growth in the number of employers, particularly in wholesale and retail trade. While self-employment lost ground in most sectors in France, there were some gains in FIRE and Services.

The occupational groups which contributed most strongly to the growth in self-employment over the 1990s

**Chart 5.2. Changes in self-employment and in the proportion of the self-employed who are employers**



Note: The agricultural sector and unpaid family workers are excluded.  
Sources: EU countries: EUROSTAT, European Labour Force Survey; other countries: national data.

Table 5.3. Self-employment<sup>a</sup> by gender: growth rate and share of self-employment

	Percentages					
	Women			Men		
	1973-1979	1979-1990	1990-1997 <sup>b</sup>	1973-1979	1979-1990	1990-1997 <sup>b</sup>
	Annual average growth rates of self-employment					
Australia	8.5	4.1	0.0	4.6	2.4	-0.2
Belgium	0.0	1.7	1.9	0.2	1.4	1.4
Canada	..	5.3	6.5	..	3.6	3.8
Denmark	..	..	..	..	..	-0.7
Finland	-2.4	4.3	0.9	2.0	5.1	0.1
France	..	..	0.6	..	..	-0.9
Germany	-3.2	-1.2	6.4	-1.1	1.0	5.0
Greece	..	-0.1	3.2	..	0.7	1.1
Ireland	..	..	5.7	..	..	2.4
Italy	-6.0	3.7	0.1	-0.3	2.3	-0.2
Japan	0.4	0.0	-2.8	1.3	-0.3	-0.8
Korea	..	..	5.2	..	..	5.0
Mexico	..	..	19.2	..	..	7.0
Netherlands	..	..	-0.2	..	..	3.6
Norway	1.5	2.6	0.4	-0.7	-0.5	-1.1
Spain	-2.3	2.9	2.6	-0.5	1.9	1.2
Sweden	7.0	5.7	1.0	-1.2	5.2	1.5
Turkey	..	..	1.3	..	..	2.1
United Kingdom	-1.9	8.9	-1.0	-1.1	5.9	-1.5
United States	5.7	4.2	1.9	2.9	1.4	-0.2
<b>Unweighted average<sup>c</sup></b>	<b>0.7</b>	<b>3.4</b>	<b>1.0</b>	<b>0.6</b>	<b>2.3</b>	<b>0.5</b>
	Share of total self-employment					
Australia	27.5	30.5	32.9	72.5	69.5	67.1
Belgium	28.1	28.3	28.9	71.9	71.7	71.1
Canada	..	29.8	32.7	..	70.2	67.3
Finland	..	34.1	31.1	..	65.9	68.9
France	..	..	26.0	..	..	74.0
Germany	34.2	26.4	28.3	65.8	73.6	71.7
Greece	..	16.6	19.4	..	83.4	80.6
Ireland	..	..	20.1	..	..	79.9
Italy	24.5	21.9	23.4	75.5	78.1	76.6
Japan	33.6	35.5	33.9	66.4	64.5	66.1
Korea	..	..	30.3	..	..	69.7
Mexico	..	..	33.8	..	..	66.2
Netherlands	..	..	32.8	..	..	67.2
Norway	21.3	23.5	28.3	78.7	76.5	71.7
Spain	25.2	24.7	26.8	74.8	75.3	73.2
Sweden	22.3	27.3	25.7	77.7	72.7	74.3
Turkey	..	..	6.8	..	..	93.2
United Kingdom	20.4	23.9	24.8	79.6	76.1	75.2
United States	27.2	32.9	37.0	72.8	67.1	63.0
<b>Unweighted average<sup>c</sup></b>	<b>26.4</b>	<b>28.1</b>	<b>29.2</b>	<b>73.6</b>	<b>71.9</b>	<b>70.8</b>

.. Data not available.

a) Excluding the agricultural sector and unpaid family workers. For some countries, all or part of owner-managers of incorporated businesses are excluded from self-employment. See notes to Table 5.1 and Table 5.A.1.

b) 1996 for Belgium, Greece and the United Kingdom.

c) Excluding Canada, Denmark, Finland, France, Greece, Ireland, Korea, Mexico, the Netherlands and Turkey.

Sources: OECD database on annual labour force statistics; Canada: national submission; Denmark, France, Ireland and the Netherlands: EUROSTAT, European Labour Force Survey.

Table 5.4. Proportion of employers in self-employment, 1983, 1990, 1997<sup>a</sup>

	Percentages					
	1983		1990		1997	
	Employer	Own-account	Employer	Own-account	Employer	Own-account
Australia <sup>b</sup>	37.9	62.1	36.2	63.8	31.1	68.9
Austria	..	..	..	..	68.8	31.2
Belgium	13.9	86.1	11.7	88.3	10.3	89.7
Canada	51.5	48.5	48.4	51.6	37.7	62.3
Czech Republic	..	..	..	..	34.2	65.8
Denmark <sup>c</sup>	52.6	47.4	53.8	46.2	50.1	49.9
Finland	..	..	..	..	42.3	57.7
France	45.2	54.8	48.3	51.7	49.7	50.3
Germany	61.4	38.6	59.8	40.2	53.0	47.0
Greece	24.1	75.9	24.5	75.5	28.8	71.2
Hungary	..	..	..	..	20.0	80.0
Ireland	38.7	61.3	37.8	62.2	39.9	60.1
Japan	20.5	79.5	22.0	78.0	25.3	74.7
Mexico	..	..	18.2	81.8	18.3	81.7
Netherlands	..	..	35.5	64.5	37.4	62.6
Portugal <sup>d</sup>	..	..	31.8	68.2	35.6	64.4
Spain <sup>d</sup>	..	..	23.5	76.5	29.6	70.4
Sweden	..	..	..	..	41.0	59.0
United Kingdom	38.2	61.8	31.1	68.9	25.8	74.2
United States	..	..	..	..	21.1	78.9
<b>Unweighted average<sup>e</sup></b>	<b>38.4</b>	<b>61.6</b>	<b>37.4</b>	<b>62.6</b>	<b>33.8</b>	<b>66.2</b>
<b>Unweighted average<sup>f</sup></b>			<b>34.5</b>	<b>65.5</b>		

.. Data not available.

a) Excluding agricultural sector and unpaid family workers. For some countries, all or part of owner-managers of incorporated businesses are excluded from self-employment. See notes to Table 5.1 and Table 5.A.1.

b) 1985 instead of 1983.

c) 1984 instead of 1983.

d) 1986 instead of 1983.

e) Excluding Austria, the Czech Republic, Finland, Hungary, Mexico, the Netherlands, Poland, Spain, Sweden and the United States.

f) Excluding Austria, the Czech Republic, Finland, Hungary, Sweden and the United States.

Sources: EU countries: EUROSTAT, European Labour Force Survey; other countries: national data.

were professionals, and technicians and associated professionals. The largest contribution to the growth in the number of employers came from the category of legislators, senior officials and managers. The growth in both the numbers of own-account workers and employers was more concentrated by occupation than was the growth of employment as a whole (where a substantial contribution came also from the category of Service workers and shop and market sales workers).<sup>9</sup>

Over recent years, there are a number of indications that the borders between self-employment and wage salary employment are becoming more blurred. For example, in large companies, it can be argued that one of the main thrusts of human resource management policy has been to give employees more of the independence and personal accountability that characterise self-employment. This is seen in higher levels of responsibility for the quality of individual output and career development, at the same time as market-type relationships have become more important within enterprises, and hierarchical ladders have been reduced [OECD (1999a)].

In addition, there have been changes in the numbers and types of jobs which lie on the borders of wage and salary employment and self-employment [Burchell and Rubery (1992)]. Contractors working in a dependent relationship with just one enterprise may have little or no more autonomy than employees, even when classified as self-employed. For Australia, Wooden and Van den Heuvel (1995) report that, in 1994, 40 per cent of self-employed contractors were dependent only on their current employer, and that their numbers had grown during the 1990s. For the United Kingdom, Freedman and Chamberlain (1997) argue that the grey area between employee and self-employment status has been growing, drawing particular attention to workers whose business consists of providing only personal services without providing any equipment or taking on their own employees. These workers are considered to be present in significant numbers in the oil, construction, and computer industries and among homeworkers and teleworkers, actors, television workers and journalists. In a number of other countries, including Belgium, Germany and Italy, the growth in the numbers of self-employed contractors working for

### Box 1. Trends in franchising\*

According to the standard international definitions, franchisees are distinguished by having certain types of contracts with franchisors, who own certain means of production (land, buildings, machinery, trade marks, etc.). The contracts specify, to a significant extent, how the business is operated, and require the payment of part of total sales. Franchising has become an increasingly important avenue into self-employment. It can provide ready-made expertise to run a business in a particular area. When the franchisor offers a well-known brand name, it may also provide the customer base.

The degree of independence of franchisees varies considerably. In general, according to Felstead (1992), many franchisors seek inexperienced franchisees who are more likely to remain dependent upon them. The role of the franchisees is seen as furnishing finance and labour. It is up to the franchisors to shape these raw materials into a trading business. The interests of franchisors and franchisees are sometimes at variance, because franchisors are generally remunerated on the basis of sales turnover, rather than profits. Franchisors may reserve the right to take over franchises if performance is not at a sufficiently high level. They may also choose to locate new franchises close to existing ones if their interests are served by so doing. Over the longer-term the franchisor may maintain control over marketing and sales promotion, product supplies, and product and service development.

The table next page, presenting several indicators of franchising intensity, has been derived from a number of sources. They generally show consistent results. Where there are differences, this may signal a need for particular care in interpreting the figures. The underlying source rests with franchise associations and, as some franchises may have escaped the net, the figures should be treated as lower bounds.

The largest numbers of franchisors and franchisees are found in the United States. However, bearing in mind the comparative sizes of the countries concerned, franchising is particularly well-represented in Japan and Canada. France may have the largest number of franchisees of the large European countries. Franchising appears to represent two per cent or more of GDP in a number of countries, including France and the Netherlands. For a number of other countries, sales turnover figures are around 1 per cent of GDP – including Belgium, Denmark, Finland, Italy, Mexico, and Portugal. Franchising is estimated to represent 6 per cent of total retail and service markets in France, 18 per cent of retail volume in Norway and 15 per cent of the fast food and restaurant sector in Portugal.

According to US Department of Commerce (1999), there have been rapid increases in franchising over recent years in almost all Member countries (with the exception of some Eastern European countries, where the market is still to be developed). Prospects for expansion are expected to be good. The average annual growth rate expected for Germany over the period 1999 to 2001 was in the 10 to 15 per cent range, and strong increases were expected for a number of other countries.

\* This box has been compiled with the assistance of Mr. David Purdy of the International Franchise Research Centre, University of Westminster, United Kingdom.

just one company has led to policy concerns over “false self-employment” (see Section V). Many homeworkers fall into this latter category [Schneider de Villegas (1990); Felstead (1996)]. Franchisees are another important group on the borders of dependent and self-employment. Their numbers have been growing quite rapidly in the 1990s (Box 1).

## II. Flow analyses

Further insights into the changing characteristics of self-employment can be obtained from data on flows between self-employment and other labour market states. This allows an examination of the patterns of inflow into self-employment over time, particularly from unemployment and from wage and salary employment. A more detailed analysis reveals the extent to which own-account workers transform themselves into employers over time.

Finally, the data allow a crude comparison of the stability of the states of self-employment and wage and salary employment. The main data source used for analysis is the retrospective information provided by the European Union Labour Force Survey (EULFS), described in Annex 5.A. It must be noted that information of this kind is subject to large reporting errors and is, in general, suitable only for indicating broad trends over time.<sup>10</sup>

The results of the analysis of flow data for a number of European Union countries,<sup>11</sup> shown in Tables 5.5, 5.6 and 5.7 and Chart 5.3, coupled with a more detailed analysis of the underlying data, suggest that:

- The large majority of inflows into self-employment come from paid employment in both the European Union (Table 5.5) and Canada [Lin *et al.* (1999)]. Only a small proportion of inflows into self-employment come from unemployment – with the exceptions of

## Indicators of franchising intensity

	Number of franchisors by source				Number of franchisees by source			
	European Franchising Federation		Worldwide	US Dept. of Commerce	European Franchising Federation		Worldwide	US Dept. of Commerce
	1992/93	1995/96	1993/94	1997/98	1992/93	1995/96	1993/94	1997/98
	Numbers				Numbers			
Austria	190	210	200	302	3 000	3 000	3 000	3 630
Australia and New Zealand	..	..	600	..	..	..	26 000	..
Belgium	225	170	150	..	3 500	3 500	3 083	..
Canada	..	..	1 000	..	..	..	65 000	..
Czech Republic	40	..	35	..	80	..	100	..
Denmark	42	98	68	..	500	2 000	1 210	..
Finland	..	..	70	..	..	..	900	..
France	450	470	520	517	25 700	25 750	30 000	28 851
Germany	500	530	500	598	20 000	22 000	18 000	28 000
Hungary	150	220	200	..	1 000	5 000	10 000	..
Ireland	..	..	..	113	..	..	..	864
Italy	370	436	400	..	18 650	21 390	18 500	..
Japan	..	..	714	..	..	..	139 788	..
Mexico	..	..	375	400	..	..	18 724	..
Netherlands	341	345	341	350	11 975	11 910	11 975	12 000
Norway	..	..	185	185	..	..	3 500	3 500
Portugal	70	220	70	236	..	2 000	..	..
Spain	280	288	280	550	23 000	13 161	18 500	..
Sweden	200	230	200	..	9 000	9 150	9 000	..
Switzerland	..	..	170	..	..	..	..	..
United Kingdom	396	474	414	..	24 900	25 700	26 400	..
United States	..	..	3 000	..	..	..	250 000	..

	Annual sales turnover by source			Numbers employed <sup>a</sup>	
	European Franchising Federation		US Dept. of Commerce	European Franchising Federation	
	1992/93	1995/96	1997/98	1992/93	1995/96
	Billion ECU		Billion US\$	Thousands	
Austria	..	1.6	..	..	40
Belgium	3.7	2.4	..	27	29
Czech Republic	0.8	..	..	0.8	..
Denmark	..	1.0	2.7	..	40
Finland	..	..	2.1	..	..
France	31.0	9.2	3.4	319	356
Germany	11.5	14.6	18.5	..	230
Hungary	..	2.6	0.9	10	45
Ireland	..	..	0.5	..	..
Italy	8.1	12.0	..	46	50
Mexico	..	..	5.1	..	..
Netherlands	7.9	9.2	10.0	78	100
Norway	..	..	8.5	..	..
Portugal	..	1.0	..	..	35
Spain	..	6.8	..	..	69
Sweden	5.0	5.7	..	55	71
United Kingdom	6.4	8.9	..	189	223

.. Data not available.

a) Includes full and part-time staff in franchised and company-owned outlets, as well as at the franchisor's headquarters.

Sources: European Franchising Federation 1995/96 data taken from EFF (1997); 1992/93 data taken from correspondence between Mr. David Purdy and the British Franchise Association; "Worldwide" data extracted by Mr. David Purdy from Swartz (1995); US Department of Commerce (1999).

Chart 5.3. Flows between unemployment and self-employment, 1983-1997

Thousands

— Inflows from unemployment to self-employment (left-hand scale)  
 - - - Outflows from self-employment to unemployment (left-hand scale)  
 — Unemployment rate (percentages, right-hand scale)



a) Inflows and outflows are not available for 1991.

b) Data refer to western Germany before 1991, and to Germany after 1991. 1991 data are not available.

Source: EUROSTAT, European Labour Force Survey.

Finland and Spain, and Germany during the period of rapid growth in self-employment since 1994 (when perhaps one in four of the newly self-employed were previously unemployed).<sup>12</sup>

- Conversely, when unemployed people find work, this is comparatively rarely through self-employment, even after taking account of the proportion of self-employment jobs in total employment (Table 5.6).
- A detailed analysis of the outflows from self-employment (Table 5.5 and underlying data) indicates that they are chiefly into paid employment and out of the labour force, a result also found for Canada by Lin et al. (1999). In well over half of the countries for which a relatively long time series is available, there is an upward trend in outflows from self-employment over the last ten to fifteen years. The source of this tends to be an increased outflow from self-employment to paid employment. No such common pattern is seen in the inflows.
- The proportion of self-employed people reporting no change in their status since the same date in the preceding year is slightly lower than for employees. Disaggregating into those with and without employees, employers are roughly as stable, in this sense, as employees, while own-account workers are considerably less stable (Table 5.7).<sup>13</sup>
- In European Union countries, there is no consistent correlation between inflows from unemployment to self-employment and the level of the unemployment rate (Chart 5.3). In some countries, there may be signs that the inflows into self-employment move counter-cyclically, tending to increase, sometimes after a lag, when unemployment rises: in no European country is the opposite pattern evident. However,

Table 5.5. Flows into and out of self-employment<sup>a</sup>

Average annual flows over years indicated  
Percentages of self-employment

		Inflows to self-employment from:			Outflows from self-employment to:		
		Employees	Unemployed	Out of the labour force	Employees	Unemployed	Out of the labour force
Austria	1995-1997	10.4	0.9	3.4	10.7	0.8	2.2
Denmark	1983-1989	4.0	0.9	0.7	2.8	1.6	2.3
	1990-1997	5.1	2.0	1.0	3.1	1.8	2.5
Finland	1995-1997	2.1	3.0	3.0	2.0	2.0	1.9
France	1983-1989	6.6	2.1	2.3	3.7	1.5	3.6
	1990-1997	6.2	1.9	2.4	3.9	1.8	3.3
Germany	1983-1990	7.7	0.6	1.4	4.8	0.6	1.7
	1992-1997	12.3	1.3	2.4	6.6	0.8	2.0
Greece	1983-1989	2.7	0.8	1.9	1.4	0.8	1.5
	1990-1997	2.4	0.8	1.3	1.4	0.7	1.6
Ireland	1983-1989	2.5	2.2	1.6	3.0	2.0	1.2
	1990-1997	3.3	1.7	1.9	4.6	1.7	1.6
Italy	1983-1992	3.5	1.4	2.7	4.3	0.6	2.3
	1993-1997	5.5	2.1	3.6	4.1	0.8	3.1
Portugal	1986-1989	7.3	1.0	1.4	2.0	0.6	2.0
	1990-1997	6.8	1.1	1.9	3.4	0.7	1.8
Spain	1987-1989	3.3	2.8	2.6	2.9	1.2	2.1
	1990-1997	3.5	2.6	2.4	2.1	1.5	2.7
Sweden	1996-1997	2.8	1.2	1.8	1.8	1.0	1.8
United Kingdom	1983-1989	8.5	3.3	4.1	3.9	2.5	2.2
	1990-1997	7.5	2.8	3.4	4.8	3.3	2.7
<b>Unweighted average</b>	<b>1983-1989</b>	<b>5.1</b>	<b>1.7</b>	<b>2.1</b>	<b>3.2</b>	<b>1.2</b>	<b>2.1</b>
	<b>1990-1997</b>	<b>5.7</b>	<b>1.8</b>	<b>2.4</b>	<b>4.0</b>	<b>1.4</b>	<b>2.3</b>

a) Excluding the agricultural sector and unpaid family workers. For some countries, all or part of owner-managers of incorporated businesses are excluded from self-employment. See notes to Table 5.1 and Table 5.A.1.

Source: OECD calculations on the basis of data provided by EUROSTAT from the European Labour Force Survey.

Table 5.6. Current status of those unemployed a year earlier

Agricultural sector excluded, percentages

		Employee	Unemployed	Out of the labour force	Self-employed
Austria	1995-97	31.2	43.3	23.1	1.9
Belgium	1983-89	19.0	69.8	9.8	1.3
	1990-97	21.9	50.8	25.6	1.6
Denmark	1983-89	42.8	39.3	16.7	1.0
	1990-97	33.6	36.8	27.9	1.5
Finland	1995-97	25.3	45.9	27.2	1.5
France	1983-89	29.7	50.7	17.6	1.8
	1990-97	30.5	51.6	16.2	1.4
Germany	1983-90	15.9	52.4	30.8	0.8
	1992-97	24.0	49.6	25.0	1.3
Greece	1983-89	30.3	59.9	6.1	3.3
	1990-97	24.1	61.4	11.5	2.5
Ireland	1983-89	16.8	68.2	13.5	1.4
	1990-97	17.7	58.2	22.7	1.4
Italy	1983-92	23.1	54.2	19.0	2.8
	1993-97	18.5	47.4	30.2	2.8
Portugal	1986-89	31.9	50.7	15.4	1.7
	1990-97	32.4	41.8	22.4	3.0
Spain	1987-89	26.3	66.1	5.1	1.9
	1990-97	26.9	63.6	7.2	1.8
Sweden	1996-97	26.5	52.0	18.6	2.9
United Kingdom	1983-89	28.3	52.4	15.6	3.6
	1990-97	28.8	49.3	17.4	4.2
<b>Unweighted average</b>	<b>1983-89</b>	<b>26.4</b>	<b>56.4</b>	<b>15.0</b>	<b>2.0</b>
	<b>1990-97</b>	<b>26.3</b>	<b>50.1</b>	<b>21.1</b>	<b>2.1</b>

Note: Rows do not sum exactly to 100% because of the exclusion of unpaid family workers.

Source: As Table 5.5.

for Canada, Lin *et al.* (1999) find a significant but small negative correlation between the unemployment rate and self-employment entries.

The absence of a consistent positive correlation between the unemployment rate and inflows into self-employment from unemployment fails to support the so-called “unemployment push” hypothesis: that people tend to move into self-employment in greater numbers in recessions due to the absence of wage employment [see Meager (1991) for a summary of this debate]. Nevertheless, the data show that inflows from unemployment into self-employment show little or no tendency to decline in recessions.

A further analysis of flows into the employer status (Table 5.8) shows that employers have not necessarily moved on from being own-account workers – the proportion of employers saying they were own-account workers the year before is slightly less than the proportion saying they were employees. On average, over a

year, only roughly one in thirty own-account workers become employers in Europe.

### III. Working conditions of the self-employed, job satisfaction and preferences

#### A. Working conditions

##### *Earnings*

Earnings are one of the most important components of the working conditions of the self-employed. Unfortunately, direct comparisons of the earnings of the employed and self-employed populations are extremely difficult. Data on the incomes of the self-employed are both harder to obtain and less reliable than those for wage and salary workers [OECD (1992)]. On the definitional side, there are three areas where the determination

of self-employment incomes is particularly uncertain: the overlap between personal consumption expenditures and business expenditures, production for own consumption, and capital accruals. In addition, there are severe measurement problems. By comparison with wage and salary workers, the self-employed have a much greater opportunity to understate their incomes to avoid taxation. Taking National Accounts estimates as the basis of comparison, self-employment earnings appears to be subject to much greater under-reporting in household income surveys than employee earnings [Sullivan and Smeeding (1997)]. It is therefore prudent to restrict international studies of self-employment earnings to comparisons of trends over time and the situation of different population groups, such as men and women. It may also be possible to make comparisons of the degree of inequality found in the distributions of the earnings of employees and self-employed people. At the same time, it must also be remembered that many households obtain their income from a combination of wage and self-employment earnings. For Canada, Leckie (1997) shows that the proportion of such households has been rising.

The OECD (1992) analysis of trends in the earnings of the self-employed, covering six countries over the late 1980s, found no uniform pattern in changes in the ratio between the median earnings of the self-employed and of the civilian employed. The direction of change varied according to the country and gender concerned. This contrasted with the conclusion of OECD (1986), for five countries over the late 1970s and early 1980s, that median earnings of the self-employed had been declining over time relative to those of employees.

For the 1990s, there is again no evidence of clear patterns:

- For Austria, trends in wage and self-employment incomes appear to be similar over the period 1985-96.<sup>14</sup>
- For Canada, Leckie (1997) finds that mean annual earnings of the self-employed grew considerably faster than corresponding wage earnings over the period 1985 to 1995.
- For France, Cordellier (1998) concludes that there was a widespread decline in the real earnings of the self-employed from 1986 to 1996, a period in which real wages grew. Even where the real earnings of the

Table 5.7. **Stability of self-employment**<sup>a</sup>

Percentage of persons who were in the same status a year earlier, average of years shown

		Self-employed		Employee
		Own account	Employer	
Austria	1983-1989	83.4	85.5	90.0
Denmark	1983-1989	92.5	98.1	89.2
	1990-1997	93.6	96.8	91.3
Finland	1983-1989	73.1	95.8	85.7
France	1983-1989	80.4	83.7	90.2
	1990-1997	80.8	84.6	91.2
Germany	1983-1990	75.8	80.9	91.1
	1992-1997	85.2	85.8	94.8
Greece	1983-1989	93.8	92.4	92.9
	1990-1997	93.3	92.5	91.9
Ireland	1983-1989	89.4	94.3	89.7
	1990-1997	90.1	95.9	90.9
Portugal	1986-1989	86.0	91.2	93.0
	1990-1997	88.1	89.8	93.3
Spain	1987-1989	88.5	91.1	85.6
	1990-1997	88.9	92.3	84.9
Sweden	1983-1989	80.8	96.1	92.2
United Kingdom	1983-1989	80.9	84.4	90.5
	1990-1997	77.4	85.6	89.0
<b>Unweighted average</b>	<b>1983-1989</b>	<b>84.1</b>	<b>90.3</b>	<b>90.0</b>
	<b>1990-1997</b>	<b>87.2</b>	<b>90.4</b>	<b>90.9</b>

a) Unpaid family workers and the agricultural sector are excluded.

Source: As Table 5.5.

Table 5.8. Flows into and out of employer status<sup>a</sup>

		Inflows to employer status from:				Outflows from employer status to:			
		Employee	Unemployed	Out of the labour force	Own account worker	Employee	Unemployed	Out of the labour force	Own account worker
Denmark	1983-1989	4.3	0.6	0.4	0.3	2.4	1.3	1.5	0.9
	1990-1997	3.2	0.5	0.5	0.3	2.3	1.4	1.9	0.5
Finland	1995-1997	1.9	0.6	1.3	1.2	1.3	0.9	2.0	1.2
France	1983-1989	6.0	0.9	1.2	6.2	3.8	0.9	3.0	5.5
	1990-1997	6.1	1.0	1.3	7.4	4.0	1.2	2.8	6.4
Germany	1983-1990	8.1	0.3	0.6	4.8	3.7	0.4	1.4	2.4
	1992-1997	12.0	0.6	1.1	5.1	5.9	0.5	2.0	3.2
Greece	1983-1989	2.7	0.4	0.9	3.3	1.4	0.7	1.1	2.1
	1990-1997	2.4	0.4	0.6	3.9	1.5	0.4	1.2	2.9
Ireland	1983-1989	1.8	0.7	0.6	1.1	4.9	0.8	1.1	2.0
	1990-1997	2.6	0.5	0.6	2.0	7.8	0.8	1.3	2.2
Portugal	1986-1989	6.5	0.3	0.8	2.5	0.9	0.5	1.4	2.6
	1990-1997	4.5	0.4	0.8	3.1	2.1	0.4	1.2	3.0
Spain	1987-1989	2.4	0.5	1.2	3.3	3.8	0.7	1.3	1.7
	1990-1997	2.7	0.9	1.2	3.8	2.0	0.7	1.8	2.4
Sweden	1996-1997	2.1	0.6	0.6	0.7	1.7	1.0	2.0	1.6
United Kingdom	1983-1989	5.5	1.2	1.5	6.0	3.4	1.5	2.0	4.3
	1990-1997	5.3	0.8	1.2	8.1	3.1	1.5	2.2	5.4
<b>Unweighted average</b>	<b>1983-1989</b>	<b>4.6</b>	<b>0.6</b>	<b>0.9</b>	<b>3.4</b>	<b>3.1</b>	<b>0.9</b>	<b>1.6</b>	<b>2.7</b>
	<b>1990-1997</b>	<b>4.3</b>	<b>0.6</b>	<b>0.9</b>	<b>3.6</b>	<b>3.2</b>	<b>0.9</b>	<b>1.8</b>	<b>2.9</b>

a) Unpaid family workers and the agricultural sector are excluded.

Source: As Table 5.5.

self-employed increased or stagnated up to 1990, they usually declined afterwards.

- For the United Kingdom, Robson (1997) reports a decline in the average earnings of the self-employed relative to employees over the whole period since 1979, attributing it mainly to the reduction in the level of capital per self-employed worker.
- For the United States, Devine (1994) finds that median real earnings of full-time year-round self-employed men declined between 1975 and 1990, while the real earnings of similar employees were relatively flat. The earnings of self-employed women improved over time, relative to the earnings of self-employed men, but the gains lagged behind those seen in the wage-and-salary sector.

The OECD (1992) analysis of the inequality of self-employment earnings, relative to employee earnings, found evidence that the distribution of the incomes of the self-employed tended to be less equal than that of wage and salary employees. This is confirmed by a number of recent studies, including Sullivan and Smeeding (1997), covering 15 OECD countries; Bradbury (1996), on the

basis of expenditure data for Australia; Leckie (1997) for Canada; Pfeiffer and Pohlmeier (1992) for Germany; and Parker (1997, 1999), who reviews a number of recent studies for the United Kingdom, finding evidence for a rise in the inequality of self-employment income over the period 1976 to 1995, paralleling that for employees. In addition, a number of studies, including Bradbury (1996) and Leckie (1997), point to the relatively large variation in self-employment incomes from year to year.

### Conditions at work

Secretariat analysis of the 1996 Second European Survey on Working Conditions [see European Foundation (1997a) and Annex 5.A] shows that the working conditions of the self-employed tend to differ from those of employees in a number of important respects. These differences tend to persist after allowing for a number of ways in which the jobs of self-employed people and employees tend to differ.<sup>15</sup>

Not surprisingly, self-employed people tend to report greater autonomy than employees on a number of dimensions, including the ability to choose their rate and methods of

work, the order in which they perform tasks, and the pattern of breaks and holidays that they take. They are also less likely to complain of working under time pressure, and are more likely to indicate that they “have enough time to get the job done”. In addition, in most occupational groups, own-account workers are less likely than employees to agree that they are “working to tight deadlines” or “working at very high speed”. Employers, by contrast, report these types of work pressure as often as employees. On the other hand, the self-employed are rather more likely than employees to say that their pace of work is “dependent upon direct demands from people such as customers, passengers, pupils and patients”. Such differences are present in each sector and for each occupation group. There is no evidence of additional differences by gender.

The well-known tendency for self-employed people to report longer hours of work than employees is confirmed by this survey. Own-account workers reported an average of 45 hours a week and employers 52 hours, as opposed to the 39 hours reported by employees.<sup>16</sup> Women own-account workers reported working longer hours than women employees, but considerably shorter hours than male own-account workers (male and female own-account workers were found to work, on average, 46 and 40 hours, as opposed to 41 and 33 hours for employees). Men and women employers were found to average around the same number of hours.

Table 5.9 shows the results of applying a logit analysis to a number of other dimensions of working conditions. The figures show the probability that own-account workers and employers respond positively to the questions on the topics mentioned, relative to employees, after controlling for the effects of age, gender, country, education, occupation and industry. These are important dimensions of jobs, although they do not exhaust all of the differences between the jobs done by employees and self-employed people. With this *caveat*, the results suggest that:

- While the self-employed claim that they are more able to adjust instruments and equipment for their own comfort, they are nevertheless less likely to report wearing protective equipment and more likely to work in painful positions. They are more likely to report working at night and at weekends.
- The self-employed report considerably lower levels of training than employees. In addition, own-account workers (but not employers) report lower levels of use of computers.
- The self-employed, particularly own-account workers, are less likely to agree that they have a secure job than employees.

This last finding is not in line with the findings of Manski and Straub (1999) for the United States, that self-employed workers tend to perceive less chance of job loss

Table 5.9. Working conditions of the self-employed: results of a logistic regression model

	Probability that the statement applies to the self-employed as a ratio of the probability it applies to employees <sup>a</sup>	
	Self-employed	
	Own-account workers	Employers
	Percentages	
Wearing protective equipment	59***	91
Working in painful positions	117***	117**
Able to adjust to their own comfort instruments/equipment	150***	158***
Working shift and/or irregular hours	148***	145***
Working Saturdays (at least once a month)	118***	122***
Working at night (at least once a month)	131***	182***
Working Sundays (at least once a month)	156***	186***
Dealing directly with outside people	106***	108***
Training in the last 12 months	41***	61***
Working with computers at least 1/4 of the time	68***	103
Think job is secure	80***	96*

\*\*\*, \*\*, and \*, significant at the 0.1%, 1% and 5% level respectively.

a) The table should be read as follows: own-account workers are 59% as likely to be wearing protective equipment as employees, etc. The calculations are based on the case of a 40 year old man in Belgium, who left education between the ages of 16 and 20, working in wholesale and retail trade as a service or sales worker.

Source: OECD calculations from the *Second European Survey on Working Conditions*, excluding the agricultural sector.

than those who work for others. However, these results refer to possible job loss over the next twelve months, probably a relatively short time in the life of a self-employed business, while the European question made no reference to any time period.

### B. Job satisfaction by employment status, gender and hours

The self-employed tend to indicate greater satisfaction with their jobs than employees. For the European Union, Secretariat analysis of the 1996 Second European Survey on Working Conditions shows that 38 per cent of own-account workers and 45 per cent of employers reported being “on the whole, very satisfied” with their main jobs, as opposed to 30 per cent of employees. Blanchflower (1998) reports similar results for a number of other surveys covering Europe and the United States. The differences tend to persist even after the inclusion of a number of variables to control for the type of job.

Table 5.10 compares the job satisfaction of employees and self-employed people according to gender and hours of work. There are some striking differences in the pattern of job satisfaction by gender. Male employees tend to report increasing job satisfaction with lengthening hours of work, while female employees do not. However, for

men and women own-account workers the patterns differ less – in both cases the peak satisfaction occurs in jobs of around 40 hours a week. Nevertheless, women own-account workers with low weekly hours also tend to report quite high levels of job satisfaction, possibly because this allows them to combine work and family life.

In sum, taken at face value, the evidence suggests that the self-employed are more content with their lot than employees. The poorer working conditions and longer hours associated with self-employment are presumably compensated by other factors.

### C. Employees in very small businesses

In considering the working conditions associated with self-employment, it is also important to examine the working conditions of employees in businesses run by the self-employed. The necessary information, which would need to include earnings data, is scarce. However, a number of indications can be gleaned from the Second European Survey on Working Conditions, referring to the working conditions in firms with between one and nine employees.<sup>17</sup> There is a substantial overlap between these firms and the firms of self-employed people.

While employees in companies with between one and nine employees do not report above-average exposure to

– Table 5.10. Job satisfaction<sup>a</sup> of the self-employed, by hours and gender, European Union, 1995/96 – Percentages

	Men							Women							Men and women
	Usual hours of work in main job							Usual hours of work in main job							
	Less than 10 hours	10-29 hours	30-39 hours	40-44 hours	45-59 hours	More than 60 hours	All hours	Less than 10 hours	20-29 hours	30-39 hours	40-44 hours	45-59 hours	More than 60 hours	All hours	All hours
<b>Total employment</b>															
Very satisfied	12	25	29	29	35	36	31	35	35	33	32	35	37	34	32
Other <sup>b</sup>	88	74	71	71	64	64	69	64	65	67	66	65	63	66	53
<b>Own-account workers</b>															
Very satisfied	..	23	53	36	32	33	35	43	37	48	49	42	38	44	38
Other <sup>b</sup>	..	77	47	64	67	67	65	57	63	52	51	58	62	56	61
<b>Employers</b>															
Very satisfied	..	..	..	..	..	..	42	..	..	..	..	..	..	52	45
Other <sup>b</sup>	..	..	..	..	..	..	58	..	..	..	..	..	..	48	55
<b>Employees</b>															
Very satisfied	..	27	27	28	35	34	29	35	36	32	29	28	28	32	30
Other <sup>b</sup>	..	73	73	71	64	66	71	64	64	68	69	72	72	67	69

.. Estimate unavailable because of inadequate sample size. Sample size restrictions are also the reason for the slightly different decomposition of hours used for men and for women.

a) Data refer to satisfaction with main job.

b) Including responses: “fairly satisfied”, “not very satisfied” and “not at all satisfied”. Figures do not always add to 100 because of small numbers of “don’t knows”.

Source: As Table 5.9.

adverse ambient factors, they are more likely to say they work in painful positions, or move heavy loads. They are more likely to work long hours, and on Saturdays, but not nights or on Sundays. They are less likely to say they work to tight deadlines. However, they report lower levels of autonomy than employees in larger firms, and are less likely to regard their jobs as complex, or involving precise quality standards, or requiring job rotation. They are much less likely than employees in general to report having undergone training in the last 12 months, or using computers. Regarding their compensation, they are less likely to receive special payments for overtime, unsocial working hours, or poor working conditions. They are also less likely to enjoy family-friendly benefits, such as maternity leave, sick child leave, parental leave or child day care, over and above those stipulated in national legislation. They are slightly less likely than average to think their job is secure. However, they report being as satisfied with their jobs, if not more so, than workers in companies of other sizes.

#### D. Preferences for self-employment

Recent survey evidence for Europe suggests a considerable, latent interest in self-employment. Table 5.11, taken from an analysis of the “Employment Options of the Future” survey [Bielenski (1999) and Annex 5.A], shows the numbers of people, either currently employed or intending to become employed within the next five years, who indicate that their desired employment state is self-employment. Taken at face value, the figures suggest that the proportion of currently employed people who would prefer self-employment is 26 per cent – just under twice the figure currently seen in Europe. These figures should, of course, be regarded with considerable caution, as most dependent employees have no experience of self-

employment. At the same time, there is some indication of “involuntary self-employment” – 18 per cent of those currently self-employed said they would prefer to work as an employee.<sup>18</sup>

A detailed analysis of these data by Huijgen (1999) shows that preferences for self-employment are considerably stronger among men than women – indeed, differences by gender were more important than any other variable included in the survey. Twenty-two per cent of male employees and labour market entrants, as against 15 per cent of women, indicated a preference for self-employment (and 33 per cent of men, as opposed to 45 per cent of women, said they regarded it as unacceptable). Preferences for self-employment decline gradually with age. They increase with the level of educational qualifications. The strongest preferences for self-employment are expressed by young men with above-average educational qualifications entering the labour market.

Differences in preferences by gender are also found for the United Kingdom by Hakim (1998). Using 1991 Census data to examine the narrowly defined profession of pharmacist, in which men and women are roughly equally represented, and which, she argues, offered a relatively unconstrained choice of the type of working, she concludes that women pharmacists show a strong tendency to prefer employee jobs (often part-time) while men consistently prefer self-employment (almost always full-time). For the United States, Devine (1994) argues that the self-employment decision for women is based on different factors to that for men. For Canada, Menzies (1998) reports survey evidence that men are more likely than women to choose self-employment for the independence it offers (47 per cent of men cited this reason compared with 32 per cent of women): women are more likely to say that it offers a chance to work from home (13 per cent of women compared with virtually no men).

— Table 5.11. Preferences for self-employment and dependent employment, European Union, 1998 —

Percentages

	Desired status		
	Employee	Self-employed	No preference/ don't know/no answer
<b>Current status</b>			
Employed (sum of employees and self-employed)	69	26	5
Intend or wish to take up paid work in the next five years <sup>a</sup> :			
Young entrants	58	26	16
Women returners	70	15	15
Unemployed	65	16	20

a) Defined as people, aged 16 and over, not currently employed, who want to be working in 5 years' time. Young entrants are pupils or students intending to take up their first “real” job on completion of their studies. Women returners are women who want to take up paid work again after a break in their career. Source: Bielenski (1999), analysis of the “Employment Options of the Future” survey, covering the EU and Norway.

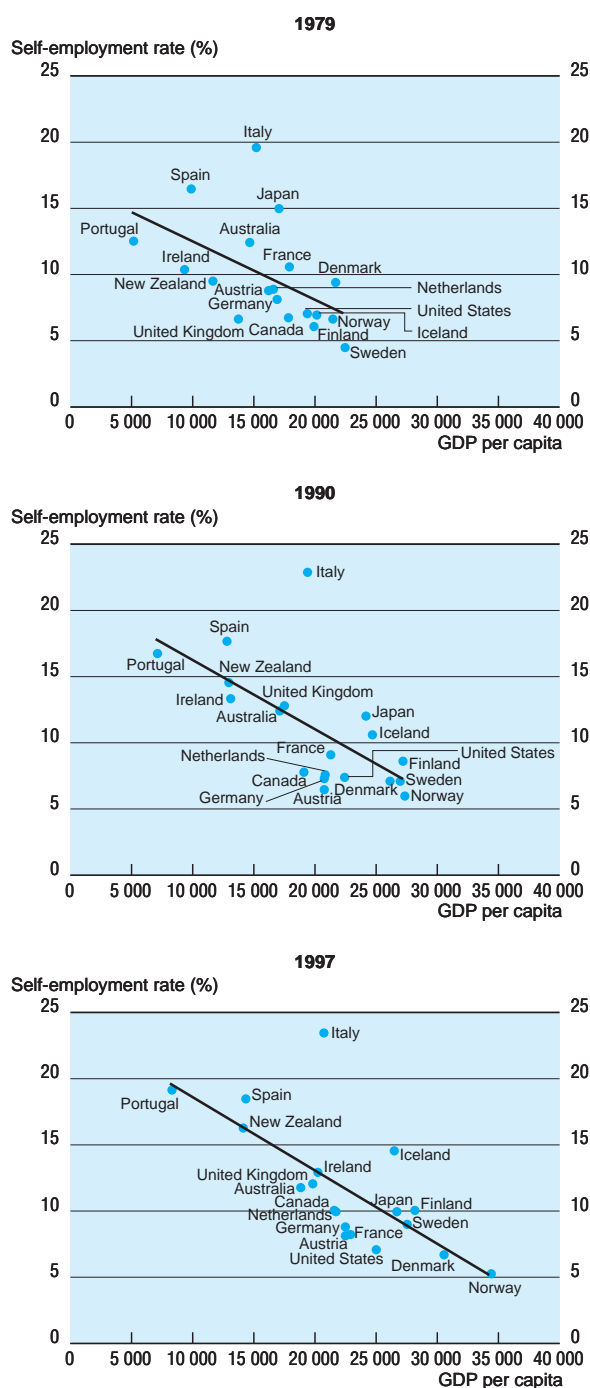
#### IV. Exploring the correlates of self-employment

From a cross-sectional viewpoint, there is a strong negative correlation between the level of GDP per capita and the share of self-employment in total, non-agricultural civilian employment, as shown in Chart 5.4 (which includes only those countries for which data are available for all of the years). The statistical relationship is very similar in each of the years. However, other factors are at work – if GDP *per capita* were the only influence, self-employment would have tended to decline in all countries. This section reviews a number of multivariate analyses of the correlates of self-employment, including recent analyses by the Secretariat.

Previous international time-series analyses, including Acs, Audretsch and Evans (1994), Staber and Bogenhold (1993) and Robson and Wren (1999) have used a variety of explanatory variables for the self-employment rate, including unemployment, output per capita, proportion of women in the labour force, share of GDP contributed by the services sector, average tax rates, and marginal tax rates. The sign for the coefficient on the unemployment rate is uncertain, *a priori*, and estimates vary from study to study. The proportion of women in the labour force is expected to have a negative coefficient, that of the proportion of services sector GDP a positive one (though these results are not always found). Average tax rates might be expected to have a positive coefficient, as higher average tax rates provide more incentive to find ways of avoiding and evading income tax through self-employment. This result is found by some but not all analyses, including that of Robson and Wren (1999). They also find a negative relationship with marginal tax rates.<sup>19</sup>

The Secretariat analysis, which broadly followed the approach of Robson and Wren (1999), is described in Annex 5.B. The list of variables is shown in Table 5.12. It should be noted that neither this, nor indeed any of the analyses just quoted can claim to incorporate a “model” of the decision to become self-employed. Such an approach would require an analysis using individual, rather than aggregate level. However, it can be seen that the first four variables used by the Secretariat relate to the development of and broad structural change in the economy, while the last five are relevant to the likely advantages accruing to self-employment, relative to wage and salary employment. The new variables, by comparison with earlier studies, are the proportion of value added accounted for by capital (SCVA) and the average unemployment benefit replacement rate (REPR). SCVA might be expected to have a positive sign, in so far as it reflects the rate of return to capital as opposed to labour – self-employment earnings include a component accruing to capital as well as one accruing to labour. REPR might be expected to have a negative sign:

Chart 5.4.  
Self-employment rate and GDP per capita,<sup>a</sup> 1979, 1990 and 1997



a) The self-employment rate is defined as the ratio of self-employment to civilian employment, excluding the agricultural sector and unpaid family workers. Countries shown are those where data are available for 1979, 1990 and 1997. GDP per capita is in US\$ and exchange rates of 1990. Sources: OECD database on annual labour force statistics; OECD database on national accounts.

— Table 5.12. Explanatory variables used in the OECD Secretariat’s time series regression analyses —

Variable Code	
SER	Self-employment rate: ratio of self-employment to civilian employment
SE	Self-employment
EMP	Civilian employment
GDP	Real GDP per capita
FEM	Proportion of women in labour force
MAN	Proportion of manufacturing in value added
SERV	Proportion of services in value added
SCVA	Proportion of value added accounted for by capital
UNR	Unemployment rate
MTR	Ratio of general government gross liabilities to GDP
ATR	Average tax rate (proxied by ratio of general government outlays to GDP)
REPR	Average unemployment benefit replacement rate

an increase should tend to increase the attractiveness of wage employment.

A number of other variables of possible importance could not be included. For example, outsourcing has been suggested as one of the main reasons for the rapid growth in self-employment, for example in the United Kingdom in the 1980s [Meager (1998)] and Canada in the 1990s [Leckie (1997)]. There is evidence of recent increases in outsourcing from a number of national studies, including Morehead *et al.* (1997) for Australia, Ekos Research Associates Inc. (1998) for Canada, and Cully *et al.* (1999) for the United Kingdom. Secretariat analysis of the 1996 EPOC survey [European Foundation (1997b)], found managers reporting initiatives in favour of outsourcing over the previous three years in all ten European countries covered. The percentage of workplaces involved ranged from 8 per cent in Spain to 23 per cent in Ireland. However, the data are insufficient to include in a time series regression model. Data limitations were also the reason for the exclusion of the level of employers’ social security contributions, the strictness of employment protection legislation (EPL), and the availability of financial capital.

While cultural factors are not amenable to time-series analysis, Wilderman *et al.* (1999) find that, on a cross-country basis, certain cultural variables have a stronger explanatory power than standard economic variables.<sup>20</sup> For the United Kingdom, a number of commentators have discussed whether or not the sharp rise in self-employment in the United Kingdom in the 1980s might have been due, at least in part, to a renewal of interest in entrepreneurial activity within the national culture [OECD (1992); Blanchflower and Freeman (1994); Robson (1998)].

Table 5.13 summarises the results obtained by the Secretariat, from both individual and pooled regressions. The specification of the two models is given in Annex 5.B

(the models differ only in the treatment of the independent variable, which is separated into its two components, the numbers of self-employed and the numbers in civilian employment, in the second model). Only variables found to be significant at the 10 per cent level were retained in the model. Few of the variables perform consistently well. The “best” variable, in the sense of consistent, significant coefficients, is the proportion of value added accounted for by capital. This has the expected sign. The average taxation variable is often significant in first-difference terms, but does not have the sign expected. The same is true of the variable for the proportion of GDP accounted for by services [a similar result was found by Robson and Wren (1999)]. While GDP per capita gives mixed results when used in the regressions for individual countries, it has a negative sign in the pooled regressions, perhaps reflecting the tendency for countries with higher levels of this variable to have lower levels of self-employment (Chart 5.2). A separate analysis using the limited information on EPL found no evidence of a correlation between it and the self-employment rate.<sup>21, 22</sup>

In summary, the analyses presented here have failed to find a consistent set of explanatory variables for self-employment on a time-series basis across countries.

## V. Policy considerations

Particularly since the beginning of the 1980s, governments in most OECD countries have adopted a range of policies to support self-employment, both in its own right, and as part of attempts to foster entrepreneurship [OECD (1998a)]. This has taken place in the context of a general trend toward deregulation in many labour and product markets and the persistence of high unemployment [Meager (1994)]. Policy intervention has been justified by

Table 5.13. Summary of time-series regression analyses for the self-employment rate

Variable <sup>a</sup>	Model 1 (dependent variable SER)						Model 2 (dependent variable SE)					
	Canada	Germany	Italy	Japan	United Kingdom	Pooled	Canada	Germany	Italy	Japan	United Kingdom	Pooled
LnSER <sub>t-1</sub>	-0.46**	-0.27**	-0.35**	-0.16**	-0.21**	-0.23**	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
LnSE <sub>t-1</sub>	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-0.72**	-0.62**	-0.68**	-1.29**	-0.24**	-0.33**
ΔlnEMP <sub>t</sub>	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-2.34**	0.26*	2.70**	1.10**	1.93**	1.17**
lnEMP <sub>t-1</sub>	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0.50**	-0.51**	2.00**	2.00**	-0.69**	0.64**
ΔlnGDP <sub>t</sub>		1.79**	0.72*						-1.01**	-0.21**	1.09**	
lnGDP <sub>t-1</sub>	0.30**				0.08**	-0.63**		-2.13**	-0.95**	-0.23**	0.12**	-1.04**
ΔlnFEM <sub>t</sub>		2.68**	1.14*		-2.35*			6.43**	-1.30**	-0.49**		2.14**
lnFEM <sub>t-1</sub>			0.43**					2.60**		-1.65**		2.14**
ΔlnMAN <sub>t</sub>												
lnMAN <sub>t-1</sub>	-0.13**	0.08**		0.37**				1.00**				
ΔlnSERV <sub>t</sub>	-1.52**	-3.34**				-0.56**		-1.64**		0.11*	-0.94**	-0.11**
lnSERV <sub>t-1</sub>	0.28**			-0.32**		-0.11**		0.63**		0.19**	-0.15**	
ΔlnSCVA <sub>t</sub>	0.34**			0.70**				0.69**	0.78**	0.59**		
lnSCVA <sub>t-1</sub>	0.60**	0.57**		-0.15**	0.38**	0.24**	-0.41**	1.21**	0.82**	1.12**		0.35**
ΔlnUNR <sub>t</sub>					0.07*		-0.40**			0.08**	0.07**	
lnUNR <sub>t-1</sub>			-0.17**		0.05**					0.27**		
ΔMTR <sub>t</sub>							0.38*					
MTR <sub>t-1</sub>							0.30**					
ΔATR <sub>t</sub>								1.15**	-1.63*	1.70**		
ATR <sub>t-1</sub>				-1.08**		-0.50*	-2.40**		-2.26**	2.72**		-1.23**
ΔlnREPR <sub>t</sub>	-0.32**						-0.28**					
lnREPR <sub>t-1</sub>										-0.15**		
Number of observations	33	33	34	34	34	70	33	33	34	34	34	70
Adjusted R <sup>2</sup>	0.83	0.67	0.48	0.90	0.53	0.63	0.79	0.96	0.69	0.98	0.61	0.68

\*\* significant at 5% level, \* significant at 10%.

n.a. not applicable.

a) Δ indicates that the variable was used in first difference form. See Annex B for details of the specifications of the OECD Secretariat model.

the presence of barriers to entry into self-employment, including the existence of capital market failures; administrative burdens associated, particularly, with requirements to report to a number of different administrations; and the lower social security protection of the self-employed relative to wage earners. To counteract these barriers as well as to help people find a job, governments have put in place different programmes and schemes to stimulate self-employment and the creation of new enterprises. They have also tried to reduce the rate of failure of self-employed businesses, where this is judged to be due to the lack of necessary skills, particularly managerial skills.

As concluded by a recent Joint US-EU Seminar on Entrepreneurship [US Department of Labor (2000)], public policy can help entrepreneurship in several ways, although success in business creation must always depend on individual entrepreneurs. Self-employment depends on “conditions” (e.g. access to finance; administrative burdens; taxation; social policies like health, social insurance and pensions), “skills” (human capital, managerial skills) and “spirit” (or personal choice). Policy intervention should take all these dimensions into account. However, whereas governments can intervene to shape the general framework formed by the “conditions” and the “skills” in order to increase opportunities, the “spirit” rests on personal choices, vision, determination and willingness to take risks. These are conditioned by the culture, and by family and local traditions, and are not easy to modify. In fact, self-employment is also an imitative phenomenon. Since a culture that supports risk-taking and individual reward associated to effort plays an important role in supporting entrepreneurial activities, several governments have recently tried to promote a culture of entrepreneurship [OECD (1999b)]. One important avenue has been through initiatives in partnership with non-governmental institutions through the education system, to integrate education or vocational training and self-employment opportunities (*via* school or university projects).

Rather than attempt to review all policies designed to foster entrepreneurship, this section concentrates on policies, concerned with the self-employed as individuals, which can be considered to fall into the category of national active labour market policies. More precisely, the list of areas under consideration is as follows:

- policies to help self-employed people develop their businesses, and in particular take on employees when appropriate;
  - policies directed against “false” self-employment;
  - policies to assist unemployed people to enter self-employment;
  - policies to help young people and women enter self-employment.
- However, it must be noted that the uneven information about the measures taken in different countries and the lack of evaluations in most cases, limit the extent to which it is possible to judge the cost-effectiveness of policies, making very difficult to draw hard-and-fast conclusions about what works in these areas.

### **Policies to help self-employed people develop their businesses**

The analysis above has noted the lower levels of training and the higher levels of employment instability of own-account workers, compared with employees. This may provide arguments for governments to facilitate access by the self-employed to appropriate training programmes, which might help to sustain the viability of their businesses and avoid unnecessary failure [Metcalf (1998)]. Unless the self-employed are able to organise themselves appropriately, they will fail to enjoy the economies of scale that are possible when training is conducted in larger companies. However, it would appear that only a few countries have adopted such programmes. They include the following:

- Italy, where, since 1996, Law 608/96 offers special training courses (eight weeks) for the self-employed with a component aimed at vocational guidance and analysis of entrepreneurial abilities and another component aimed at training and technical assistance.
- Belgium, where the EU National Action Plan for 1998 includes the promotion of vocational training outside normal working hours for the self-employed.
- Spain, where the “*Plan integral de Fomento Empresarial de Autónomos*”, launched in 1999, aims to offer the self-employed counselling and advice to help them design their strategic business plan and improve competitiveness, by training in areas such as bookkeeping, marketing, financing, foreign trading, information and technology.

The analysis in Section II suggests that the proportion of own-account workers who become employers is quite low. Conversely, employers are no more likely to have come from the ranks of own-account workers than from employees. In some ways this is surprising, as own-account workers presumably have many of the skills needed by employers. However, the lack of management skills and experience of employing staff may act as a barrier to own-account workers transforming themselves into employers.

While most governments encourage SMEs in hiring new employees by reducing social contributions though a range of different programmes, few countries direct such

help specifically to the self-employed. Among those that have done so are:

- France, where the 1989 programme *Exonération totale des cotisations patronales de Sécurité Sociale pour l'embauche d'un premier salarié* (extended to managers of *Sociétés à responsabilité limitée* in 1990 and to other associations, co-operatives and *mutuelles* in 1992) offered new employers exoneration from social security contributions for up to 2 years. According to an evaluation of the programme made by the French Ministry of Employment and Solidarity [DARES (1999a)], the average number of beneficiaries during the period 1990-98 was 70 000, with a peak around 90 000 in 1994 and in 1998. The net effect on employment of this measure has been estimated at around 20 per cent [DARES (1996)].
- Belgium, where the 1988 programme *Plus un, plus deux* offered a reduction of the employers' social security contributions for the first three employees, declining over a period of three years.
- Finland, where the 1998 reform reduced and simplified employers' social security contributions in businesses with less than five employees.
- Ireland, where the County Enterprise Board promotes the development of micro-businesses at local level, providing an employment grant (of up to IEP 5 000) for each new full-time job created.

### Policies to combat false self-employment

At the same time as introducing policies to encourage self-employment, a number of governments have been concerned with the possible growth of “false” self-employment (work situations which are classed as self-employment primarily in order to reduce tax liabilities). A primary objective is to reduce the level of tax avoidance. While the main policy instruments involved are fiscal ones, labour market policies are also important, because incentives for “false” self-employment may also stem from overly strict labour protection laws. In addition, it has been suggested, for Germany, that policies to encourage self-employment, particularly those which encourage unemployed people to enter self-employment (see below), may encourage the development of self-employed businesses with relatively low levels of resources and that part of these might be classed as a form of false self-employment [Pfeiffer (1999)].

Recently, special measures were introduced in Germany to control false self-employment. As noted above, a high proportion of the very large increase in self-employment in the 1990s was accounted for by own-account workers. Further analysis showed that

many of them appeared to be working for just one employer. According to estimates from the Federal Employment Office, in 1995, between 12 and 27 per cent of all self-employed without employees may have been “false” self-employed<sup>23</sup> [Pfeiffer (1999)]. To limit the tendency for wage workers to slide into the category of “false” self-employed, the German government laid down in 1999, more stringent conditions for a person, previously classified as an employee, to become classified as self-employed for social security purposes. According to the new regulation,<sup>24</sup> a person is classed as an employee if any three of the following five conditions are fulfilled:

- The person does not employ other workers at wages above DEM 630 per month (including family members).
- The person depends strongly upon one employer over a long time.
- The person is employed with tasks for which his/her employer or a comparable employer usually employs dependent workers.
- The person does not act as an entrepreneur.
- The person is employed with the same tasks by the same employer for whom he or she previously worked as an employee.

Similar policies have been introduced in a number of other countries, including:

- Greece, where concern over the growing incidence of false self-employment spurred the August 1998 Law on Industrial Relations according to which work agreements between self-employed persons and companies must be notified in writing to the Ministry of Labour within eight days, failing which the work will be regarded as falling within a dependent employment relationship.
- Belgium, where concern that false self-employment was present in all sectors [Ministère de l'Emploi (1995)] led the government to introduce a new procedure, through the Arrêté Royal of 25th January 1991, for monitoring the work relations of people entering self-employment from wage and salary working.
- Italy, where, in the context of limiting the informal economy, efforts to encourage enterprises and workers to “rise to the surface” have been continued in Law 196/97 and particularly by wage realignment contracts. These *contratti di riallineamento* provide for social security contributions to be progressively aligned to normal levels, and concern nearly 90 000 workers since 1997, the majority of whom worked in the agricultural sector.

## Policies to help unemployed people enter self-employment

While flows from unemployment to self-employment are relatively small, the analysis above suggests that they are comparatively little affected by cyclical downturns and may provide a small, but valuable source of employment in recessions. Particularly when unemployment is high, it seems reasonable that a certain proportion of the unemployed will have the skills that are needed to begin and run successful businesses, but they may need to overcome considerable barriers in doing so. Over the years, governments in an increasing number of OECD countries have introduced policies to encourage these flows, by converting unemployment benefits into various forms of grants, to help unemployed people become self-employed.

Expenditure on such policies, as a percentage of total public spending on active labour market policies (ALMPs), varies from almost zero (Belgium) to 5 per cent (Greece) over the most recent period (Table 5.14). The number of participants in these schemes varies between almost zero (Belgium) to over 6 per cent (Sweden) of the numbers of unemployed. Over the whole period shown in the table, 1985 to 1998, there were increases in expenditures and in participants in around half the countries and decreases in the others. Particularly sharp increases were seen in Australia, Canada, Germany and Sweden while large declines were recorded in the Czech Republic, Spain and the United

Kingdom. However, these schemes are too small to influence the overall movement of self-employment, and indeed no correlation was found between trends in self-employment and expenditures on these schemes.

While the general approach of the schemes for the unemployed, listed in Table 5.15, is the same in all countries, there are a number of important differences, as follows:

- *Eligibility:* in most countries, eligibility is broad enough to cover all registered unemployed receiving unemployment benefits. In France, people receiving the minimum reinsertion benefits (RMI) or the single-parent allowance (API) can also apply, and in Canada people having received parental or maternity benefits during the last five years who want to re-enter the labour market by creating their own business, are also eligible. Some countries fix a minimum length for the unemployment duration like Denmark (five months), France (six months) or Luxembourg (eight months), and others (Ireland, Portugal) give priority to the long-term unemployed.
- *Mode of financing and payment duration:* here a distinction can be made between two different models. The allowance is paid weekly or monthly at a rate equal to the unemployment benefit in Australia, Austria, Belgium, Canada, Denmark, Finland, Germany, Greece, Hungary, Ireland,

Table 5.14. Public support for unemployed persons starting enterprises in selected OECD countries

	Spending on such measures as percentage of spending on ALMPs <sup>a</sup>			Average annual inflows of participants			Ratio of inflows of participants to total unemployed		
	1985-1989	1990-1994	1995-1998 <sup>b</sup>	1985-1989	1990-1994	1995-1998 <sup>b</sup>	1985-1989	1990-1994	1995-1998 <sup>b</sup>
Australia	0.5	2.6	3.9	886	3 203	8 244	0.2	0.4	1.1
Belgium	0.7	0.3	0.2	1 881	439	284	0.4	0.1	0.1
Canada	..	2.2	4.1	..	6 347	12 904	..	0.4	0.9
Czech Republic	..	7.0	1.8	..	11 025	975	..	6.9	0.4
Denmark	1.8	6.4	3.5	2 153	5 887	3 124	1.1	2.2	1.7
Finland	1.8	2.2	2.1	3 075	7 000	6 050	2.7	2.3	1.7
France	5.1	2.5	1.1	67 367	59 568	50 006	2.8	2.3	1.6
Germany	0.4	0.3	2.1	7 150	24 000	84 800	0.3	0.9	2.3
Greece	4.4	8.7	5.1	4 983	7 533	5 775	1.7	2.3	1.3
Hungary	..	7.8	0.9	..	8 633	3 600	..	1.8	1.0
Ireland <sup>c</sup>	3.4	1.4	1.0	3 453	2 229	1 067	1.6	1.1	0.6
New Zealand	2.8	5.0	2.6	2 400	2 852	2 961	2.4	1.8	2.2
Portugal	5.8	5.7	2.7	4 603	15 481	6 731	1.6	6.8	2.0
Spain	24.5	17.6	4.9	63 438	69 177	33 333	2.3	2.5	1.0
Sweden	0.4	1.5	3.7	2 000	10 300	19 767	2.5	4.0	6.3
Switzerland	..	0.2	0.6	..	300	850	..	0.2	0.3
United Kingdom	4.8	2.9	0.7	80 000	37 400	6 000	4.6	1.6	0.3

a) Active labour market programmes (ALMPs) cover public employment services and administration, labour market training, youth measures, subsidised employment and measures for the disabled.

b) 1997 for Australia, Canada, Greece and the United Kingdom. 1996 for Ireland and Portugal.

c) Break in series.

Sources: OECD database on labour market programmes; OECD database on annual labour force statistics.

Table 5.15. **Self-employment assistance for the unemployed**

Countries	Programme	Date introduced	Eligibility criteria	Main features
Australia	<i>New Enterprise Incentive Scheme (NEIS)</i>	1985	Unemployed.	The assistance includes an income support allowance, for up to 52 weeks, equivalent to the basic rate of unemployment benefits. It also includes training in small business management, business skills and business plan development, business advice and mentor support during the first year of the business operation.
Austria	<i>Business Start-up Programme (UGP)</i>	1998	Unemployed claiming unemployment insurance or unemployment assistance.	The assistance includes an allowance that equals the unemployment benefits during a period of 9 months. Aid in counselling and training is also offered in the preparation phase and, under certain conditions, an allowance of ATS 63/day (USD 5/day) for the social insurance contributions can also be offered during the realisation phase.
Belgium		1992	Unemployed (from the first day). Young unemployed people can apply even without entitlement to an allowance.	The system consists of loans (of BEF 800 000, around USD 22 040) for start ups, subject to certain conditions.
Canada	<i>Self Employment Assistance</i>	Replaced SEI in 1992, reformed in 1996	Unemployed claiming (or having claimed within the last three years) unemployment insurance benefit as well as people having received maternity or parental benefits within the last five years.	Applicants must be legally entitled to work in Canada, have not participated previously in self-employment activity through a similar programme, must have attended an orientation session provided by the delivery agent and must have completed a self-evaluation on suitability for self-employment. They also have to agree to work full time (30 hours or more) and must also make a previously determined personal equity contribution to their self-employment business. Participants may not work on commission, but partnerships, limited companies, worker co-operatives and franchises are permitted subject to some conditions. If all those prerequisites are satisfied applicants can receive a weekly taxable allowance (initially for 52 weeks, but the period has been reduced since 1996) instead of unemployment insurance.
Denmark	<i>Enterprise Allowance Scheme</i>	1985 to 1998	Any insured person, unemployed for five months during the last eight.	Consists of a grant of 50% of unemployment benefits (in 1997 it was around DKK 70 000 per year, around USD 10 400), paid on a monthly basis during 2.5 years.
Finland	<i>Start-up grant</i>	1984	Unemployed.	The monthly allowance equals the employment subsidy but can be increased up to a maximum of 80% (that means by 2 500 to FIM 4 500 per month or between 450 and USD 840). The allowance is paid for up to 10 months and to receive it, training or experience in entrepreneurship is required.
France	<i>ACCRE Scheme</i>	1977, reformed in 1994 and 1997	Since 1997 directed to the unemployed (with or without benefits), and to people receiving the minimum reinsertion wage (RMI), or the single parent allowance (API).	Initially the financial assistance was set between 16 168 and FRF 43 000, but the maximum lump sum was reduced to FRF 32 000 in 1994 (around USD 5 750 of 1994) and finally eliminated in 1997 (if the business failed after 6 months the recipient had to repay the money). Since 1997 the main assistance has consisted of an exemption from social security contributions for one year (prior to 1997 it was for the first 6 months of activity). Applicants must demonstrate the likely viability of the project.
Germany	<i>Bridging Allowance</i>	1986, reformed in 1994	Unemployed.	The allowance equals the unemployment benefit or assistance, and is paid for up to 6 months. The administration assesses the sustainability of the planned new activity, which has to be at least 18 hours of work a week. This assessment is to ensure that the unemployed person, after a starting phase, is able to earn a gross monthly income equal to at least 2/3 of the average income of an employed person in a similar job. The social insurance contributions to be paid on these benefits are paid by the employment office. The scheme also involves a micro-finance loan component.

Table 5.15. **Self-employment assistance for the unemployed** (cont.)

Countries	Programme	Date introduced	Eligibility criteria	Main features
Hungary	<i>Self-employment assistance</i>		Unemployed.	A series of monthly payments equal to the regular unemployment compensation benefit (which can be extended 6 months beyond the UC one-year eligibility period). Support may also include reimbursement of up to half the cost of professional entrepreneurship counselling, and half the cost of training courses required.
Ireland	<i>Back to Work Allowance Scheme (BTWAS)</i>	1993	Unemployed.	Replaced the Area Enterprise Allowance Scheme (AEAS), introduced at the local level in 1992 for the long-term unemployed. The BTWAS is at national level and offers support for three years at a rate of 75% of the previous level of welfare income for the first year, 50% for the second one, and then 25%.
Italy	<i>Subsidised Loan (Act 608/96)</i>	1996	Unemployed in crisis areas, beginning with craft and manufacturing businesses.	Consists of grants from public funds of up to USD 30 000 (60% from non refundable grants and 40% from low interest loans to meet capital and operating costs). Investment projects are evaluated and selected according to their viability. Once the project is selected, applicants are “tutored” by specialised consultants and must undergo special training of up to eight weeks.
Netherlands	<i>Assistance to Self-employed Decree (BBZ)</i>	1985, reformed in 1998	Unemployed.	The programme allows for a loan for working capital (up to NLG 42 000 or around USD 21 150) and/or temporary income support up to 18 months. Since 1998 there is a trial period for unemployed starters to examine their potential markets and develop a business plan; an allowance for guidance and advice; an increase in the amount of credit; an extension of the period to award supplementary income support; the possibility of taking account of income from other sources (another job, partner's income) when deciding on the viability of a plan; and special provisions for persons who are handicapped or with care obligations.
Norway	<i>Benefit establishing own-business</i>	1990	Unemployed.	The allowance equals the unemployment benefit for up to 9 months (3 months are considered necessary for the start-up phase and 6 months for the development one). Commercial assessments are required from the municipality (or from another competent body) to start and maintain the new enterprise.
Poland	<i>Self-Employment Assistance</i>		Selected registered unemployed.	Consists of a lump sum provided through a loan programme from the Labour Fund, with immediate repayment required if the business is not started. The maximum support is 20 times the national average wage and interest rates are at market rates. An incentive to businesses to survive at least 2 years is provided by a 50% reduction of the repayment of the principal.
Portugal	<i>Support grant for self-employment (CPE)</i>	1989	Unemployed.	Recipients are given the total amount of their unemployment benefits in the form of a grant for creating their own business. An additional non-refundable grant for planning, setting up and operating the project is also provided. The maximum grant is 12 x the minimum wage and may be increased by 20% for beneficiaries more than 45 years old and unemployed for more than 1 year. A viable business plan is a requirement.
Spain	<i>Unemployment benefit capitalisation</i>	1985, reformed in 1992	Since 1992, only owned-workers have been eligible.	The programme was initially directed to the unemployed entitled to unemployment benefits, but since 1992 has been restricted to unemployed people wanting to create co-operatives or limited companies of workers. It consists of an advance payment of the full unemployment benefit to start-up the business. It can also be accompanied by a partial reduction of social security contributions during two years, and an income tax exemption (up to one million of ESP, around USD 6 690).
	<i>Promotion of autonomous workers</i>		Unemployed registered at National Employment Service.	Consists of loans for investment in fixed capital at subsidised interest rates (up to ESP 500 000) as well as subsidies for technical assistance (up to 100% of the cost).

Table 5.15. **Self-employment assistance for the unemployed** (*cont.*)

Countries	Programme	Date introduced	Eligibility criteria	Main features
Sweden	<i>Start-up grants</i>	1987	Unemployed aged above 20.	Grants are available for applicants presenting a viable project. The grant equals the benefit that would have been paid from the insurance fund (it can also be provided for people not entitled to such benefits) and it is payable for a maximum of 6 months (in some cases for 12).
United Kingdom	<i>Business Start Up Scheme (BSUS)</i>	1993	Unemployed for at least 6 weeks.	Replaced the Enterprise Allowance Scheme (EAS) of the 1980s. It consists of an allowance of GBP 40 (USD 66) per week paid for one year. More emphasis is now given to likely business survival.
United States	<i>Self-Employment Assistance</i>	1994	Unemployed.	Only seven states introduced SEA. The programme paid weekly allowances to participants and provided support services for business start-ups. SEA participants were limited to no more than 5% of those receiving regular unemployment insurance benefits.

USD values are calculated with the 1998 average daily nominal exchange rate of the different currencies *vis-à-vis* the USD.

Sources: Country submissions and reviews by the European Commission.

Sweden, the United Kingdom and the United States. It is given in the form of a lump-sum grant during the start-up phase of the new businesses in France, Italy, Luxembourg, Poland, Portugal and Spain.<sup>25</sup> Only the Netherlands seems to offer the possibility to choose between the two models, leaving applicants to decide if they prefer a loan to provide working capital, or temporary income support, or a mixture of the two.

- *Controls on the viability of the self-employment business:* some countries, including Canada, France, Germany, the Netherlands, Portugal, Spain and Sweden require a business plan to be presented and approved by the competent authorities. To be eligible for the German Bridging Allowance, participants must show that the proposed self-employed activity can generate at least two-thirds of the gross monthly income received by an employed person for the same kind of job. By contrast, the United Kingdom Enterprise Allowance Scheme (EAS), now replaced by the Business Start-Up Scheme (BSUS), places no restriction on the potential wage level. Overall, the trend across OECD countries appears to be towards greater stress on a viable business plan.
- *Availability of counselling and training:* several countries include this as a component of their schemes, but do so in different ways. For example, in France, self-employed people creating firms through the programme *Aide aux Chômeurs Créateurs d'Entreprise* (ACCRES) can receive a number of *Chèques-Conseil* to spend on counselling at the beginning of the creation of the firm and during the following year. In Denmark, a subsidy of DKK 7 000 is offered to cover consultancy fees for start-ups. In the United Kingdom, the Training for Work Programme, set up in 1993, allows for an increase in the weekly BSUS allowance received by the unemployed when undergoing training. Overall, the importance attached to training and counselling in these programmes appears to be increasing.

Despite all the experience gained with these schemes over the years, few evaluations are yet available. While one explanation for this is a lack of a “scientific” evaluation culture in many European countries, another relates to the difficulty of assessing the size of the deadweight, substitution and displacement effects arising from such schemes. Deadweight effects occur, for example, when someone intending to set up as self-employed becomes unemployed for a period simply in order to become eligible for a grant which is not strictly needed. Substitution effects occur when a self-employment opportunity which would have been taken up by one person is taken by another, simply because

the second person is eligible for a grant. Displacement effects occur when new self-employment businesses, supported by grants, drive unsubsidised businesses out of the market; such effects are very difficult to measure unless the population of businesses likely to be affected is well-defined.

Evaluation of the recent Canadian Self-Employment Assistance programme (SEA) indicated benefits to participants both in terms of increased earnings, and increased confidence in the use of skills in the labour market. On the other hand, it was also concluded that it applied only to a narrow group of the potential self-employed, and took some time to recoup its funding. These findings are echoed by most studies, which report a generally positive international experience of success of self-employment assistance programmes in increasing participant’s income and reducing dependency on unemployment insurance, though they apply only to a small group of highly motivated individuals [Martin (2000); Wong *et al.* (1998)]. As the grants are in lieu of unemployment benefits, the cost of the programmes tends to be low, even after allowing for likely deadweight effects.

One crucial question is the *survival rate* of the businesses concerned. This seems to depend very considerably on the severity of the criteria applied to the business plan. For example, in Germany, where the criteria are particularly stringent, a study by the *Institut für Arbeitsmarkt und Berufsforschung* of a sample of newly created businesses since 1994 set up by unemployed people who received the “Bridging Allowance” found that, three years after receiving the support, 70 per cent were still self-employed and that on average each recipient had taken on one employee. A very similar result was found in the Netherlands. In Sweden, four years after having received the Start-up allowance, 59 per cent of the unemployed were still in business [Okeke (1999)] whereas in France 51 per cent of the enterprises created by the unemployed under the ACCRES scheme were still in place three years after having received the aid, compared with a survival rate of 42 per cent for those enterprises created by the unemployed without aid, and 61 per cent for the enterprises created by workers [DARES (1999b)]. In other countries, *e.g.* Ireland, Norway and the United Kingdom, anecdotal evidence suggests that only a relatively small share of subsidised enterprises showed good longer term survivability [OECD (1996)].

However, high levels of survival need to be interpreted carefully before one can assume that the programme in question worked well. High survival rates can be associated with “creaming” – the programme assures success by accepting only the very best candidates. In turn, this raises the likelihood of deadweight costs – such candidates

might very well have created their own business anyway [O’Leary (1998)]. Lower survival rates do not necessarily imply that a higher proportion of the money spent has no long-term effect. Some studies suggest that a higher percentage of programme participants than non-participants succeed in finding long-term employment, even if their businesses do fail [OECD (1998b)].

## Self-employment policies for young people and women

### Young people

Section III showed that the expressed preferences for self-employment among young people are relatively high (especially among well-qualified young men). However, as noted above, the incidence of self-employment increases with age, and the relative incidence among young people is low [see, for example, Blanchflower (1998)]. The reason for this low incidence is no doubt to be found in the lower levels of capital (both financial and human) of most young people. Enterprises begun by young people generally tend to be less successful, and have higher failure rates than those begun by older people. Government policies to encourage young people to enter self-employment are thus likely to receive a high degree of interest, but may also require a comparatively high investment of resources and provide uncertain returns.

Over recent years, a number of countries have introduced self-employment policies specially tailored for young people (see Table 5.16). None of the schemes have yet been subjected to careful evaluation, as far as known. By comparison with policies to assist self-employment in general, special emphasis is always laid on training. However, in many other respects, the schemes take rather different approaches:

- The Italian Law 44/86 scheme stresses help in the development of business plans, and involves the use of a mentor firm to provide part of the technical training and support to the new enterprise.
- The French *Encouragement au Développement d’Entreprises Nouvelles* scheme is principally directed to young people already eligible for employment contracts (*emplois jeunes*), offering them a reimbursable interest-free loan.
- The Canadian Graduate Employment/Self-employment Initiative aims at helping relatively well-qualified young people to set up businesses in growth sectors, offering them a range of training programmes, including distance education.
- The United Kingdom New Deal offers since 1999 to young people who have found it difficult to find work, a programme that includes a special course designed to help potential participants decide if self-employment is

suitable for them. If they join the self-employment option, they receive an allowance and can get advice and support from training providers for up to six months. The programme also offers the opportunity to train towards an approved qualification.

### Women

In almost all countries, the numbers of women in self-employment have begun to increase considerably. However, women employees and labour market entrants still tend to express considerably lower preferences for entering self-employment than men. In addition, the type of self-employment sought by many women tends to be different. For example, some women tend to seek forms of self-employment which fit in with family activities, in particular self-employment which can be done at home, and for relatively short hours. Differences between women self-employed and men can be due to many factors, ranging from differences in cultural attitudes towards entrepreneurship, risk-taking, and women’s role in society, as well as to the prevailing economic structure and the availability or affordability of family services. Personal characteristics such as family size, marital status, and the ages of children also play an important role for many women in the decision to become self-employed [Williams (1998)].

Women considering entry to self-employment may face barriers which are additional to those faced by men [OECD (1999c)]. These stem partly from their comparative lack of a track record as entrepreneurs. Women face also extra difficulties due to different characteristics in the way they start and manage their business. In general, women tend to start with lower capital than men, and tend to favour less ambitious projects, smaller investment and smaller loans. The positioning in the market is also different because women have in general less market connections from their previous job than do men, and have less mobility due to child-care obligations [OECD (1999d)]. Female self-employed are less likely than men to have employees and are more likely to establish service sector firms, whose main assets are intangibles, which are difficult and costly to evaluate, increasing the risks perceived by lenders. Extra difficulties in attracting finance can also arise from the weight of social values that may make financial intermediaries see women as less capable of running a business.

For these reasons, and also as part of equal employment and gender mainstreaming strategies, a number of countries have introduced programmes to encourage women’s self-employment. As can be seen from the partial list in Table 5.17, one strong emphasis is on the provision of loans, to counteract the fact that women may face additional difficulties in obtaining finance. In addition, some of the

Table 5.16. Programmes to promote self-employment among youth in selected OECD countries

Countries	Programme	Date introduced	Eligibility criteria	Main features
Australia	<i>Self-Starter</i>	1985	Young unemployed between 18-25 years old.	An extension of the New Enterprise Incentive Scheme (NEIS). The support consists of a grant (up to AUD 3 000, around USD 1 880) and is accompanied by the provision of appropriate business skills and financial assistance.
Belgium		1992	Young unemployed, even without entitlement to an unemployment allowance.	An extension of the support system for the unemployed. The support consists of subsidised loans of BEF 800 000 (USD 22 040) for starts-up under certain conditions.
Canada	<i>The Graduate/Self Employment Initiative</i>	1994	Young graduates.	Supports new business by encouraging graduates to become self-employed in growth sectors. Support includes a training allowance of CAD 800 (USD 540) and a distance education programme.
	<i>Sectoral Youth Internship Program</i>		Young people.	Offers partial financial support for a period of up to 18 months to help subsidise on-the-job training for self-employment.
	<i>Young Entrepreneur Financing Program</i>	1996	Young people between 18-34 years old.	The programme offers a loan (up to CAD 25 000, around USD 16 850) for the start-up phase, with a duration of 4-7 years, and is complemented by 50 hours of management support. It also gives access to professional business management counselling as part of a tailor-made business plan.
France	<i>Youth Initiative Departmental Funds</i>	1985-1993	Young people.	Programme offering low-cost advice (legal, financial, administrative, etc.) in the form of grant aid (between FRF 10 000-100 000, around USD 1 695-16 950). The programme was later extended to other age groups and finally merged into a broader system of aid to entrepreneurship.
	<i>EDEN Scheme</i>	1997	Young people eligible for "emplois jeunes". Also for people receiving the minimum reinsertion wage (RMI), or the single parent allowance (API) as well as workers buying out the enterprise.	The scheme gives exemption from social insurance contributions and a reimbursable advance payment (consisting of a loan free of interests up to a maximum of FRF 40 000 or USD 6 780). The granting of the payment is subject to the recipient obtaining additional financial support at least half the sum of the advance. Counselling, training and support activities may also be subsidised.
Greece	<i>Programme for new professionals</i>	1988	Unemployed between 18 and 30 years old.	A subsidy is offered, up to 12 months, to young unemployed people to start their new business, of up to GDK 250 000 (USD 850) for business in the trade and service sectors and up to GDK 350 000 (USD 1 185) in the manufacturing sector. A viability plan is required.
Italy	<i>Act 44/86</i>	1986	Youths under 36 years old.	Provides monetary subsidies (90% of investment and operating cost in the South and 60% in the rest of Italy) and technical assistance during the initial years of activity, for youth starting a business in the agriculture, crafts or manufacturing sectors in areas supported by EU funds.
	<i>Act 236/93</i>	1993	Unemployed under 35 years old.	Offers monetary subsidies and technical assistance co-financed by EU Funds to start up new firms or co-operatives providing services in certain sectors (environmental, tourism, cultural and agricultural) in Southern Italy (extended to other "crisis areas" in 1997).
Portugal	<i>Support for entry into self-employment (ACPE)</i>	1995	Young persons between 18 and 25 years (until 30 years in the region of Madeira).	Offers a non-refundable installation grant corresponding to 12 times the minimum wage as well as assistance in drawing up the viability plan after a training course of six weeks in organisation and management. This programme is also available for long-term unemployed qualified for independent professions, including handicrafts, sector for which an additional aid may be available.

Table 5.16. Programmes to promote self-employment among youth in selected OECD countries (cont.)

Countries	Programme	Date introduced	Eligibility criteria	Main features
United Kingdom	<i>New Deal</i>	1999	Young people 18-24 years old.	After a short course (one day a week for four weeks) to help decide whether self-employment is a suitable choice for them, participants receive further information and training in order to produce a business plan. The self-employment option for participants in the New Deal for Young People offers an allowance plus a grant of up to GBP 400 (USD 660) paid in equal weekly or fortnightly instalments. The profits earned by the business during the six first months can be reinvested or put in a bank account until the period of the option has ended.

USD values are calculated with the 1998 average daily nominal exchange rate of the different currencies *vis-à-vis* the USD.  
Sources: Country submissions and reviews of the European Commission.

Table 5.17. Programmes to promote self-employment among women in selected OECD countries

Countries	Programme	Date introduced	Eligibility criteria	Main features
Canada	<i>Women Enterprise Initiative Loan Program</i>		Women wanting to start-up their own business.	Offers access up to a maximum of CAD 100 000 (around USD 67 400) in debt financing to finance a start-up or expand an existing business.
Finland	<i>Kera loans for women entrepreneurs</i>	1997	Unemployed women.	Designed to the creation, development and growth of firms up to five employees. It offers a loan up to USD 16 000 at an interest rate of 3.6%. The programme also includes advice (regarding the business potential and entrepreneurial capacity of the applicants) and a follow-up of the business.
Germany	<i>Business Start-up Programme (ERP)</i>	1969	Women wanting to start their own business.	Offers a maximum amount of DEM 2 million (USD 1 140 000) for 20 years and at an interest rate of 4.5%.
Italy	<i>Positive actions for female entrepreneurs (Act 215/92)</i>	1997	Women wishing to become entrepreneurs.	Provides access to reduced rate financing by banks. It also offers capital grants (up to 50% of capital and up to 60% in disadvantaged areas) to create or modernise a business and grants of operating costs (up to 30% and up to 40% in disadvantaged areas).
Norway	<i>Network Credit, Rural Development Support Scheme</i>		Female entrepreneurs with no more than one part-time employee.	Micro-loan (up to USD 5 000) granted as a revolving fund to a group of 5-7 women entrepreneurs who have applied together for the loan. The group members are obliged to undergo preliminary training and make use of advisory services.
Sweden	<i>Women's loans, Network Bank</i>	1994	Unemployed women.	Concessionary loans (up to SEK 50 000 per person, around USD 6 300) to promote business start-ups. Loans are given for a duration of three years and have a monthly repayment requirement.

USD values are calculated with the 1998 average daily nominal exchange rate of the different currencies vis-à-vis the USD.

Sources: Country submissions and reviews of the European Commission.

schemes feature special training and counselling. While these schemes are relatively new, and full evaluations are not available, a number of them have reported success rates, in terms of the creation of viable enterprises, equal to, or only just below, the rates usually obtained by male participants in general schemes to support self-employment. This is, for example, the case for Sweden, where the Swedish National Labour Market Board [Okeke (1999)] reports that gender had no incidence on the survival rate of the enterprises created by the self-employed with public support. Even while not having specific programmes to support female self-employment, a similar result was found for France with the ACCRE programme [DARES (1999b)].

## Conclusions

Over the past twenty-five years, self-employment has taken a larger place in total non-agricultural employment in a number of OECD countries. The growth rate of self-employment, which generally lagged behind total employment growth in the 1970s, outstripped it over the 1990s in most OECD countries, notably in Canada and Germany. In addition, for the OECD as a whole, the proportion of self-employed with employees, which had been tending to fall in most countries over the 1970s and the 1980s, tended to stabilise during the 1990s.

The causes of these developments are not yet well understood. At the national level, the reasons for the rapid growth in self-employment in Canada and Germany in the 1990s, and even that in the United Kingdom in the 1980s, are still not clear, though it is noticeable that in all these cases, the growth was concentrated on self-employed without employees. In addition, in both Germany and the United Kingdom the growth was accompanied by substantial government programmes designed to encourage self-employment and foster a climate of entrepreneurship. At the international level, the clearest statistical relationship is the tendency for self-employment to be lower in countries with higher GDP per capita. As GDP per capita has been rising in all countries, including those where self-employment is rising, other factors are clearly at work. However, an econometric investigation has failed to find a consistent set of explanatory factors across countries. One possible exception is the growing share of national income accounted for by capital in many countries, a development which might be expected to favour self-employment, whose income comes partly from their capital and partly from their labour.

At the same time, the distinction between self-employment and wage and salary employment may have weakened, as suggested, for example, by the growth of certain forms of self-employment which offer working relationships close to those of an employee. This applies to

many forms of franchising, which has been growing in importance in many countries over the 1990s. While the responsibility of the franchisor for the franchisee is generally less than that of an employer for an employee, the freedom of action of a franchisee may be hardly any greater than that of an employee, despite the financial responsibility that he or she carries. In addition to Canada, Germany and the United Kingdom, several countries, at different times, have seen growing numbers of self-employed people who work for just one company, and whose self-employment status may be little more than a device to reduce total taxes paid by the firms and workers involved – the phenomenon of so-called “false” self-employment.

Concerns have sometimes been expressed about the quality of self-employment jobs, particularly in terms of their working conditions and their earnings. The results presented in this chapter show that own-account workers (self-employed people without employees) tend to report poorer working conditions than employees, including longer hours of work. In addition, almost a fifth of self-employed people in the European Union say that they would prefer to work as employees, and more own-account workers than employees say they feel their jobs are insecure. Nevertheless, the self-employed also feel that they are in greater control of their working conditions. This is one facet of the greater independence they enjoy. This, in turn, may help to explain why they generally display higher levels of job satisfaction than employees in similar types of job.

The evidence also shows that the degrees to which own-account workers engage in training and use computers are markedly less than those of employees. To some extent this may be due to the nature of self-employment jobs and the lack of opportunities that most self-employed people have to engage in training, particularly in view of their long working hours. However, it may be a serious problem when the self-employed people in question lack skills, particularly management skills, which are vital for their businesses.

The working conditions of employers (self-employed with employees), appear to be better than those of self-employed people without employees. Their job satisfaction is even higher. However, the working conditions of their employees need also to be taken into consideration. While precise evidence is not available, the analysis above, referring to firms with under 10 employees, notes that employees in such companies tend to report lower levels of autonomy and job complexity than other employees, and are less likely to have received training in the last 12 months, or to use computers. They are also less likely to receive compensation for unsocial hours of work and to benefit from family-friendly leave and working-time policies, and are slightly

less inclined than employees in larger firms to think their job is secure. However, their reported job satisfaction is as high, if not higher, as that of workers in larger companies.

Policies to help unemployed people enter self-employment have been in place in several countries for many years, and considerable experience has been gained in applying them. Generally, what evaluations exist suggest they have enabled a number of unemployed people to enter self-employment, and it has been argued that this experience may be positive even if their businesses fail. However, it seems clear that the number of unemployed people who can benefit from such schemes is small, and tends to be restricted to the relatively well-educated with previous work experience.

A number of governments have recently introduced policies to facilitate entry into self-employment for women and young people. Policies for young people are likely to be difficult to implement successfully – while young people tend to show considerable interest in self-employment, relatively few have the work experience and skills which seem necessary for success. Unfortunately, there are still very few

rigorous evaluations of the cost-effectiveness of these and other policies to support self-employment.

In conclusion, the growth in self-employment seems to offer signs of a partial renaissance, not simply because of the rapid surges in self-employment seen in a small number of OECD countries, but also in the fact that increases in the proportion of self-employment have been seen in such a wide range of countries. The available econometric evidence provides weak grounds for concluding that these increases are due to high levels of unemployment, or to labour market rigidities. However, it is likely that, in some countries, part of the growth represents a transfer of work from wage and salary to self-employment in order to reduce tax liabilities. Another factor behind increases in self-employment may be changes in industrial organisation, including the higher levels of sub-contracting and outsourcing which are apparent in many OECD countries. In addition, the fact that the main growth in self-employment is seen in the fastest growing sectors of the service economy suggests that the growth in self-employment is also a response to the new opportunities offered by OECD economies.

## NOTES

1. This paragraph draws on Barbieri (1999).
2. The figure refers to the proportion of self-employed, including owner-managers of incorporated enterprises, who are owner-managers of incorporated enterprises.
3. As noted above, this analysis excludes the agricultural sector and unpaid family workers.
4. The period 1990-97 is not a complete cycle. The choices of 1979 and 1990 as peak years are based on OECD analyses of cyclical trends provided in <http://interprod.oecd.org/std/li2.htm>. As country peaks differ slightly, they were chosen on a majority basis.
5. There were increases in the numbers of self-employed in both the western and eastern Länder. In absolute terms, between 1991 and 1998, self-employment increased from 2.69 million to 3.05 in the western Länder and from 0.35 million to 0.54 million in the eastern Länder.
6. In the 1990s, however, the growth rates of self-employment and civilian employment were the same for women.
7. Meager (1991) shows that a substantial part of the rise in self-employment in the United Kingdom in the 1980s occurred in the construction industry, where arrangements involving “false” self-employment were common. The recent data show that the fall in the proportion of employers in self-employment in the United Kingdom continued after the increase in self-employment came to an end.
8. The statistical information on which this and the following two paragraphs are based is available from the Secretariat.
9. Can the concentration of self-employment growth in the fastest-growing areas of employment growth explain the fact that self-employment growth has tended to be faster than total civilian employment growth, in a number of countries? A shift-share analysis, at the 1-digit level, for occupation and industry (not reported), showed that the patterns of self-employment by industry and occupation could account for all of the excess growth of self-employment over total civilian employment in Mexico, but very little of that in Canada and Germany.
10. On the other hand, few available longitudinal surveys have a large enough sample size to allow analysis of the self-employed population, particularly employers.
11. Some European Union countries were excluded from the analysis because of deficiencies in the data.
12. Communication from Dr. Friedhelm Pfeiffer.
13. These figures refer to the stability of the state of being employed, or self-employed. They do not imply that individual self-employment jobs tend to last for a shorter period than employee jobs.
14. Based on a communication from the Austrian Federal Ministry of Labour, Health and Social Affairs.
15. As before, the calculations exclude the agricultural sector.
16. Reported data on working hours need to be treated with caution. In particular, self-employed people, especially those working at home, may tend to carry out work and other activities at the same time. Some time-use studies have concluded that survey data over-estimate self-employed working hours by comparison with employees, but there is little doubt that self-employed hours are considerably longer.
17. See Annex 5.A for details of the question used.
18. These preferences are likely to be relatively reliable, in the sense that many self-employed have previous experience of wage or salary employment. It should be noted, however, that a substantial proportion of the 18 per cent said they would like to return to self-employment later in their careers.
19. The explanation given by Robson and Wren (1999) is that the pre-tax level of remuneration in self-employment is likely to be more closely related to the level of individual effort than in the case of dependent employment. Part of the attraction of self-employment may thus be the extra income that can be obtained by extra effort. High levels of marginal tax rates, which reduce the return from extra effort in self-employment, may thus, the argument goes, reduce the attraction of self-employment relative to dependent employment.
20. The “cultural” variables comprised Schumpeter’s competitiveness index, Mauro’s bureaucratic efficiency index, the cultural indices of Hofstede and of Hoppe (power distance, uncertainty avoidance, individualism and masculinity), and indices of dissatisfaction with life and democracy, derived from the Eurobarometer surveys. The economic variables were GDP per capita, the female labour share, the share of labour income in GDP, the unemployment rate and population density. The strongest correlations were found with the indices of dissatisfaction.
21. EPL data are available only for the late-1980s and late-1990s [OECD (1999a)]. A number of previous studies, including OECD (1992), Grubb and Wells (1993), and OECD (1999a) have found positive correlations between the strictness of EPL and the self-employment rate. However, the first two studies were simple bivariate analyses and, while the 1999

- study included a range of control variables, self-employment was not its primary focus. A re-examination of the issue by Robson (2000) has resulted in the conclusion that the positive correlations observed in previous analyses are not robust to changes in specification. More precisely, when the agricultural sector is excluded and when GDP per capita is included as an independent variable, as standard in all analyses specifically directed towards explaining the development of self-employment, the correlations observed in OECD (1999a) tend to disappear or become insignificant.
22. A further study of possible links between self-employment and macro variables was made by Parker (2000) using co-integration techniques, which are designed to discover whether a set of non-stationary variables move together over time in a stable, long-term relationship. Unlike standard regression techniques, they are not able to determine whether the influence of one variable on another is positive or negative. The results suggest that self-employment bears a stable long-term relationship with a wide range of explanatory variables including GDP per capita, the unemployment rate, value added in services as a percentage of GDP, the average rate of personal taxation, payroll taxes, and the unemployment benefit replacement rate.
  23. The survey conducted in 1995 by the Federal Employment Office considered that a “false” self-employed was a person whose main job was done as self-employed but who was dependent on an employer (in the sense of someone who could be considered to be part of the staff of the firm, or used material from the employer, or worked with other employees of the same employer).
  24. The rules for the “false” self-employed, *Regelungen gegen Scheinselbständigkeit* (Law on false self-employment), were introduced in 1998, as part of a general labour market reform programme but the definition of “false” self-employment was changed in 1999 in the *Gesetz zur Förderung der Selbständigkeit* (Law to promote self-employment).
  25. Meager (1994) suggests that, in principle, the form of financing may influence the number and the type of people entering the scheme as well as the kind of activity they engage in. While there can be little difference between those two models in terms of budget costs, economic theory suggests that as capital markets are rarely perfect, the impact of a model that reduces the capital constraints on entry to self-employment may be different from another that increases the stream of income during the initial period of self-employment.

## Annex 5.A

## Definitions and Data Sources

**Definitions**

Most current information on self-employment, and the bulk of the data used in this chapter, come from household interview surveys of the labour force. Two basic methods are used. In the first, the respondent is asked to assess his or her own status by selecting one out of a list of possible categories. In the second, the interviewer poses a number of questions about the employment circumstances of the respondent and then makes the assessment on the basis of the replies. The two methods can of course be combined, and the interviewer may or may not be asked to give guidance to the respondent on the meaning of the term, “self-employment” (Table 5.A.1).

For all OECD countries, the labour force survey definitions for self-employment form part of the definitions of the “economically active” population adopted by the Thirteenth International Conference of Labour Statisticians, convened by the International Labour Office in Geneva in October 1982, and amplified by the resolution on the International Classification of Status in Employment (ICSE-93), adopted by the Fifteenth International Conference of Labour Statisticians, convened by the International Labour Office in Geneva in January 1993.<sup>\*</sup> ICSE-93 classifies jobs with respect to the type of explicit or implicit contract of employment of the person with other persons or organisations. It contains the following groups:

1. employees;
2. employers;
3. own-account workers;
4. members of producers’ co-operatives;
5. contributing (or unpaid) family workers;
6. workers not classifiable by status.

Employee, or “paid employment” jobs are those jobs where the incumbents hold explicit or implicit employment contracts which give them a basic remuneration which is not directly dependent upon the revenue of the unit for which they work. Some or all of the tools, capital equipment, information systems and/or premises used by the incumbents may be owned by others, and the incumbents may work under direct supervision of, or according to strict guidelines set by, the owner(s) or persons in the owners’ employment. Persons in paid employment jobs are typically remunerated by wages and salaries, but may be paid by

commission from sales, by piece-rates, bonuses, or in-kind payments such as food, housing or training.

Self-employment jobs, on the other hand, are those jobs where the remuneration is directly dependent upon the profits derived from the goods and services produced. The incumbents make the operational decisions affecting the enterprise, or delegate such decisions while retaining responsibility for the welfare of the enterprise (in this context, “enterprise” includes one-person operations.)

Owner-managers of incorporated enterprises are workers who hold a job in an incorporated enterprise, in which they: *a)* alone, or together with other members of their families or one or a few partners, hold controlling ownership of the enterprise; and *b)* have the authority to act on its behalf as regards contracts with other organisations and the hiring and dismissal of persons in the “paid employment” of the same organisation. For labour force analysis they are normally best classified as self-employed, either as own-account workers or, more often, employers. However, for taxation purposes they are generally counted as employees, and this is also the classification in the System of National Accounts. Separate identification facilitates international comparisons, but relatively few countries are able to do this, as shown in Table 5.A.1.

**Data sources*****Data on flows into and out of self-employment***

Data on flows taken from the European Union Labour Force Survey are obtained from retrospective questions. Respondents are asked to give both their current employment status (unemployed, employee, self-employed, etc.) and their status one year previously. Thus, it is possible to obtain information on the reported status, one year ago, of people who are currently self-employed. This allows a calculation of the net inflows into self-employment over the year. For example, if the information comes from the Labour Force Survey of 1992, it will allow the calculation of the net inflows into self-employment over the period 1991 to 1992. The full range of responses to the questions on current and retrospective status provides the current status of all people who said their status was self-employed the year before. This allows an estimate of the outflows over the year in question.

\* The information set out below draws heavily on the Resolutions of the International Conferences of Labour Statisticians.

Table 5.A.1. Classification of owner-managers of incorporated businesses (OMIBs) in labour force surveys

	Procedure <sup>a</sup>	If Procedure A		Verbal guidance by interviewer?	Written guidance?	Separate identification of OMIBs	Classification of OMIBs in the statistics used in this chapter <sup>b</sup>
		Number of categories in survey	Who makes classification?				
Australia	C	4	Interviewer	No	No	No	Employees
Austria	C	8	..	Yes	Yes	No	Unclear
Belgium	B	6	Interviewer	Yes	Yes	Yes	Self-employed
Canada	C	3	Respondent	Yes	Yes	Yes	Self-employed
Czech Republic	A	5	Interviewer	Yes	No	No	Unclear
Denmark	A	4	Respondent	Yes	Yes	No	Mainly self-employed
Finland	B	3	..	Yes	Yes	No	Mainly self-employed
France	A	8	Interviewer	Yes	Yes	Yes	Mainly self-employed
Germany	A	10	Respondent	Yes	Yes	No	Mainly self-employed
Greece	A	4	Respondent	Yes	Yes	No	Mainly self-employed
Hungary	A	11	Interviewer	Yes	Yes	Yes	Self-employed
Iceland	A	5	Interviewer	Yes	Yes	No	Unclear
Ireland	A	4	Respondent	Yes	Yes	Yes	Mainly self-employed
Italy	A	11	Respondent	Yes	No	No	Unclear
Japan	A	8	Respondent	No	Yes	No	Employees
Korea	A	6	Interviewer	Yes	No	No	Mainly self-employed
Luxembourg	A	4	Interviewer	Yes	..	No	Unclear
Mexico	A	7	Respondent	Yes	Yes	Yes	Mainly self-employed
Netherlands	C	4	Interviewer	No	No	No	Mainly self-employed
New Zealand	A	4	Interviewer	Yes	Yes	No	Unclear
Norway	C	..	..	..	Yes	No	Mainly employees
Poland	A	3	Respondent	Yes	Yes	No	Mainly self-employed
Portugal	A	5	Interviewer	Yes	No	Yes	Unclear
Spain	A	9	Interviewer	Yes	Yes	No	Self-employed
Sweden	A	3	Respondent	Yes	Yes	No	Mainly self-employed
Switzerland	C	..	..	Yes	Yes	Yes	Self-employed
Turkey	A	5	Interviewer or respondent	Yes	..	No	Mainly self-employed
United Kingdom	C	4	Interviewer	Yes	Yes	Yes	Mainly self-employed
United States	C	4	Interviewer	No	Yes	Yes	Employees

.. Data not available.

a) Procedure A means that the respondent or interviewer classifies jobs by selection between a predetermined set of categories.

Procedure B means that the classification is based on the replies to a number of questions put by the interviewer about the employment contract.

Procedure C means that the method used is a combination of A and B.

b) It is assumed that when the procedure is self-assessment alone, OMIBs will mainly classify themselves as self-employed.

Sources: Elias (1997) and further information from the ILO survey on self-employment classifications supplied to the Secretariat by the ILO; except last two columns: information submitted to EUROSTAT and OECD by national authorities.

It must be noted that information of this kind is subject to large reporting errors and is, in general, only suitable for indicating broad trends over time. A check on the data quality by matching information from the retrospective questions to actual changes in the numbers of self-employed from year to year found only a relatively poor correspondence between them.

### Data on working conditions and preferences

#### The second European survey on working conditions

This survey is described in European Foundation (1997a). It was conducted in the fifteen countries of the European Union (Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden and the United Kingdom) between 27 November 1995 and 19 January 1996, in close collaboration with Eurostat and

National Statistical Institutes, many of which conduct similar surveys on a national basis. The survey is also known as Eurobarometer 44.2. It was specifically designed to monitor working conditions as perceived by respondents, rather than attempting to define them objectively.

The multi-stage random sampling design was designed to be representative of the employed population (employed and self-employed, including people with jobs from which they were temporarily absent). All people aged 15 and over were included in the sampled population, with the exception of retired, unemployed people and housewives. The target number of interviews was 1 000 cases per country, with the exceptions of 500 for Luxembourg, 1 000 for the former west Germany and 1 000 for the former east Germany. The figures achieved were close to these targets, giving a total of just under 16 000 interviews for Europe as a whole. The samples were found to over-represent Services and Public

Administration, while under-representing Agriculture, as well as some Industry sub-sectors, causing the grouping of NACE categories “Mining and quarrying” and “Manufacturing”.

Comparisons by the Secretariat between the numbers of self-employed people, as estimated by the survey, and national estimates of the proportion of self-employed in total employment show that, for most countries the figures are quite close – once the agricultural sector has been excluded from both sets of estimates. On the unweighted average for the 13 countries for which data from both sources are available, the proportion of self-employment is 16.7 per cent according to the survey as opposed to 15.5 per cent according to the national statistics published in OECD *Labour Force Statistics*. The main discrepancies occur for Italy and Portugal.

The information relating to company size was derived from the question, “How many people are employed in total in your

country by the company/organisation where you work? (none, 1 to 9, 10 to 49, 50 to 99, 100 to 499, 500 or more, don’t know)”.

#### *The Employment Options of the Future survey*

This survey, carried out in 1998, was a survey into potential labour supply, launched and managed by the European Foundation for the improvement of Living and Working Conditions. The sample size of the survey was 30 557 interviews and its coverage the 15 European Union Member States, and Norway. It focussed on those either employed or aspiring to be employed within the next five years. During the course of 2000-2001 a range of publications with further analysis of the survey data will be disseminated by the Foundation (see <http://www.eurofound.ie> or contact [dmp@eurofound.ie](mailto:dmp@eurofound.ie) for further details).

## Annex 5.B

## Macroeconomic Determinants of Self-employment: An Analysis for Five OECD Countries

This annex reports the results of Secretariat analyses to investigate the determinants of self-employment for five countries. As the data available for each country were subject to restrictions, the results for individual countries were supplemented by a pooled regression. The countries selected were as follows: Japan (steady fall in the self employment rate over recent decades); Italy (persistently high self-employment rate); United Kingdom, Canada and Germany (rapid increases in self-employment over the 1980s or 1990s).

### Two regression models for the self-employment rate

Two types of regression model were used to reflect alternative ways of modelling the self-employment rate. Each was used for the regressions by country and the pooled regressions, in turn:

Model 1: the log of the non-agricultural self-employment rate, SER, was regressed on the explanatory variables listed in Table 5.B.1 below.

Table 5.B.1. Variable specifications and sources

Variable Code	Variable Name	Source
SER	Self-employment rate calculated as self-employment as a percentage of civilian employment.	OECD Labour Force Statistics database.
SE	Self-employment, except unpaid family workers and excluding the agricultural sector.	OECD Labour Force Statistics database.
EMP	Civilian employment	OECD Labour Force Statistics database.
GDP	GDP per capita, US\$ and exchange rates of 1990.	OECD National Accounts database.
FEM	Proportion of women in total employment, except unpaid family workers and excluding the agricultural sector.	OECD Labour Force Statistics database.
MAN	Share of manufacturing industries in GDP value added.	OECD National Accounts database.
SERV	Share of services in GDP value added.	OECD National Accounts database.
SCVA	Share of capital in value added, calculated as GDP evaluated on cost basis minus compensation of workers, expressed as proportion of GDP evaluated on cost basis.	OECD National Accounts database.
UNR	Unemployment rate, national definition.	OECD Analytical database.
ATR	Average tax rate, proxied by ratio of general government outlays to GDP.	OECD National Accounts database.
MTR	Ratio of general government gross liabilities to GDP	OECD Analytical database.
REPR	Benefit replacement rates; averages over average and $\frac{2}{3}$ of earnings of "Average Production Worker".	OECD database on Benefit Entitlements and Gross Replacement Rates. Data are not available for each year and missing observations were supplied from a spline function.

Model 2: the log of the self-employment rate was decomposed in the following way:

$$\text{Ln SER} = \text{Ln SE} - \text{Ln EMP} = \beta'_1 \cdot \mathbf{x}_1 + \varepsilon$$

$$\text{Ln SE} = \beta'_2 \cdot \mathbf{x}_2 + \varepsilon$$

where SE is the number of self-employed and EMP the total number of employed. The list of independent variables,  $\mathbf{x}_2$ , thus includes EMP as well as the variables listed in Table 5.B.1. The regressions by country were based on a comparatively small number of observations. In order to have comparable data for the five countries included in the analysis on both an individual and pooled basis, observations were restricted to the period up to 1994. Special attention was given to the breaks in series occasioned by the German reunification of 1990.

Proxies were required for the tax variables, because alternative sources of data were not available for a sufficiently long run of consecutive years. The ratio of general government outlays to GDP as a proxy for average tax rates has a straightforward rationale and has been used by many authors. The ratio of general government gross liabilities to GDP, included as a supplementary indicator of tax pressure, was used by Robson and Wren (1999) to instrument the marginal tax rate.

### Regressions by country

The regression model used was a so-called “error correction” model (ECM), designed to allow short- and long-run effects to be distinguished. The equation has the form

$$\Delta y_t = \alpha + \beta' \cdot \Delta \mathbf{x}_t - y_{t-1} + \delta' \cdot \mathbf{x}_{t-1} + \varepsilon_t \quad (1)$$

where  $y$  is the natural logarithm of the non-agricultural self-employment or self-employment rate;  $\mathbf{x}$  is a matrix of observations of the explanatory variables (used in logarithmic form, with the exception of the marginal and average tax rates);  $\alpha$  is a constant term and  $\varepsilon$  the error term.

The  $\beta$ 's can be interpreted as estimates of the short-run impact of changes of the explanatory variables on the dependent variable (the rate of non agricultural self-employment) and the  $\delta$ 's as the long-run impact.

### Pooled regressions

The pooled regressions were estimated in a similar way, over the same period, using an ECM specification with a set of time and country dummies,  $\mathbf{T}$  and  $\mathbf{C}$ :

$$\Delta y_t = \alpha + \beta' \cdot \Delta \mathbf{x}_t - y_{t-1} + \delta' \cdot \mathbf{x}_{t-1} + \lambda' \cdot \mathbf{T} + \tau' \cdot \mathbf{C} + \varepsilon_t \quad (2)$$

The other variables are exactly the same as in the individual country regressions.

The model selection was based partly on the minimum AIC, BIC and C(P) criteria [AIC, BIC and C(P) provide an indication of the minimum sum of squares of the residuals, taking account of the number of variables and of observations] and partly on the results of forward and backward stepwise regressions. Where there were signs of residual autocorrelation a Cochrane-Orcutt transformation was applied.

The results reported in Table 5.13 contain only those variables found to be significant at the 10 per cent level. Other variables were discarded from the regressions. Further details of the results are available from the Secretariat.

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