Session:
Addressing the Long-Term Unemployed

Speaker:
Stephan Goetz
Northeast Regional Center for Rural Development

September 19, 2012
Federal Reserve Bank of Kansas City, Kansas City, Mo.

For additional information about The Future of Workforce Development Conference, contact:
Steven Shepelwich, Senior Community Development Advisor, Federal Reserve Bank of Kansas City
steven.shepelwich@kc.frb.org

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Promoting Self-Employment and Entrepreneurship as Workforce Development Strategies

Stephan J. Goetz, Ph.D.
Professor of Agricultural and Regional Economics and Director, The Northeast Regional Center for Rural Development

September 19-20, 2012, Kansas City, MO.
1. Entrepreneurship or Self-Employment as a Bright Spot in the Jobless Recovery?
2. Empirical Evidence about the Impact
3. Programs for Stimulating Self-Employment
4. Summary and Conclusion
Farm, Self-, and Wage-and-Salary Employment 1969-2010

- **Farm proprietorships**
- **Self-employment** (non-farm proprietors)
- **Wage-and-salary employment**
Ratio of Self-Employment to Wage-and-Salary Employment, 1969-2010
Ratio of Self-Employment to Wage-and-Salary Employment, 1969-2010

- Structural break: 3.4% avg. growth
- 1.4% avg. growth
Causes of growing self-employment

• Technological change
  – Allows firms to substitute capital for labor: rising labor productivity (e.g., services) has stemmed growth in wage-and-salary employment
  – For example, in retailing (services)
    • This is fine so long as those displaced can transition into new income-earning opportunities
  – Lowers entry costs, provides opportunities for start-ups
    • PayPal
    • Staple, FedEx, Kinkos
Entrepreneurship or Self-Employment as a Bright Spot

• 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)
Industry distribution of the self-employed, 2000 and 2010

Agriculture and related
Mining
Construction
Manufacturing
Wholesale and retail trade
Transportation & utilities
Information
Financial activities
Professional and bus. serv.
Education and health services
Leisure and hospitality
Other services
A growing body of evidence suggests strong positive effects of self-employment on per capita income and job creation, and negative effects on poverty.
So what is the problem?

- As more workers move into self-employment, returns to self-employment have collapsed compared to earnings from wage-&-salary employment
- Self-employment of necessity vs. opportunity
Relative returns to self-employment have plummeted in recent years.

Data Source: Bureau of Economic Analysis/REIS
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
A possible role for public sector intervention?

- As other policy options become more limited
  - Fiscal policy
  - Monetary policy
- Implications for K-12+ *education policy*

- Also creates private sector opportunities
- Clues as to what could be done can be found in Kauffman’s Index of Entrepreneurial Activity
Entrepreneurship Rate by Gender

Basic Data: Fairlie 2012 (KIEA – New business starts per 100,000 CPS respondents)
Entrepreneurship Rate by Nativity

Basic Data: Fairlie 2012 (KIEA – New business starts per 100,000 CPS respondents)
Entrepreneurship Rate by Age Group

Basic Data: Fairlie 2012 (KIEA – New business starts per 100,000 CPS respondents)
Entrepreneurship Rate by Education

Basic Data: Fairlie 2012 (KIEA – New business starts per 100,000 CPS respondents)
Programs and activities

• Individual- or group-focused; sector-specific
  – Removing barriers to start-ups (one-stop shops)
  – Specific to women, immigrants, youth
  – Business assistance, export enhancement, grants support

• Community-centered programs (ecosystem)
  – Raise awareness of importance/impact
  – Provide support, as in Birch (1999)
  – Trade-shows, local fairs
Programs and activities: Individuals

- Network for Teaching Entrepreneurship (NFTE)
- In/After school, 4-H, Boy/Girl scouts
- Business Week magazine *Special Report: America's Best Young Entrepreneurs 2011*
Programs and activities: Individuals

• Creating a Sustainable Entrepreneurship Development Program (Brent Hales, USMS)

• Four high schools in southern Mississippi

• 410 youth started / 389 completed the program

• In year 1, only 2 dropped out of high school in a region where the dropout rate is 38%. Low dropout rates directly associated with program participation
Programs and activities: Individuals

• 70 new businesses started during the first 4 years of the project
• [http://www.thesep.org/](http://www.thesep.org/)
Programs and activities: Communities

• Robert Birch’s measures of entrepreneurial climates
  – Are entrepreneurs invited to join the best athletic, social, country clubs?
  – Does the local newspaper follow the fortunes of small, locally-owned firms?
  – Is there a sizeable, visible venture capital community?
  – Does the local university encourage its faculty to participate in spinoff businesses?
  – Does the city’s economic development department spent as much time on local business development as on recruiting from the outside?
  – Does the State’s Governor meet regularly with local entrepreneurs to seek their views?
Programs and activities: Communities

- Lyons and Lichtenstein, *Entrepreneurial Pipeline/League Development System*
- Matrix of skills levels by life cycle stages
  - Rookies, A, AA, AAA, Major leagues
  - Pre-venture, existence, early growth, expansion, maturity, decline
Programs and activities to enhance self-employment: Counties

- Goetz and Rupasingha (2009)
  - Self-employed respond rationally to labor market signals
  - Wealth (collateral) matter as does experience (age) up to a point
  - Female labor force participation (positive)
  - Natural amenities
  - Greater economic freedom, and higher taxation, have positive impact on self-employment shares

Programs and activities to enhance self-employment: Counties

• Goetz and Rupasingha (2012)
  – Attracting educated workers effective in metro non-adjacent counties (e.g., by promoting amenities), but not in metro-adjacent
  – Increasing access to capital matters in smallest non-metros, regardless of adjacency
  – Promoting youth self-employment could be especially effective in largest non-metros (pop of 20K+) that are adjacent to metro counties

Summary and conclusion

• The self-employed/entrepreneurs are a neglected sector of the economy
  – An untapped workforce development opportunity
• Strong empirical evidence of their local economic impact
• Practice: Programs are available at
  – Individual levels
  – Community levels
Thank You

sgoetz@psu.edu
http://nercrd.psu.edu
Some clues for where to intervene can be found in the KIEA

- Gender
  - Female formation rates one-half those of males
- Race
- Nativity
- Age
- Educational attainment
Entrepreneurship Rate by Sector

Basic Data: Fairlie 2012 (KIEA – New business starts per 100,000 CPS respondents)