

Declining Self-Employment in Japan¹

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Received September 10, 1999; revised May 14, 2001; published online January 8, 2002

Genda, Yuji, and Kambayashi, Ryo—Declining Self-Employment in Japan

The self-employment rate has decreased in Japan. This paper examines reasons why working householders aged below 55 avoid self-employment, focusing on age, location, and gender effects. Increasing age and living in local areas encourage householders to be self-employed. Between 1989 and 1994, however, both the age and local effects weakened, while the positions of self-employed females were not improved. We estimate earnings functions for self-employed workers and employees, controlling sample selection bias. The decline in real income of self-employed workers relative to employees particularly in metropolitan areas was more likely to prevent over-35 householders from being self-employed. *J. Japan. Int. Econ.*, March 2002, **16**(1), pp. 73–91. Faculty of Economics, Gakushuin University, 1-5-1 Mejiro Toshima-ku, Tokyo 171-8588, Faculty of Economic, Tokyo Metropolitan University, 1-1 Minami-Osawa, Hachioji-city, Tokyo 192-0397, Japan. © 2002 Elsevier Science (USA)

Journal of Economic Literature Classification Numbers: J23, J24, J31.

Key Words: self-employment; sample selection bias; age-earnings profile

¹ We thank the editor and two anonymous referees for their helpful comments and suggestions. We are grateful to the late Tsuneo Ishikawa. This research is originally based on his profound ideas. However, all remaining errors are of course ours. It is financially supported by the Grant-in-Aid for Scientific Research 09630031 of the Ministry of Education, Culture, Sports, Science and Technology.

I. INTRODUCTION

This paper examines the reasons for the decrease in the number of self-employed persons in Japan. In most developed countries, as well as in Japan, the movement in self-employment has been an important issue, because it closely relates to the distribution of available job opportunities. Since the seminal papers by Rees and Shah (1986) and Blau (1987) pointed out that the self-employment rate in the United States had begun to rise in the 1970s, many researchers have wrestled with the problem of the movement of the self-employed. OECD (2000) featured the steady growth of self-employment during the 1980s and 1990s in most OECD countries, calling this phenomenon "the partial renaissance of self-employment." As to causes, they emphasized not only the growth in the industrial sector of business and community services but also the increasing proportion of women.

Although the self-employed in most OECD countries have enjoyed their prosperity, the self-employment rate in Japan has continued to decline since the end of 1970s. Only in Japan, Denmark, and France have self-employment rates decreased both in the 1980s and in the 1990s (OECD, 2000, pp. 159–160). The rate of self-employment increased substantially in Great Britain in the 1980s, giving rise to a debate over whether the increase was because of market forces or government policies promoting self-employment. In Japan, by contrast, it is important to understand why self-employment has decreased.

What is the main reason for decreasing self-employment in Japan? This paper focuses on the choice of self-employment among working householders aged below 55 years and clarifies the reasons for a decline in self-employment in the first half of the 1990s. Using cross-sectional micro data, we examine the extent to which business location and householders' age and gender affect the selection of self-employment and the income of the self-employed.

This paper is organized as follows. Section II shows the basic data for self-employment in Japan and surveys previous studies on the determination of self-employment. Section III explains the data content and illustrates the empirical model used in our estimates. Section IV presents the estimated results of the self-employment selection model and the earnings function, controlling for selection bias. Section V concludes.

II. THE DETERMINANT OF SELF-EMPLOYMENT

Basic Facts in Japan

Many researchers of labor issues in Japan are very interested in changes in the incidence of self-employment because of their connection with the rapid aging of Japanese society. According to the *Labor Force Survey* in 1999, almost one quarter of workers aged 60 years or above in nonagricultural industries was categorized as self-employed. Although the proportion of self-employed among aged workers

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