The Case for Supporting The Self-Employed in a Jobless Recovery

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Outline

1. The Jobless Problem
2. Entrepreneurship or Self-Employment as a Bright Spot?
4. Empirical Evidence about the Impact (based on the peer-reviewed literature)
5. Summary and Conclusion
The Jobless Problem (1)

• With each recent national recession, recovery in terms of job numbers has taken longer

• There currently are 4.5 job seekers for each vacant position
  – The number is down from its recent high, but in part that reflects withdrawal from the labor force
Figure 1: Jobless Recoveries have become Longer-Lasting (and the last one is by far more severe)

Source: Bureau of Labor Statistics, Chandan Economics
Fig. 2: Ratio of job seekers to job openings

Note: Shaded areas denote recessions.

Source: Author’s analysis of data from the Job Openings and Labor Turnover Survey and the Current Population Survey.
Fig. 3: Graphing the Recession’s Impact: No other U.S. post-war recession has been as severe. By Ilan Kolet: The latest recession resulted in more lost jobs and output than any recession in the last 50 years, complicating the job of policymakers who rely on historical relationships to predict the direction of the economy.

Source: Business Week, August 29 – Sept. 4 2011
The Jobless Problem (2)

- The male labor force participation rate, especially, continues its long downward slide
- Disenfranchisement of the long-term unemployed (and loss of skills)
- The declining trend for youth is especially troubling

A Brief History of Men at Work

- As recently as 1969, 95 percent of 25- to 54-year-old men had jobs.
- Employment drops in the 1981-82 recession.
- And again in the 2001 recession.
- The 2008 crash drives men's employment to a low point.
- In July 2011, 81.2 percent had jobs.
The problem is especially serious for youth (15-24 y/o)
Entrepreneurship or Self-Employment as a Bright Spot? (1)

• Self-employment has surged in the last decade (of jobless recovery)
  – Predicted in 2008 that one in three rural workers will be self-employed by 2015
    • Goetz, *Rural Realities*, 2(3)2008
  – Non-farm proprietorships
  – BLS now forecasts a 40% share by 2019

*http://www.ruralsociology.org/StaticContent/Publications/Ruralrealities/pubs/RuralRealities2-3.pdf*
Figure 5a: Self-Employment, Wage-and-Salary Employment, and Ratio, 1969-2009

- Self-employment
- Farm proprietorships
- Wage-and-salary employment
Fig. 5b: Ratio of Self-Employment to Wage-and-Salary Employment, 1969-2009
Fig. 5b: Ratio of Self-Employment to Wage-and-Salary Employment, 1969-2009

- 1.4% avg. growth
- 3.5% avg. growth
- A structural break?
Entrepreneurship or Self-Employment as a Bright Spot? (2)

• Yet the self-employed are neglected by State Labor Departments
  – Not captured in the ES 202 series
  – Disincentives
    • Unemployment compensation ineligibility
    • Health insurance coverage; deductibility
    • Pay both employer and employee share of Soc. Sec., Medicare

• Business Week Aug. 8-14, 2011: “To Boost the Economy, Help the Self-Employed” (p.54)
Entrepreneurship or Self-Employment as a Bright Spot? (3)

- *Business Week* Aug. 29-Sep.4, “A Jobs Program for Entrepreneurs” (p.10)
- About one dozen States have implemented self-employment assistance programs
  - 26 weeks of income support (~$10K)
- In Oregon, successful entrepreneurs have on average created 2.63 additional jobs
  - Possibly skewed survey results
Google Trends Analysis: World-Wide
Google Trends Analysis: US Only
Self-Employment Earnings

• Common perception that returns to self-employment are low
• Returns to self-employment have recently collapsed compared to earnings from wage-&-salary employment
• Self-employment of necessity vs. opportunity
Fig. 6: Relative Returns (per worker) to Self-Employment Plunged after the 1980s and 2000 Recessions

Data Source: Bureau of Economic Analysis/REIS

Earnings ($/year)  Ratio


<table>
<thead>
<tr>
<th>50000</th>
<th>45000</th>
<th>40000</th>
<th>35000</th>
<th>30000</th>
<th>25000</th>
<th>20000</th>
<th>15000</th>
<th>10000</th>
<th>5000</th>
<th>0</th>
</tr>
</thead>
</table>

Plunge after the 1980s and 2000 Recessions
Self-Employment Earnings

Data Source: Bureau of Economic Analysis/REIS

• Earnings average of approx. $28,000 in 2009 masks tremendous variation across counties
• Highest-earners (2009 – all are down from 2008):
  – New York, NY: $109,497 (vs. $158,081 in 1999)
  – Richmond, VA: $107,051
  – Harris, TX: $91,724
• Lowest-earners:
  – Blaine, NE: $4,364
  – Twiggs, GA: $4,119
  – Perry, MS: $3,531
Economic Impacts of Self-Employment

• Given the recent decline in average earnings, can the self-employed have a significant effect on overall local economic well-being?

• Rigorous research on local economic impacts of entrepreneurship has been limited
Economic Impacts of Self-Employment

- Glaeser et al. (p.6) suggest two reasons why research on impact has been lacking:
  - Anecdotal evidence seems to suffice (e.g., Bill Gates, Mary Kay, Sam Walton, Henry Ford)
  - Difficulty of isolating independent causes
    - E.g., city or regional growth

Economic Impacts of Self-Employment

• “The important question is raised of to what extent new business formation can be regarded as a result of previous growth, and to what extent is it a source of growth independent of the prevailing development trend?”
  – Dejardin and Fritsch (2011: 378)

• **Irony?** Most work to date has been conducted in Europe: see special issues of *Small Business Economics* in 2008 and 2011

A Conceptual Framework
(Fritsch, 2008; fig. 1, p. 3)

Start-ups or market entries

Market process (selection)

New Capacities:
Development of new businesses

Exiting Capacities:
Decline or closure of incumbents

Supply-side effects:
- Securing efficiency
- Acceleration of structural change
- Amplified Innovation
- Greater variety

Improved competitiveness
Growth

A Conceptual Framework
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Economic Impacts of Self-Employment

• If new firms are more labor-efficient, overall employment could actually decline (but incomes should rise)
**Fig. 2** The structure of the impact of new business formation on regional employment change in agglomerations, moderately congested regions and rural regions

*Source: Muller and Fritsch 2011*
Correlation between growth and entrepreneurship
Based on: Acs, Audretsch, Braunerhjelm and Carlsson, 2005

Forthcoming in SBE “Growth and Entrepreneurship,” Acs et al.
Summary of European Work

• In general, a positive effect of regional start-up activity, on employment growth

• But the effect varies across space, and over time, and by industry sector

• Effects usually occur within a time lag of up to 10 years

• Research questions remain, including effects on variables other than employment only
Independent Effects of U.S. Self-Employment or Entrepreneurship

• Consider effect of self-employed on:
  – Wage-and-salary employment (by sector)
  – Per capita income; Poverty rates; Population
  – Also consider effect of local firm ownership, as well as big stores (e.g., chains, big-boxes)

• Note that self-employment/proprietorships & entrepreneurship are used interchangeably

• Estimation strategy: effect of baseline (initial) self-employment on subsequent econ. growth

\[ \Delta \text{Econ. Cond.}_{(t+n)} = f(\text{Self-Employment}_t, \text{other factors}_t); n=\text{time delay} \]
Effect of (lagged) growth in self-employment rate on jobs growth

- Different points on business cycle, county data:

- Raising the rate of growth of self-employed per total workforce from 2.3% to 3.3%, would have expanded job growth by 50%

  Effect is weaker during contractions (1/4)

Effect of Microenterprises on Growth
Deller & McConnon (2009)

• Panel of 48 lower U.S. States, 1977-97
• Micro-enterprises: 1-4 workers; share of all firms
• Effect on popln., employment, income growth
• Strong statistical effect overall:
  – Increased per capita income, employment growth
  – Reduced population growth
• BUT: only services production increases income and employment; no effect on population
• Goods-producing firms ➔ lower population, employment growth; no effect on income growth

Kauffman Entrepreneurship Index (KEI) and overall employment growth

- KEI: % of individuals starting a new business in the last month; March CPS; avg. = 0.298%
- In this period, employment grew by 6.63%
- If the KEI had been 0.1 points higher, at the mean (0.398 vs. 0.298), the rate of job growth would have been 7.80% instead

Effect over decade of 1970s, 1980s and 1990s of self-employment rates

- Using a fixed effects, “Spatial Durban Model”
- Direct & indirect effects on:
  - Wage and salary jobs (+)
  - Per capita income (+); poverty rates (−)
- Statistically significant effects, in expected directions, for all cases except metro/poverty
- However, for metro/poverty case, the indirect* effect is negative: 0.298 perc. pts. per 1 st.dev.
  - *Spillover effects from/to surrounding counties

Do Smaller Businesses Create More New Employment?

• Reinvestigate the work of Birch (1987)
  – National Establishment Time Series (NETS)
  – For 1992-2004; 14.7 mn. Establishments
  – Consider gross job creation, destruction, & net

• “Small businesses do create more jobs” (p. 22)
  – The more recent data suggest that “a negative relationship between establishment size and job creation holds for both the manufacturing and services sectors.”

Figure 2: Net job creation rate vs. establishment size (10% bandwidth), establishments between 5 and 5,000 employees, overall, manufacturing, and services

Source: Neumark et al. (http://ftp.iza.org/dp3888.pdf)
Effect of Small, Locally-Owned Firms (1)

- Effect on per capita income growth in counties
- Differentiated by firm size, ownership
  - Average number of firms per 1,000 population:

<table>
<thead>
<tr>
<th>Ownership</th>
<th>1-9</th>
<th>10-99</th>
<th>100-499</th>
<th>500+</th>
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</thead>
<tbody>
<tr>
<td>Local</td>
<td>43.30*</td>
<td>4.63</td>
<td>0.20</td>
<td>0.02</td>
</tr>
<tr>
<td>Not-Local</td>
<td>1.50</td>
<td>0.87</td>
<td>0.16</td>
<td>0.02</td>
</tr>
</tbody>
</table>

- Statistically significant results obtained for the size and ownership combinations shown in bold italics
- * = stat. significance depends on controls included

Effect of Small, Locally-Owned Firms (2)

• One additional small (10-99 employees) locally-owned firm (per 1,000 popln) would raise annual per person income by $285;
  – additional household income of $1,140 (family of four)
• A community that doubles the number of small, locally-owned firms from the average of 5.51 (to 11.02 firms per 1,000 pop) would see additional annual per household income of $6,281.
• Doubling the number of very large, not locally-owned firms (from 0.02 to 0.04), would reduce average household income by $372.

Summary and Conclusion
And, What are the Alternatives?

• Kauffman Foundation: promoting $1bn firms*
• $527mn loan guarantees to maker of solar power arrays as part of the 2009 stimulus; ~1,000 employees laid off (NYT Sept 1, 2011)

• vs. investing in the self-employed:

*Strong, consistent empirical evidence of positive impacts on multiple economic indicators*

New Resource

• Forthcoming book by Richard Greenwald, *the Death of 9-5*, Bloomsbury (publ. next year)
Thank You

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http://nercrd.psu.edu