

The analysis of self-employment levels over the life-cycle

GiSeung Kim*

Department of Economics, CheongJu University, CheongJu 360-764, Republic of Korea

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Abstract

In this paper, we estimate the incidence of self-employment over a person's life-cycle across different socio-economic groups and show to what extent self-employment rates differ across groups. The analysis utilizes data from the March supplements of the Current Population Survey. This paper shows that the probability of self-employment is increasing with age and education and is higher for men, whites, and married women compared to other groups. Females are less likely to be self-employed and the difference appears to widen in absolute terms over the life-cycle, but is largest in relative terms early in the life-cycle. We show that the gender gap is not due to marriage and the presence of children. The difference between an African-American male and the (white) benchmark is dramatic, particularly in a person's middle age. In contrast, the difference between a high-school graduate and the (college educated) benchmark is relatively small and changes sign over the life-cycle. Young (age 34 or lower) high school graduates are more likely to be self-employed than otherwise identical college graduates, while the reverse is true for older individuals. The paper discusses explanations for these life-cycle profiles of self-employment.

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1. Introduction

Small firms and entrepreneurial activities are playing an increasingly important role in the economy. Self-employed workers comprise approximately 10% of the labor force, operate a

* Tel. +82 43 229 8180.

E-mail address: gskim@cju.ac.kr (G. Kim).

large fraction of businesses, and provide jobs for one-tenth of all wage workers.¹ However, the propensity for entrepreneurial activity varies greatly over the population, with women, blacks, and lesser educated individuals being less likely to be self-employed than others. Identifying the life-cycle pattern of these differences is important for increasing our understanding of this sector and for guiding public policy.

Numerous studies have investigated how the incidence of self-employment varies across demographic groups and how the likelihood of becoming an entrepreneur depends on a number of socio-economic variables. The majority of these studies tend to look at the proportion of people who are entrepreneurs at any given point in time and documents that some groups, e.g., white males or older educated individuals, are more likely to be self-employed than other groups.² A few of these studies also measure the extent of turn-over in the self-employment group.³ Finally, Georgellis and Wall (2005), Taniguchi (2002), Lin, Picot, and Compton (2000), Fairlie (1999) and Kuhn and Schuetze (2001) investigate the relative contribution of entry and exit rates in the self-employment propensities of different groups.⁴

However, the above literature does not document to what extent self-employment rates differ across socio-economic groups over the life-cycle. This paper fills this gap by investigating the life-cycle variation of differences in self-employment rates using data from the Current Population Survey. We adopt a logit regression in which the self-employment levels are a function of employee characteristics and the state of the economy. We distinguish three employment states: wage/salary employment, self-employment, and non-employment, and use them to construct the self-employment rate conditional on employment, and estimate the probability that an individual of any given set of characteristics is self-employed at any given age. We are able to determine how the self-employment probabilities vary over a person's life-cycle, for example, whether differences between groups are more pronounced in the early, rather than the late, years of their life. In other words, we investigate whether groups, such as white males, have persistently higher probabilities of self-employment over the life-cycle than other groups, or whether the relative self-employment rates change over the life-cycle.

This paper concentrates on differences in self-employment rates due to gender, race, and educational attainment. We find that the probability of self-employment is increasing with age and education and is higher for men, whites, and married women compared to other groups. Moreover, these inter-group differences in self-employment rates vary dramatically over the life-cycle. With regards to gender differences, not all of the differences in self-employment rates

¹ See Becker (1984) and Haber, Lamas, and, Lichtenstein (1987). A person is defined here as self-employed in a given year if, during his/her longest job in that year, he (or she) was working for himself (or herself) in either an incorporated or an unincorporated business or was a farmer. Entrepreneurship and self-employment will be used interchangeably in this paper.

² A non-exhaustive sample of recent work along these lines includes Beugelsdijk and Noorderhaven (2005), Lunn and Steen (2005), Blanchflower (2004), Williams (2004), Dunn and Holtz-Eakin (2000), Blanchflower and Oswald (1998), Hout and Rosen (2000), Rees and Shah (1986), and Bernhardt (1994).

³ These studies include Rosti and Chelli (2005), Cowling and Taylor (2001), Evans and Leighton (1989), Evans and Jovanovic (1989), Blanchflower and Meyer (1994), Carrasco (1999) and recent work by Jones and Riddell (2000), Moore and Mueller (2002).

⁴ Georgellis and Wall (2005) and Lin et al. (2000) explore transitions to and from self-employment; and investigates the influence of individual characteristics and labor market experience as well as macroeconomic conditions on the probability of moving into or out of self-employment. Taniguchi (2002) examine the process of transitions into self-employment among white, African-American, and Hispanic women. Fairlie's (1999) work concentrates on the differences of entry and exit rates between Blacks and Whites. Kuhn and Schuetze (2001) investigate the extent to which changes in the steady-state probability of self-employment between the 80s and 90s are due to changes in entry rates and changes in exit rates.

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