

Session:

Addressing the Long-Term Unemployed

Speaker:

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Promoting Self-Employment and Entrepreneurship as Workforce Development Strategies



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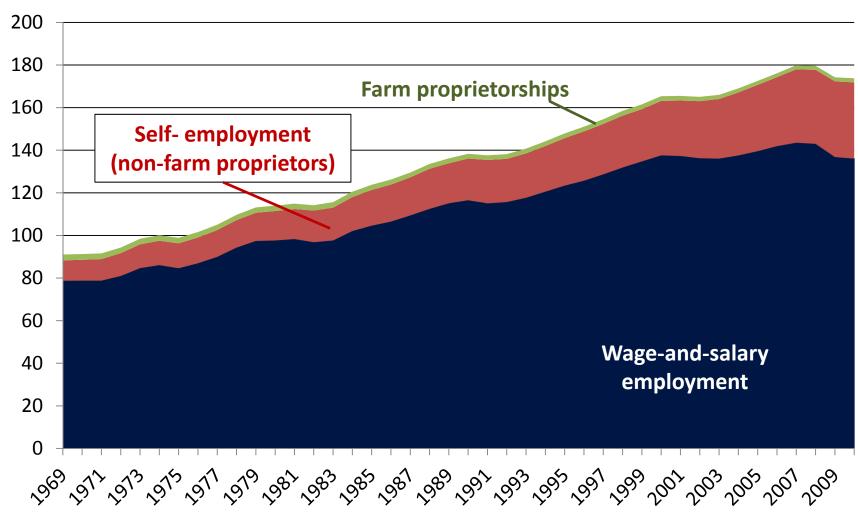
Outline

- 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





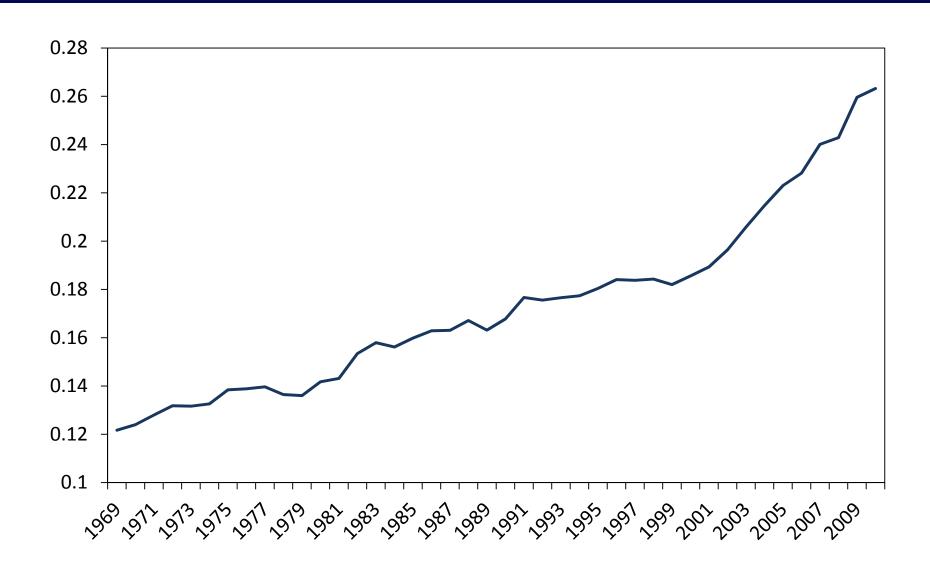
Farm, Self-, and Wage-and-Salary Employment 1969-2010





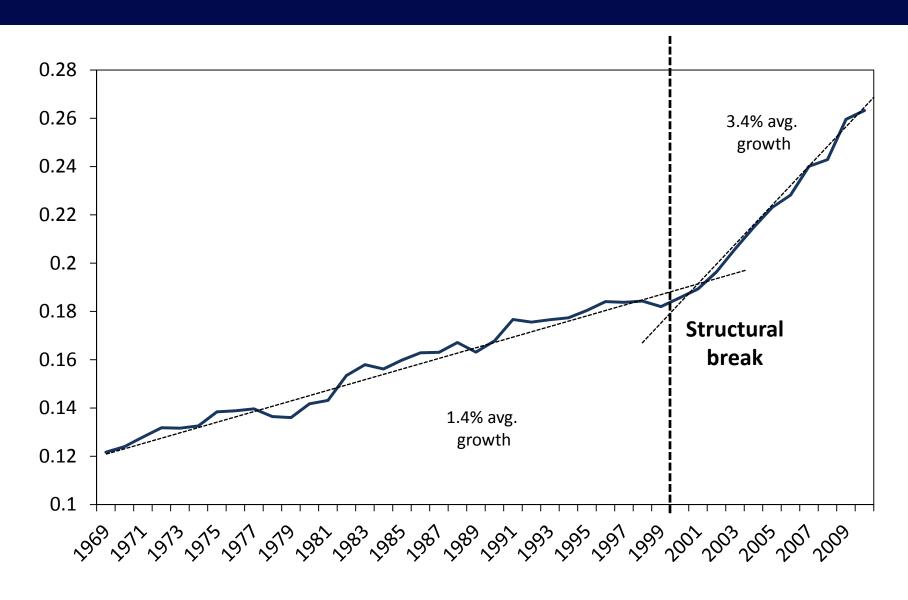


Ratio of Self-Employment to Wage-and-Salary Employment, 1969-2010





Ratio of Self-Employment to Wage-and-Salary Employment, 1969-2010



Causes of growing self-employment

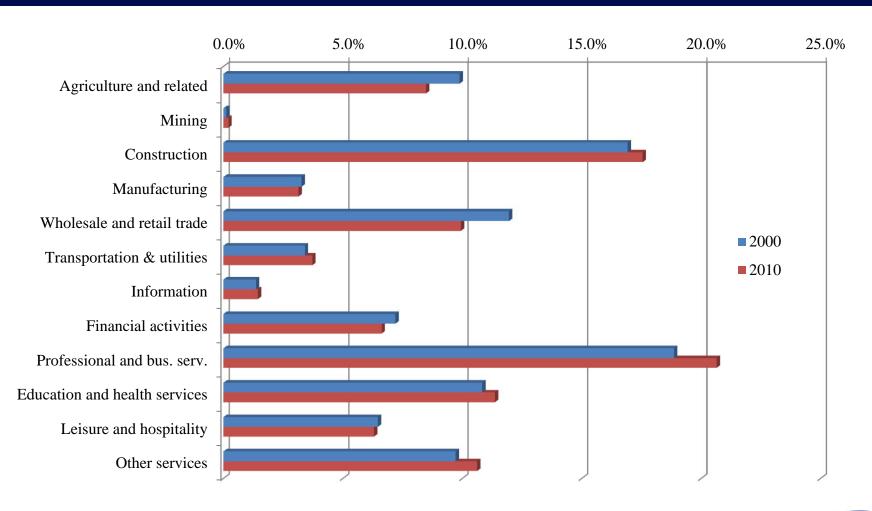
- Technological change
 - Allows firms to substitute capital for labor: rising labor productivity (e.g., services) has stemmed growth in wage-and-salary employment
 - For example, in retailing (services)
 - This is fine so long as those displaced can transition into new income-earning opportunities
 - 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





Economic impacts of self-employment

 A growing body of evidence suggests strong positive effects of self-employment on per capita income and job creation, and negative effects on poverty

Goetz, S.J., M.D. Partridge, D.S. Rickman and S. Majumdar (2011), "Sharing the Gains of Local Economic Growth: Race to the Top vs. Race to the Bottom Economic Development." *Environment and Planning C: Government and Policy.* 29(3): 428-456

Rupasingha, A. and S.J. Goetz (2012), "Self-Employment and Local Economic Performance: Evidence from US Counties," *Papers in Regional Science*, in press.

Fleming, D. and S.J. Goetz (2011), "Does Local Firm Ownership Matter?" *Economic Development Quarterly*. 25(3), August: 277-81.



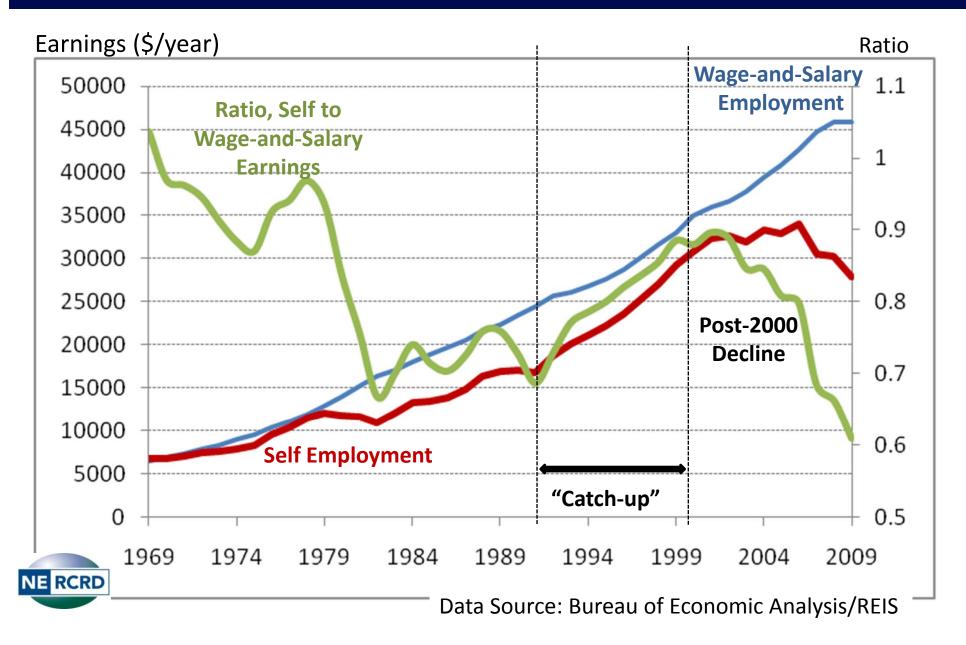
So what is the problem?

- As more workers move into selfemployment, 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



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



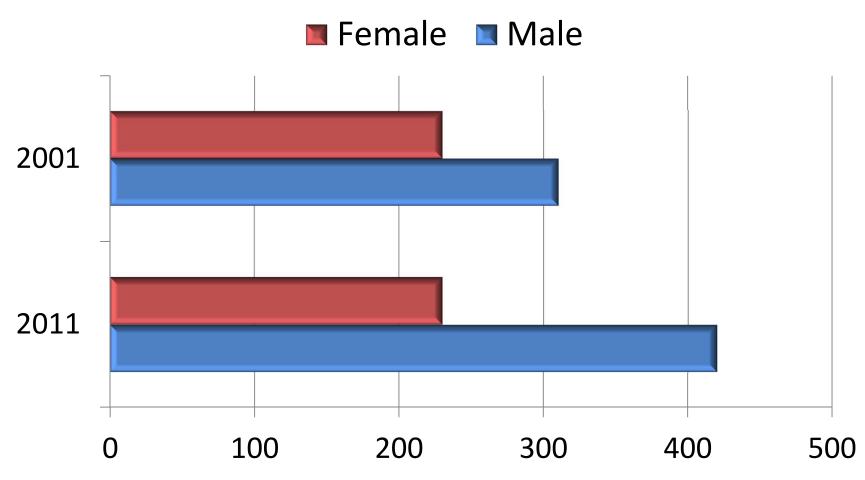
A possible role for public sector intervention?

- 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



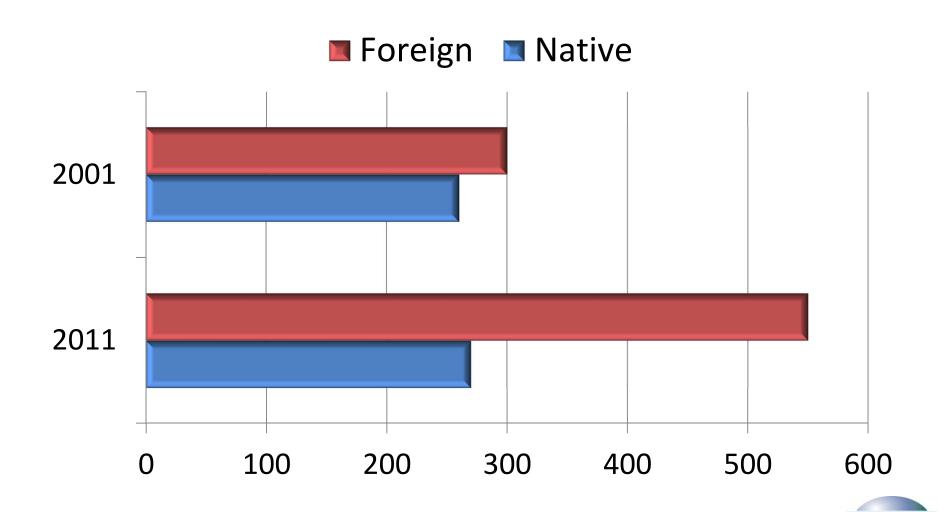
Entrepreneurship Rate by Gender





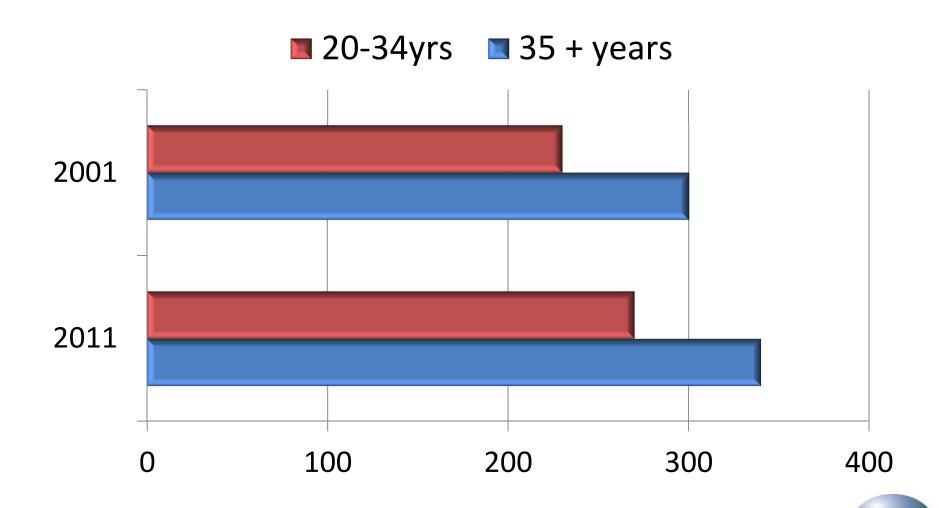


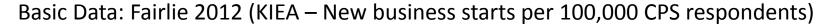
Entrepreneurship Rate by Nativity



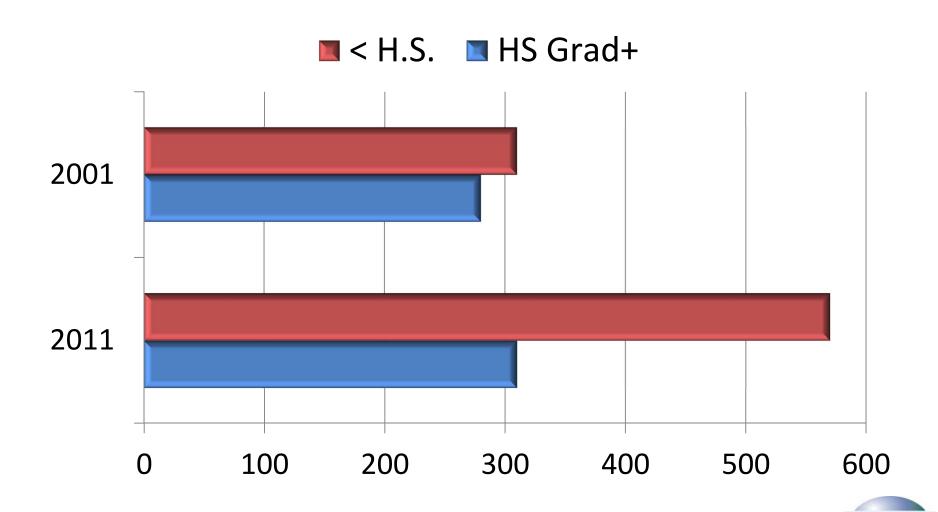
Basic Data: Fairlie 2012 (KIEA – New business starts per 100,000 CPS respondents)

Entrepreneurship Rate by Age Group





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
- http://juniorbiz.com/top-25-youngentrepreneurs

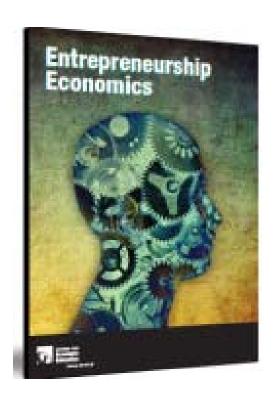


Programs and activities: Individuals

- Creating a Sustainable Entrepreneurship Development Program (Brent Hales, USMS)
 - http://nercrd.psu.edu/Entrepreneurship/Hales.Creatin g.Sust.Ent.Prog.pdf;
- 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
- Resource: New 11-lesson Council for Economic Education high school publication.
- 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
- http://www.pipelineofentrepreneurs.com/



Programs and activities to enhance selfemployment: 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

Goetz, S.J. and A. Rupasingha (2009), "Determinants and Implications of Growth in Non-Farm Proprietorship Densities: 1990-2000," *Small Business Economics*. 32, 4: 425-38.

Programs and activities to enhance selfemployment: 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

Rupasingha, A. and S.J. Goetz (2012), "Self-Employment and Local Economic Performance: Evidence from US Counties," *Papers in Regional Science*, DOI 10.1111/j.1435-5957.2011.00396.x

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

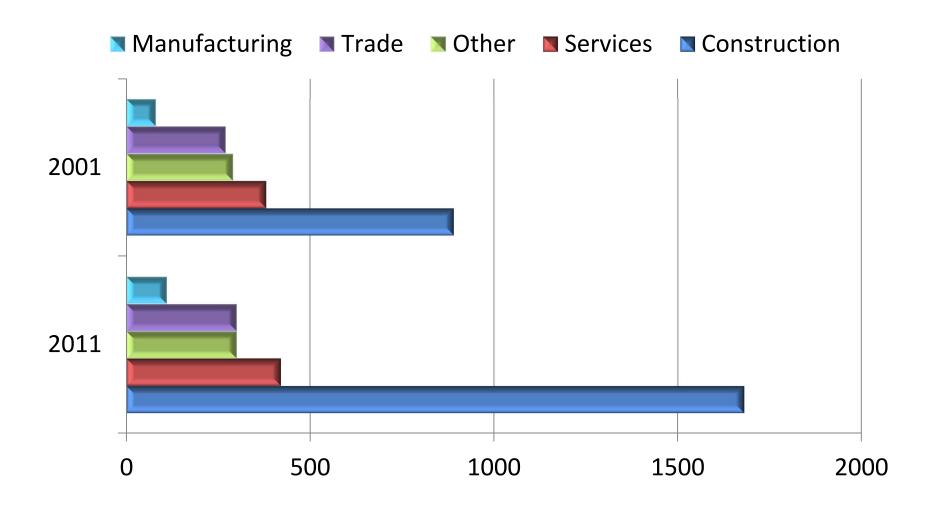
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Some clues for where to intervene can be found in the KIEA

- 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)