

doi:10.1016/j.worlddev.2009.05.005

Is Self-employment and Micro-entrepreneurship a Desired Outcome?

FEDERICO S. MANDELMAN
Federal Reserve Bank of Atlanta, USA

and

GABRIEL V. MONTES-ROJAS*
City University London, UK

Summary. — This paper links employment dynamics to the business cycle in Argentina and examines the self-employed sector. We evaluate whether this sector resembles the industrialized countries view, where it is characterized as being creative and dynamic, or the dualistic view, where it is seen as stagnant and unproductive. We study transition patterns from salaried positions and unemployment, and the evolution of the sector in the period of analysis. We found a clear segmentation. Own-account workers (accounting for over two-thirds of the self-employed) show characteristics similar to what is predicted by the dualistic view; while self-employed with employees resembles the industrialized countries view.

© 2009 Elsevier Ltd. All rights reserved.

Key words — Latin America, Argentina, micro-firms, self-employment, business cycles

1. INTRODUCTION

The view of self-employment in industrialized countries is remarkably positive. Self-employed workers are generally regarded as creative and highly qualified individuals who have abandoned the comfort of salaried positions to invent new products, production process, and distribution methods. The self-employed sector is presumed to be dynamic and populated by “superstars” who obtain outstanding profits and social influence. Such “superstars” are thought to bring vitality to the economy and decisively contribute to economic expansion.¹ A quintessential example is the Silicon-Valley start up.

In attempting to emulate such dynamics, many countries develop public policies in an attempt to stimulate their own Silicon-Valley. Optimism over the benefits of self-employment finds support not only in the bulk of the theoretical literature but also in empirical evidence. Although some studies show that small business owners register lower median earnings growth than those in paid employment positions, some researchers consider this gap the result of non-pecuniary benefits, such as “being your own boss” (see Hamilton, 2000). In sum, a growing strand of the literature considers self-employment an optimal and voluntary decision.

Despite the scarcity of studies specific to developing countries, there exists a perspective in the academic literature which stresses the benefits of micro-entrepreneurial dynamism, voluntary entry, and job satisfaction for developing countries as well. In broad terms, such studies show that microenterprises in emerging economies (particularly in middle-income countries) exhibit patterns consistent with the entrepreneurial risk-taking framework that characterizes the industrialized world.² Such studies conclude that given the similarities between middle-income and the industrialized world, mainstream models of self-employment are useful guides for policymaking in developing countries (see Fajnzylber *et al.*, 2006).

Harris and Todaro (1970), however, present a competing view. These authors disaggregate urban employment into a modern sector, characterized by high productivity growth and job benefits, and a traditional (or informal) sector. These

models assume a stagnant and unproductive informal sector, which serves merely as first, a refuge for the urban unemployed and second, a receiving station for newly arrived rural migrants. Here, the micro-entrepreneurship sector is associated with “disguised unemployment”. We refer to the Harris and Torado model as the “dualistic” or “dual” hypothesis.³

Is the dynamic view an appropriate characterization of self-employment in middle-income economies, or is it more accurately explained by the dualistic view? For the policymaker, given that resources are scarce, governments and multilateral organizations may face a trade-off between devoting resources to support entrepreneurial activities and spending them elsewhere (e.g., promoting education). The answer our paper provides is that both views are correct if we consider that the sector is segmented. However, we find that the pessimistic view of “disguised unemployment” represents a greater share of the self-employed sector in middle-income economies.

In order to test our hypotheses, we analyze the labor market in Argentina over the period 1995–2003. Argentina is an appropriate case because it is a middle-income country with a sizeable self-employment sector. We employ a rotating household panel survey which is particularly suitable in analyzing self-employment dynamics. In addition, we propose an innovative approach that links employment transition dynamics *vis-à-vis* the business cycle. It is important to mention that even during such a short period of time, the Argentinean economy witnessed significant macroeconomic variability, namely, a short-lived

* We thank Pablo Acosta, Julie Hotchkiss, and Lucas Siga for very helpful comments. Maria Laurel Graefe, Nicole Baerg, and Gustavo Canavire provided superb research assistantship and very useful suggestions. We are grateful to three anonymous referees and to Oliver T. Coomes who provided very valuable comments and suggestions. The working paper version of this article was previously circulated under the title “Micro-entrepreneurship and the Business Cycle: Is Self-Employment a Desired Outcome?”. All errors are our own. The views expressed herein are those of the authors and not necessarily of the Federal Reserve Bank of Atlanta or the Federal Reserve System. Final revision accepted: May 26, 2009.

recession, a two-year period of extraordinarily high economic growth, a long-lasting economic depression followed by a dramatic economic crisis, and finally, a recovery.

Such a sizeable business cycle is used to judge the voluntary nature of employment transitions in terms of the “push” and “pull” factors of labor supply. To characterize the “push” factors, consider a macroeconomic downturn with high unemployment levels and no business opportunities. Under these conditions, transitions to self-employment may be of last resort or disguised unemployment. On the contrary, “pull” factors play a role when macroeconomic conditions are good. The prospects for business are better and qualified individuals with entrepreneurial ability may voluntarily select self-employment, knowing that if the venture fails, another job is not far away. We argue that such “revealed” evidence is more appropriate than surveys that directly address the voluntary nature of the transition. As shown in Blanchflower (2004), we argue that, when answering surveys, individuals tend to be unrealistically optimistic. Such optimism can bias the survey results, leading to unreliable estimates and inferences.

In answering our research question, we report the following key findings: (a) conditional on skill levels, self-employed workers earn on average 8.3% less than salaried workers and they also have 1.9% less income growth. (b) Economic recessions are associated with a monotonic increase in the amount of individuals (salaried and unemployed) who transition to self-employment. However, this trend sharply reverts when the economy starts growing again (the lowest transition point is at the peak of the macroeconomic activity). (c) Recessions improve the relative performance of salaried workers. (d) Years of economic booms are characterized by less-educated individuals becoming self-employed, and more educated self-employed individuals becoming salaried workers. This trend reverts when a recession begins. That is, as the recession hits, it expands the pool of workers looking for a job, and simultaneously increases the likelihood of more educated individuals starting their own micro-businesses. (e) When the recession deepens, and average unemployment duration increases, the proportion of unemployed workers that move to self-employment drastically rises. Besides, a transition to a salaried position is less likely if the unemployment spell is long. (f) On average, workers in large firms and with high salaries are less likely to start an entrepreneurial activity. (g) Finally, the self-employment sector is characterized by negative self-selection. As a result of our findings we argue that self-employment is unlikely to be the result of an optimal and voluntary decision taken by high-skilled individuals as the dynamic view suggests. Instead, in middle-income countries, self-employment better reflects the dualistic view.

Nevertheless, we also find a striking segmentation in the self-employment sector. Supplemental to the general conclusions above, results indicate that: (h) the proportion of individuals that become self-employed with employees show a secular decline. (i) The probability of becoming an entrepreneur with employees monotonically increases in both education and age. (j) Individuals that are currently employed and with higher conditional salaries are more likely to transition into this category. (k) Finally, self-employed with employees are characterized by positive self-selection. In other words, only when we focus on this category do we find patterns that are similar to the optimistic view discussed above. The evidence supports the existence of experienced and talented individuals who are able to start their own business projects and generate employment.

Unfortunately, such a positive phenomenon is limited: we estimate that two-thirds of the self-employed are actually own-account workers and for the remaining one-third, only

if they manage to survive will they find themselves in the dynamic category. Therefore, we propose that for middle-income economies, there exists a segmented self-employed sector composed of those with entrepreneurial abilities (mostly self-employed with employees), and low-qualified individuals with little chance to find employment in the salaried job market (own-account workers).

The rest of the paper is organized as follows: Section 2 presents a short literature review. Section 3 shows descriptive statistics of the labor force in Argentina. Section 4 discusses employment transition dynamics. The micro-econometric analysis is presented in Section 5. Concluding remarks are presented in Section 6.

2. SELF-EMPLOYMENT DYNAMICS IN DEVELOPING COUNTRIES

In the last decades there has been an intense debate about whether self-employment and micro-firms in developing countries can be studied with the same set of assumptions used to study the industrialized world. Literature reviews on this topic can be found in Pisani and Pagán (2004a) and Fajnzylber *et al.* (2006) among others. In summary, the subject of study is whether self-employment in developing economies corresponds to the voluntary entry pattern that characterizes developed countries or whether it corresponds more closely with the Harris–Todaro model of “disguised unemployment”.

Self-employment is a risky employment in both views. Jovanovic (1982) assumes that entrepreneurial skills are uncertain and that individuals can only gradually learn their skills upon starting a business project. Firms with consistently lower-than-expected profits tend to contract and eventually go bankrupt. Successful firms exhibit declining exit rates but also moderate expansions. Survivors manage to identify their true entrepreneurial abilities as their firms converge to a steady-state size. Liquidity constraints distort the optimal level of investment and increase the likelihood of firm failure. Evans and Jovanovic (1989) find that binding financial constraints lead individuals to postpone profitable business opportunities, reduce entry rates and increase exit rates among those with low personal assets—disproportionately the young.

A related issue is that of informality, that is, firms that operate with low levels of participation in formal institutions (paying taxes, access to credit). Following the work of Henley, Arabsheibani, and Carneiro (2006) there are several definitions of informality. Here we follow the usage of the International Labor Office and Pisani and Pagán (2004a, 2004b). According to this definition, own-account workers (excluding professionals) and owners of firms with less than 5 employees belong to the informal sector. High levels of informality and low productivity in the salaried sector reduce the entrepreneurial ability threshold for entering self-employment. This thus leads to higher entry and exit rates. Moreover, high informality rates exacerbate liquidity constraints.

There are some variables that can be used to judge the nature of self-employment. In a segmented labor market, the unemployed, young individuals, those with less schooling and low wages are more likely to be self-employed, as they would be worse positioned for finding good salaried jobs. In contrast, older, better-educated, and well-paid workers with experience in the salaried sector should have a lower probability of entering the self-employment sector. However, in line with the liquidity constraints hypothesis, they should also be more likely to have accumulated the assets required to start a business and be better positioned to assess good business

متن کامل مقاله

دریافت فوری ←

ISIArticles

مرجع مقالات تخصصی ایران

- ✓ امکان دانلود نسخه تمام متن مقالات انگلیسی
- ✓ امکان دانلود نسخه ترجمه شده مقالات
- ✓ پذیرش سفارش ترجمه تخصصی
- ✓ امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
- ✓ امکان دانلود رایگان ۲ صفحه اول هر مقاله
- ✓ امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
- ✓ دانلود فوری مقاله پس از پرداخت آنلاین
- ✓ پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات