

## **Comment on Mark Taylor: Self-employment in Britain: When, who and why?**

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Mark Taylor covers three topics in his article: 1) the factors determining the inflow into self-employment; 2) the factors determining the outflow from self-employment; and 3) job-satisfaction among the self-employed compared to job-satisfaction among wage-earners. The study is based on BHPS data. It covers important subjects, it is well written, and it contains interesting results. My comments are intended to clarify some of the issues covered in the paper.

### **1. How to measure the flows between self-employment and being a wage-earner**

The main part of Mark Taylor's study is on the flows between different employment statuses: self-employed, employee, unemployed and inactive. Of main interest are the flows to and from self-employment. To make a satisfactory study, it is important to be able to distinguish between different statuses. It is well-known that it is difficult to distinguish between unemployment and inactivity. People who have a more or less stable situation are in one period classified as unemployed and in the next period as inactive. We get mobility, which is only a statistical artifact.<sup>1</sup> Also movement between self-employment and being an employee may be of this spurious type. One problem is that the wage earners and the self-employed are not two distinct groups. Many people are both wage-earners and self-employed; some of them are classified as wage earners, some of them as self-employed. The demarcation line between the statuses is different in different data bases and different studies. It may be based on self-declaration, according to the source of the major part of the income, or some other definition. Irrespective of the demarcation line, many people are close to it and many movements are not "real" ones but a result of the reporting system or small changes in the income compo-

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<sup>1</sup> Clark and Summers (1979) show that in a convincing way.

sition. It is important to discuss that problem when studying the flows, and also to discuss ways of handling it.

It is possible to give some indication of the problem by using a Danish data set which makes it possible to calculate the share of self-employed according to different definitions, and also the flows between self-employment defined in different ways. Table 1 shows that the self-employment rate to a large extent varies with the definition. It also shows that this variation is not the same for different groups. In Table 1, the figures are shown for three groups: natives, Western immigrants and non-Western immigrants.<sup>2</sup>

**Table 1. The share (per cent) who earn an income as self-employed among all employed (employee and/or self-employed) of those aged 18-64 in 1998 in Denmark**

	Natives	Western immigrants	Non-Western immigrants	All
<b><i>All with positive income from self-employment</i></b>				
Men	16.7	15.8	13.4	16.5
Women	6.3	6.8	5.3	6.2
All	11.8	11.8	10.1	11.7
<b><i>All with an income from self-employment greater than the wage income received</i></b>				
Men	8.9	9.9	10.0	9.0
Women	3.2	4.1	4.2	3.4
All	6.3	7.3	7.9	6.4
<b><i>All with a positive income from self-employment but no wage income</i></b>				
Men	6.7	8.0	8.7	6.9
Women	2.5	3.1	3.6	2.6
All	4.8	5.8	6.7	4.9

*Source:* Wadensjö and Orrje (2002).

One interesting question is if there is stability in the classification of individuals over time. We will study how those with a positive income from self-employment in 1995 as well as in 1998 are distributed over three groups; see Tables 2a-c.

<sup>2</sup> Western countries are the EU (15) countries, Norway, Switzerland, Iceland, North America, Australia and New Zealand; non-Western countries are all other countries.

**Table 2a. Mobility between different groups of self-employed between 1995 and 1998 in Denmark (percentage distribution). Natives aged 18-64 in 1995**

	1998			All
	Wage income > income from self-empl.	Income from self-empl. $\geq$ wage income > 0	Income from self-empl. > 0; wage income = 0	
<b>1995</b>				
Wage income > income from self-empl.	36.1	2.3	3.2	41.6
Income from self-empl. $\geq$ wage income > 0	2.0	7.2	4.2	13.4
Income from self-empl. > 0; wage income = 0	2.4	4.3	38.3	47.0
<b>All</b>	40.5	13.8	45.7	100

*Source:* Wadensjö and Orrje (2002).

**Table 2b. Mobility between different groups of self-employed between 1995 and 1998 in Denmark (percentage distribution). Western immigrants aged 18-64 in 1995**

	1998			All
	Wage income > income from self-empl.	Income from self-empl. $\geq$ wage income > 0	Income from self-empl. > 0; wage income = 0	
<b>1995</b>				
Wage income > income from self-employment	22.2	5.1	8.5	35.8
Income from self-employment $\geq$ wage income > 0	2.6	5.1	6.0	13.7
Income from self-employment > 0; wage income = 0	5.1	5.2	40.2	50.5
<b>All</b>	29.9	15.4	54.7	100

*Source:* Wadensjö and Orrje (2002).

**Table 2c. Mobility between different groups of self-employed between 1995 and 1998 in Denmark (percentage distribution). Non-Western immigrants aged 18-64 in 1995**

	1998			All
	Wage income > income from self-empl.	Income from self-empl. $\geq$ wage income > 0	Income from self-empl. > 0; wage income = 0	
<b>1995</b>				
Wage income > income from self-employment	15.8	0.8	3.3	19.9
Income from self-employment $\geq$ wage income > 0	3.3	5.1	6.7	15.1
Income from self-employment > 0; wage income = 0	5.0	5.8	54.2	65.0
<b>All</b>	<b>24.1</b>	<b>11.5</b>	<b>64.2</b>	<b>100</b>

*Source:* Wadensjö and Orrje (2002).

Tables 2a-c show that most people have the same classification in 1995 and 1998. But they also show that there are changes between categories, 18.4 per cent among the Danes, 32.5 among the Western immigrants, and 14.9 per cent among the non-Western immigrants. Note that those who move in or out of self-employment are not included in these tables, only those who move between different categories of self-employment (given that they have a positive income from self-employment for both years). The results show that many people combine self-employment and being an employee and that it is common to move from one type of income composition to another. Taylor uses BHPS data which builds on self-reported status. It would have been of interest to see a discussion of the quality and stability of the classification of different employment statuses in the BHPS.

## **2. The factors influencing the flows to and from self-employment**

The study of the inflow to self-employment contains results which are mainly in line with those from similar studies covering other coun-

tries.<sup>3</sup> Some variables which may have an influence are lacking here, but the small size of the sample makes it difficult to include many more variables. Here, I will suggest some variables which are candidates to be included in a study based on this data base or a data base including more observations.

It would be of interest to see if there are regional differences. It is well-known from studies from other countries that there are large regional differences in the propensity to become self-employed. As there are only few observations in the sample, this would of course necessitate a rather crude classification on regions.

It would also be of interest to see an analysis of the effects of immigrant status (according to origin) on the inflow rate. In many countries, immigrants are overrepresented among the self-employed. The coefficient of the variable indicating immigrant is positive and significant according to estimates shown in the appendix (Table A1). A classification in two or three categories and a discussion in the main text would have been of interest.

An interesting question is if people entering self-employment from being a wage-earner are positively selected (people who have a strong position who want to earn even more money) or negatively selected (people who are lowly paid and have insecure jobs and who are “pushed” into self-employment). Wage income in the years before becoming self-employed could be used as a variable.

Taylor includes variables on if the individuals have had a parent who was self-employed or an employer. Among other things, these two variables measure prior knowledge—through the experience of the parent—of what it is to be self-employed. Another variable which could have been of interest in this connection is if the individual himself has had earlier spells of self-employment. The existence of such spells is also an indication of the knowledge of what it is like to be self-employed.

It would also have been of interest if an analysis of the effects of policy changes and their effects on different groups had been added. Most countries have had or have policies for stimulating self-employment; policies that change over time. The tax system and changes in it may also influence the propensity to become self-employed.

<sup>3</sup> For a recent survey, see Parker (2004).

Regarding the outflow rate study, the variables included make sense and the results are the expected. Duration in self-employment is an important factor. People who have been self-employed for a long time leave self-employment to a lower extent than those who have recently established themselves as self-employed. Men with higher incomes from self-employment also leave that status to a lower extent than those with lower incomes. It would have been of interest here to include a variable representing a combination of wage-earner and self-employed. Are those who combine self-employment with a wage more or less prone to leave self-employment? The addition of a wage could make the self-employed less sensitive to fluctuations in the proceeds from self-employment but, on the other hand, it may be a way out of an unsatisfactory situation as self-employed.<sup>4</sup>

### 3. Some concluding comments

The paper by Mark Taylor contains interesting results regarding inflows to and outflows from self-employment. Those flows are important to understand in order to formulate policies which encourage self-employment better. Especially important are policies that facilitate for people to continue being self-employed. Many who start a business of their own leave it after a short period. Variations in demand and difficulties in financing the activities of the firm may be factors behind that. Financial markets and financial restrictions for the self-employed are of importance, but so are unemployment insurance for the self-employed, and different forms of support for people who become self-employed. Taylor discusses those policies in his concluding session. He also has an interesting section on job satisfaction among the self-employed, compared to that of the employees. Of special interest is that the results vary greatly between different dimensions of job satisfaction and between men and women. It would also have been of interest to see the effects of the other variables included in the estimations.

<sup>4</sup> In Wadensjö and Orrje (2002), we get a significant negative coefficient on that variable. Those who combine self-employment with being an employee are more prone to leave self-employment.

## References

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