

# Consequences of self-employment for women and men in the United States

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## Abstract

Many self-employed workers return to the wage and salaried sector of the labor market after some time. It is possible that the self-employment spell will lead to lower earnings or earnings growth upon return, due to depreciation of firm or sector-specific human capital. Using longitudinal data from the National Longitudinal Survey of Young Women (NLS), this paper examines the effects of spells of self-employment on the future wage and salary sector earnings of male and female workers in the United States. The results indicate substantial penalties arise for women, in terms of returns to experience, while there is little or no impact for men. © 2000 Elsevier Science B.V. All rights reserved.

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## 1. Introduction

Academic interest in the self-employed has increased dramatically in the past decade. In part, this is because the growth of self-employment is one of the more pronounced changes in labor markets throughout the world. In the United States, the proportion of the labor force reported as self-employed increased by 31% from

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1975 to 1990, reversing what had been a long-term downward trend. Currently, approximately 10% of the workforce is engaged in self-employment. Among the self-employed, females represent the fastest growing segment (Devine, 1994a).<sup>1</sup> A good deal of research has focused on the question of why workers choose self-employment over “wage and salary” employment, and on the factors that have contributed to the recent trends.<sup>2</sup> Some of that research has focused on women or the gender self-employment rate differential (Devine, 1994a,b; Carr, 1996; Connelly, 1992).

In addition, there has been growing interest in “small business” as a source of economic growth in industrialized countries, as well as interest in self-employment as a source of growth in less developed countries (e.g., House, 1993). Self-employment is also viewed by some as a vehicle for exit from poverty, particularly for women and racial minorities, and it is viewed as a viable alternative to unemployment for displaced workers (Balkin, 1989; US Department of Labor, 1992). Consequently, governments worldwide have taken the position that self-employment is to be encouraged, resulting in a wide range of programs to support it.

In this context, it is important to ask what are the consequences of self-employment? A common image is of the successful entrepreneur with very high income and rapidly growing wealth. But we know that high proportions of the self-employed return to the wage and salary sector after brief spells. How do they fare upon return? While out of the wage and salary sector, these workers lose potentially valuable labor market experience and opportunities for training or advancement within the firm or industry in which they previously worked. Alternatively, the workers may acquire new skills while self-employed, which yield even greater returns upon re-entry to wage or salary sector employment. In addition to labor–market returns, spells of self-employment could affect future employment probabilities or could lead to significant changes in net assets. Another question is, do the effects differ according to demographic group, in particular by gender, or according to occupation? If the losses associated with self-employment are sufficiently large, or are unique to a particular group of workers, then strategies to promote it may be counterproductive. That is, a worker might be better off with a slightly longer spell of unemployment and subsequent wage and salary sector job, than with a self-employment opportunity that fails. Despite the potentially important consequences of leaving the wage labor market,

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<sup>1</sup> The rate is still lower for females than for males, but the gap has been closing. These figures are for non-agricultural employment only, and include the incorporated self-employed, in contrast to Labor Department estimates of self-employment, which currently exclude the incorporated (Bregger, 1996).

<sup>2</sup> For the US and Canada, see Long (1982), Moore (1983), Blau (1987), Evans and Leighton (1989), Evans and Jovanovic (1989), Devine (1994a,b), Bernhardt (1994), and Blanchflower and Meyer (1994).

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