

# Does Self-Employment Increase the Economic Well-Being of Low-Skilled Workers?

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# Roadmap

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- Introduction and motivation
  - Research Question
- Data
- Trends in Self-Employment
- Empirical Approach and Findings
- Summary and Conclusions



# Introduction – The low-skill issue

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- Limited labor market opportunities for low-skilled workers and diminishing
- Costly (both to individual and society)
  - Lower earnings/taxes
  - Lower employment rates
  - Higher unemployment rates
  - More likely to be on welfare
- Increasingly an immigration issue



# Introduction – The low-skill issue

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- Policy solutions?
  - Increase skills (formal schooling, vocational training and English language courses)
    - Difficult to encourage participation
      - Immediate earnings responsibilities/limited flexibility
  - Self-employment?
    - Commonly perceived as a tool to upward economic mobility
    - Encouraged by local, state and federal government and numerous nonprofit organizations



# Research Question

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- Should self-employment be considered a policy tool to broaden the labor market alternatives of low-skill individuals?
- Is self-employment an economically rewarding option for most low-skilled workers?
  - Explore evidence of the degree of success realized by those choosing self-employment
    - What kinds of earnings expectations are realistic?
    - How do they compare to those of similar workers in wage/salary employment?



# Data

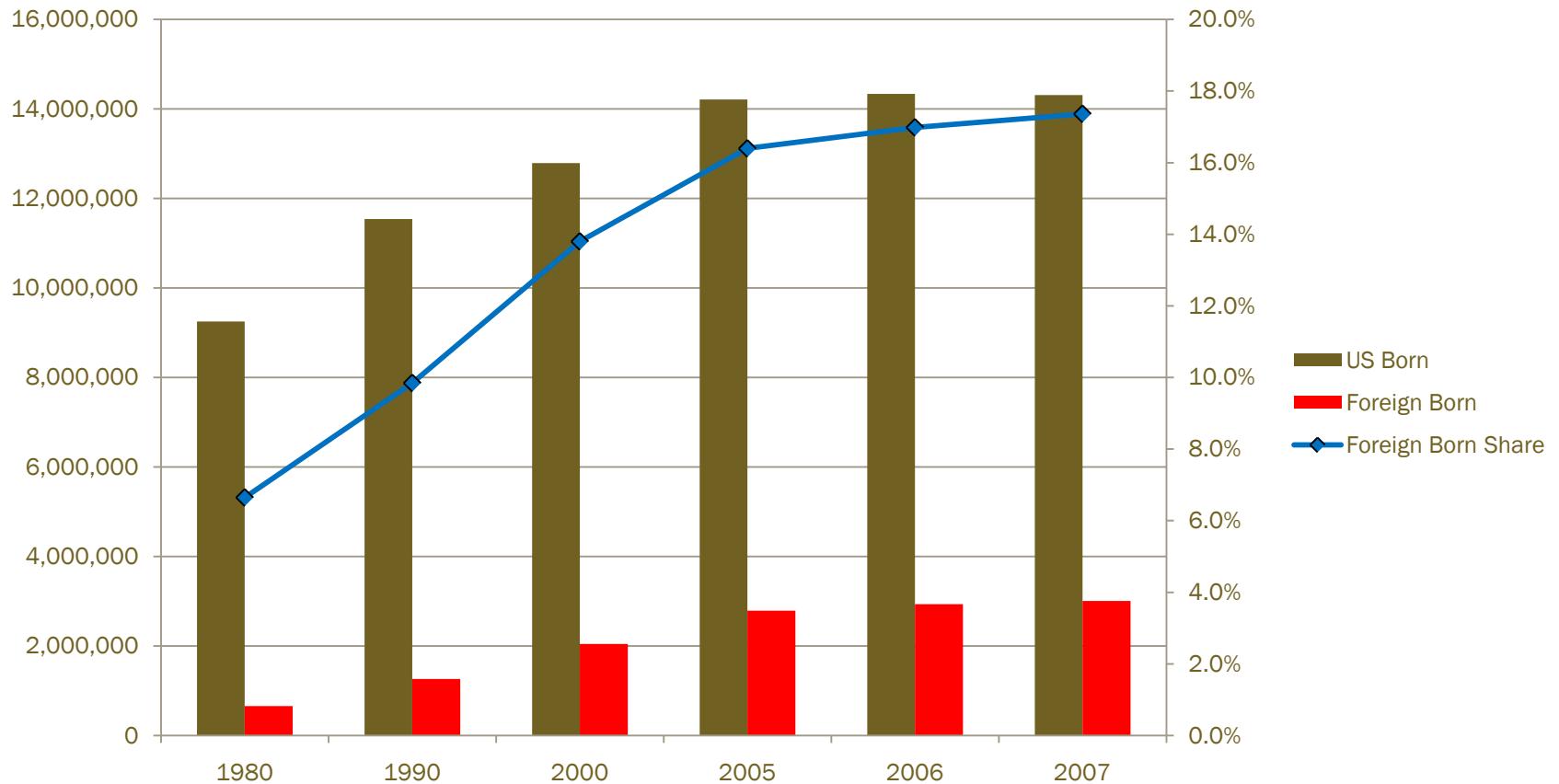
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- Trends
  - 1980, 1990, and 2000 U.S. Census and the 2005-2007 American Community Surveys
- Earnings analysis
  - 1996, 2001, and 2004 panels of the Survey of Income and Program Participation (SIPP)
  - Self-employed if reported owning a business and usually working at least 15 hours per week in that business
  - Sample restrictions
    - Low-skilled (high school or less)
    - Ages 18 to 64
    - Not enrolled in school all periods observed
    - 55,608 individuals



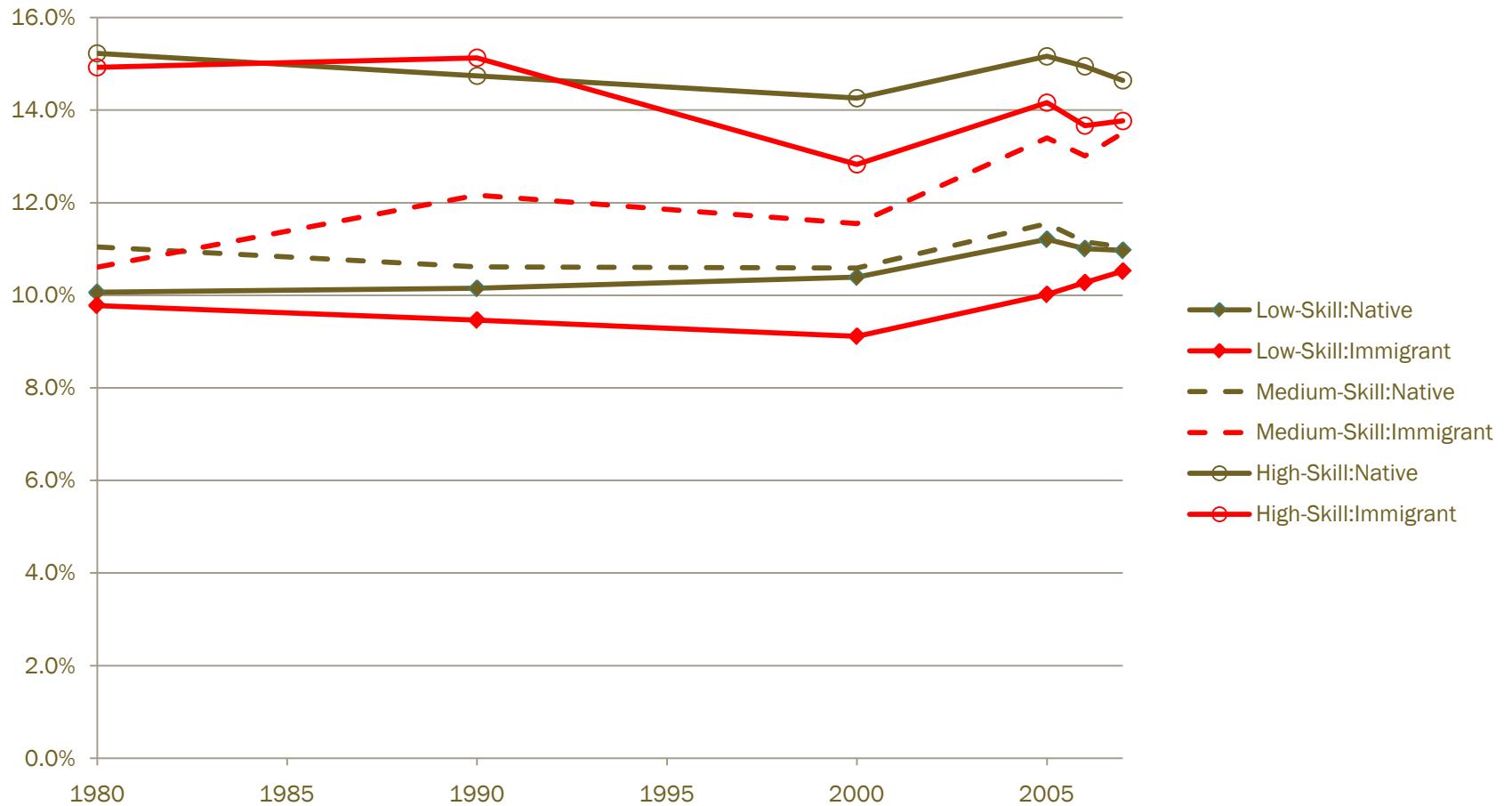
# Growth in self-employment and immigrants' role

Self-Employment Levels by Nativity and Foreign Born Self-Employment Share, 1980-2007



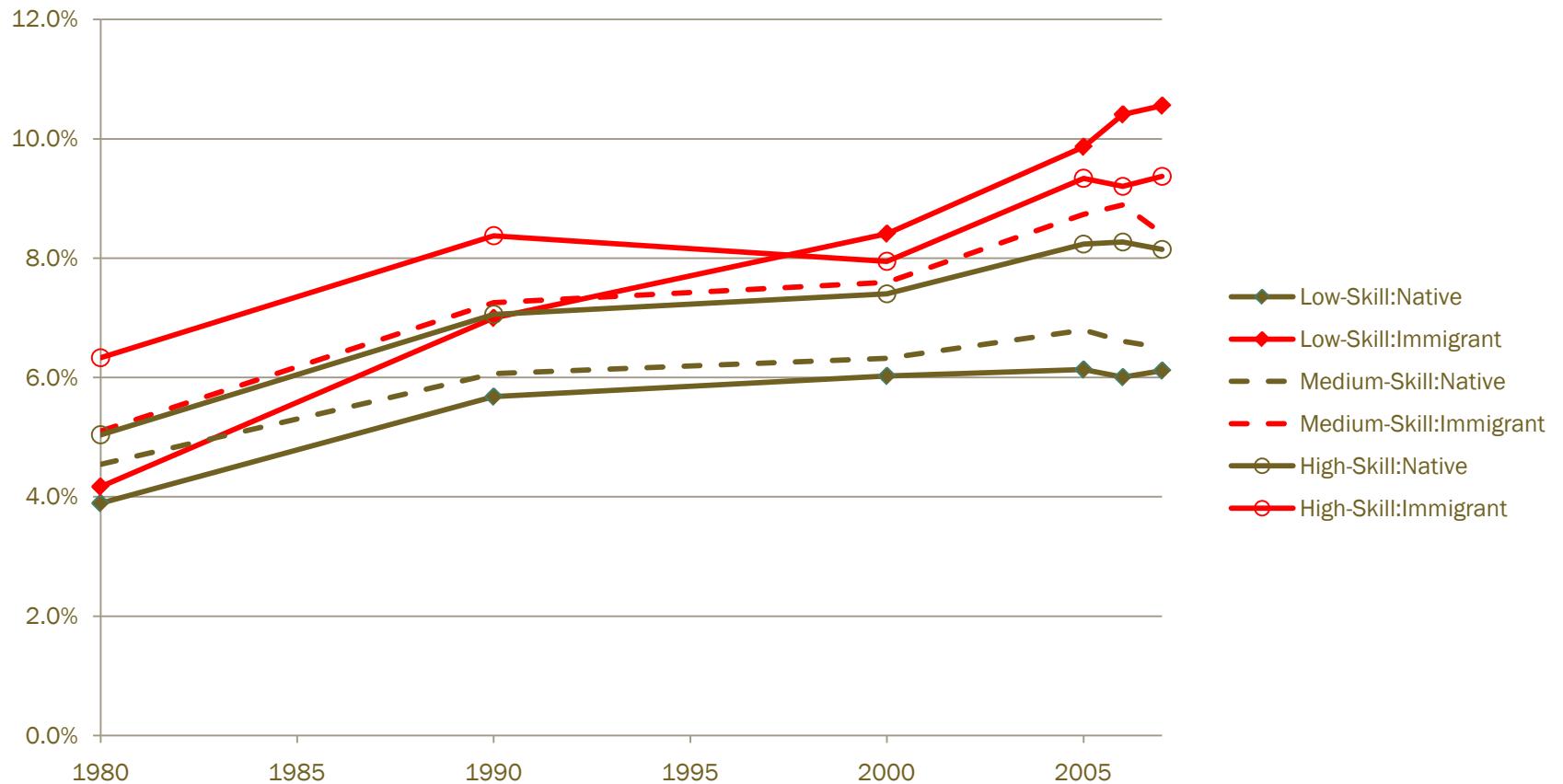
# Moderate changes in self-employment rates among men

U.S. Self-Employment Rates, by Nativity, 1980-2007: Men



# Strong growth among low-skilled immigrant women

U.S. Self-Employment Rates, by Nativity and Skill, 1980-2007:  
Women



# Earnings analysis

- Outcome measure: Annual Earnings
  - Compare to workers in wage/salary employment
  - But self-employment earnings may also reflect returns to financial capital invested in the business
- Alternative approach/measure:
  - Discount reported earnings by a proportion of business equity
    - Opportunity cost - the risky nature of small firms
    - Assumed to be 5% real return (roughly equivalent to 7-9% nominal return)
  - Conclusions not sensitive to measure used



# Some successful low-skilled entrepreneurs

	Mean	Percentile					Mean	Percentile				
		10	25	Median	75	90		10	25	Median	75	90
Total Annual Earnings												
U.S. Born						Foreign Born						
<b>Men</b>												
Self-Employment	38,177					33,451						
Wage/Salary	32,825					26,452						
Difference (\$)	5,352					6,999						
Difference (%)	16.3%					26.5%						
<b>Women</b>												
Self-Employment	21,092					21,400						
Wage/Salary	22,287					19,189						
Difference (\$)	-1,195					2,211						
Difference (%)	-5.4%					11.5%						

- Higher average annual earnings among low-skilled entrepreneurs



# Some successful low-skilled entrepreneurs

	Mean	Percentile					Mean	Percentile				
		10	25	Median	75	90		10	25	Median	75	90
Total Annual Earnings												
U.S. Born						Foreign Born						
<b>Men</b>												
Self-Employment	38,177			27,475			33,451			22,352		
Wage/Salary	32,825			28,941			26,452			23,163		
Difference (\$)	5,352			-1,466			6,999			-811		
Difference (%)	16.3%			-5.1%			26.5%			-3.5%		
<b>Women</b>												
Self-Employment	21,092			13,824			21,400			13,584		
Wage/Salary	22,287			19,492			19,189			16,477		
Difference (\$)	-1,195			-5,668			2,211			-2,892		
Difference (%)	-5.4%			-29.1%			11.5%			-17.6%		

- Median earnings reveals that this is driven by some relatively successful business owners



# Some successful low-skilled entrepreneurs

	Mean	Percentile						Mean	Percentile				
		10	25	Median	75	90			10	25	Median	75	90
Total Annual Earnings													
U.S. Born						Foreign Born							
<b>Men</b>													
Self-Employment	38,177	6,537	14,083	27,475	46,028	76,640	33,451	5,655	11,785	22,352	38,669	70,055	
Wage/Salary	32,825	9,768	18,175	28,941	42,524	58,127	26,452	10,292	16,174	23,163	32,416	46,038	
Difference (\$)	5,352	-3,231	-4,092	-1,466	3,504	18,514	6,999	-4,637	-4,389	-811	6,253	24,017	
Difference (%)	16.3%	-33.1%	-22.5%	-5.1%	8.2%	31.9%	26.5%	-45.1%	-27.1%	-3.5%	19.3%	52.2%	
<b>Women</b>													
Self-Employment	21,092	2,897	6,574	13,824	26,146	45,298	21,400	3,226	6,912	13,584	23,734	41,136	
Wage/Salary	22,287	6,098	11,577	19,492	29,203	40,212	19,189	5,640	10,362	16,477	24,464	35,045	
Difference (\$)	-1,195	-3,201	-5,003	-5,668	-3,057	5,086	2,211	-2,414	-3,450	-2,892	-730	6,091	
Difference (%)	-5.4%	-52.5%	-43.2%	-29.1%	-10.5%	12.6%	11.5%	-42.8%	-33.3%	-17.6%	-3.0%	17.4%	

- Most low-skilled workers could expect to have higher earnings in wage/salary employment
  - Particularly among women
- Differences in earnings related factors (age, education, work experience) may play a role



# Empirical Approach

- OLS - Log of total annual earnings

$$y_{ijt} = \alpha_1 SE_{it} + \alpha_2 SE_{it} * IMM_i + \alpha_3 IMM_i + \mathbf{X}_{it} \boldsymbol{\beta} + \mathbf{LFS}_{it-1} \boldsymbol{\delta} + \gamma_j + \tau_t + \varepsilon_{ijt}$$

- Indicators for self-employment ( $SE_{it}$ ) and immigrant ( $IMM_i$ )
- $\mathbf{X}_{it}$  is a matrix containing socioeconomic characteristics
- $\mathbf{LFS}_{it-1}$  includes controls for lagged labor force status
- Include state and year fixed effects

- Also estimate individual fixed effects specifications



# Empirical Results

- Earnings Difference (Self-employed – Wage/salary)

Variable	Men		Women	
	US-Born	Immigrant	US-Born	Immigrant
Unadjusted Difference	-3.8%	-4.5%	-28.3%	-7.5%

- Entrepreneurs possess more of the characteristics typically associated with higher earnings
  - Differences larger when account for these

Variable	Men		Women	
	US-Born	Immigrant	US-Born	Immigrant
Estimated Difference				
Pooled	-23.1%	-20.8%	-40.5%	-24.9%
Fully Interacted Pooled	-26.1%	-27.2%	-35.1%	-16.4%
Individual Fixed Effect	-16.9%	-10.5%	-21.6%	-20.3%
Range of S-E Gap	17-26%	11-27%	22-41%	16-25%



# Earnings growth

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- Evidence of faster earnings growth among men
  - Partially overcome the lower earnings over time (age and years in business)
    - Among immigrant men, possibly catch-up after 15 years+ in business
- US born women experience stronger growth but no evidence of catch-up
- No differential earnings growth patterns among low-skilled immigrant women



# Summary of findings

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- No strong evidence indicating that business ownership increases the economic well-being of most low-skilled workers
  - Low-skilled male business owners do roughly as well as wage/salary employees after a number of years in business (but greater variation/uncertainty)
  - Low-skilled female entrepreneurs earn less than their employee counterparts
- Immigrant entrepreneurs do better than native born entrepreneurs, when compared to their counterparts in wage/salary work



# Policy relevance and caveats

- Focus on increasing skills most likely to lead to lasting improved economic outcomes
  - College/CTE training
  - English language coursed (immigrants)
  - But may also include self-employment training
    - No objective evaluation research available
      - Lack of data
- This research did not address other possible relevant outcome measures
  - Job creation (+)
  - Wealth/financial assets creation (+)
  - Benefits (-)

