



Are self-employment training programs effective? Evidence from Project GATE[☆]

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ABSTRACT

We examine the efficacy of providing self-employment training to unemployed and other individuals interested in self-employment using data from Project GATE. This experimental design program offered self-employment training services to a random sample of individuals who expressed a strong interest in self-employment. We find that Project GATE was effective in helping unemployed participants to start their own business, leading to significant impacts in self-employment and overall employment soon after program entry. The program also helped unemployed participants remain self-employed and avoid unemployment even five years after program entry. However, the program was not effective in improving the labor market outcomes of participants who were not unemployed.

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1. Introduction

Self-employment has historically played an important role in the U.S. economy. Many workers in the U.S. view self-employment as an attractive alternative to salary employment because it provides an opportunity for self-sufficiency, high earnings, and upward social mobility (Bates, 1997; Fischer and Massey, 2000; Keister, 2000; Bucks et al., 2006). In fact, for the past few decades, nearly 10% of U.S. workers have been self-employed (Bregger, 1995; Fairlie, 2004; Blanchflower, 2009). Self-employment is also important from a macroeconomic perspective, since small businesses employ a large share of the workforce and produce important innovations that contribute to the overall growth of the U.S. economy (Acs, 1999; Manser and Picot, 1999; Lerner, 2002; Minniti and Bygrave, 2004; Davis et al., 2008).

To encourage the creation and growth of small businesses, U.S. policymakers have established a variety of programs that provide self-

employment training, technical support, and financial assistance to unemployed and other individuals interested in self-employment (Schreiner, 1999; Walker and Blair, 2002; Wandner, 2008). The objective of these programs is to help aspiring business owners gain a better understanding of all aspects of starting and operating a new business and obtaining access to start-up capital and credit. The expectation is that self-employment programs will assist unemployed and other individuals in overcoming the obstacles they face in pursuing self-employment, leading to the creation of viable small businesses (Benus, 1994; Vroman, 1997; McKernan and Chen, 2005). Despite the growing interest in self-employment programs, there is limited evidence on whether they are actually effective in promoting self-employment participation and success.

This paper provides evidence on the efficacy of providing self-employment training services without any financial support to unemployed and other individuals interested in self-employment. For our analyses, we use data from Project GATE (Growing America Through Entrepreneurship), the most recent experimental design self-employment program implemented in the U.S. Project GATE offered an array of self-employment training services to a random sample of individuals who expressed a strong interest in self-employment. Unlike most programs implemented in the U.S. and elsewhere, Project GATE did not provide participants with any type of financial support, and it accepted applications from all interested individuals – unemployed, employed, self-employed, or not in the labor force. The program's design provides a unique opportunity to examine the efficacy of providing self-employment training without any financial support to unemployed and other individuals interested in self-employment.

In the remainder of this paper, we examine the impact of Project GATE on the following participant outcomes: likelihood of starting a new business, likelihood of self-employment in a new business, self-employment,

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salary employment, overall employment, and earnings. Our results show that Project GATE was effective in assisting unemployed participants start their own business, leading to significant gains in self-employment and overall employment in the first months following program entry. The program was also effective in assisting unemployed participants to remain self-employed even 5 years after program entry. However, we find no evidence that the program was effective in assisting non-unemployed participants improve their labor market outcomes. Based on these results, we conclude that U.S. state workforce agencies should consider adopting self-employment training programs targeting the unemployed as part of their workforce development agenda.

2. Background

2.1. Self-employment programs in the U.S.

In the past 20 years, self-employment programs have received considerable attention from various U.S. government agencies, including the U.S. Department of Labor (DOL). In the early 1990s, DOL funded two demonstration programs, the Washington Self-Employment and Enterprise Development Program and the Massachusetts Enterprise Project. These experimental design programs provided self-employment training and monetary assistance to unemployed workers interested in self-employment (Benus et al., 1995). These programs were implemented to assess if self-employment training combined with financial assistance is effective in promoting the reemployment of unemployed workers through self-employment.

Following the success of these demonstrations, Congress authorized states to establish self-employment assistance (SEA) programs for a 5-year period under the North America Free Trade Agreement (NAFTA) Implementation Act of 1993. SEA programs provided states with the ability to offer self-employment training to Unemployment Insurance (UI) recipients as a means to promote their reemployment and facilitate their early exit from the UI system (Kosanovich et al., 2002). SEA programs were permanently authorized by Congress in 1998. Since then, 11 states have passed SEA-enabling legislation; of these states, Delaware, Maine, Maryland, Minnesota, Oregon, Pennsylvania, New Jersey, and New York implemented SEA programs as part of their workforce development agenda. Unfortunately, participation in SEA programs in these few states was limited by the fact that states lacked the necessary resources to provide consistent and reliable self-employment training to interested individuals; thus, only between 1 and 2% of all UI claimants participated in SEA in recent years (Wandner, 2008).

In recent years, there has been a growing interest in understanding the potential benefits of providing self-employment training to all interested individuals, not just unemployed workers. In 2002, DOL partnered with the Small Business Administration (SBA) to sponsor Project GATE (Growing America Through Entrepreneurship), an experimental design demonstration program that provided self-employment training to individuals who expressed a strong interest in self-employment. Project GATE, implemented in Maine, Minnesota, and Pennsylvania, was designed as an experiment to examine whether self-employment training is effective for unemployed and other individuals (Bellotti et al., 2006; Benus et al., 2009). During the implementation of Project GATE, DOL issued a directive to states to expand their Workforce Investment Act (WIA) funded activities to provide entrepreneurship training to all customers of the state workforce development system.¹ These efforts show the commitment of

policymakers to expand the role of self-employment training in the U.S. workforce development system.

In addition, several programs have been established to assist aspiring and existing small business owners overcome limited access to start-up capital and credit. According to the Aspen Institute's directory of U.S. microenterprise programs (Walker and Blair, 2002), more than 600 microenterprise programs in 2002 provided a combination of financing subsidies, assistance with government procurement, and business counseling to small businesses. Among these were 55 Federal programs, of which 37 were supported by the SBA. The importance of microenterprise programs in supporting small businesses in the U.S. economy has since grown. A recent Aspen Institute report shows that, from 2002 to 2008, these programs experienced significant growth in the number of participants (14%), the loan amounts disbursed (51%), and their total microloan capital (85%).² During the same period, SBA's budget increased from \$493 million in 2002 to \$555 million in 2008. In fact, SBA's budget has grown dramatically since then; for 2011, SBA received a budget of nearly one billion dollars (\$994 million) to support small businesses, which is \$170 million (21%) higher than the SBA's 2010 budget.³

Despite the growing interest in self-employment programs, Benus et al. (1995) is the only study that provides credible evidence on the efficacy of such programs in the U.S. Using data from the Washington and Massachusetts experimental design demonstrations of the early 1990s, that study shows that participants experienced significant gains in self-employment (44%), overall employment (24%), and earnings (18%). The study concludes that providing self-employment training and financial assistance to the unemployed is an effective reemployment policy that should be widely adopted by state workforce agencies.

A study funded by DOL (Kosanovich et al., 2002) finds that SEA participants in Maine, New Jersey, and New York were 55% more likely to enter self-employment and had 18% higher total earnings than those who chose not to participate. However, the authors acknowledge that, since the control group included individuals who declined SEA participation, these differentials do not constitute reliable impact estimates. So, to date, there is no evidence whether providing self-employment training without any financial support is an effective policy tool for improving the labor market outcomes of unemployed or other individuals interested in self-employment. Finally, there are no studies that provide evidence on the impacts of microenterprise programs in the U.S., mainly due to lack of appropriate comparison groups (McKernan and Chen, 2005).

2.2. Self-employment programs in other countries

Interest in self-employment programs has also grown in other developed and developing countries. Several countries have established national programs to assist unemployed workers in pursuing self-employment as part of their active labor market programs. The British Enterprise Allowance Scheme, for example, provides a weekly allowance to unemployed individuals while they attempt to start their own business; the Chomeurs Createurs program in France assists unemployed individuals in starting businesses by providing them with start-up capital through lump-sum payments in lieu of unemployment benefits (Benus et al., 1995; Meager, 1996). In Germany, the Start-Up Subsidy and Bridging Allowance programs provide periodic payments to unemployed individuals interested in starting their own business (Baumgartner and Caliendo, 2008; Caliendo and Künn, 2010). Similar

¹ Title I of the WIA Act of 1998 allows states to "provide adults and dislocated workers occupational skills training, including training for nontraditional employment, and entrepreneurial training." U.S. Department of Labor Training and Employment Guidance Letter No. 16-04 (February 2005) requested states to "encourage local workforce investment boards to consider entrepreneurial training programs for WIA customers as part of their menu of services and to explore the appropriate partnerships to support these training programs." The same letter encouraged states "to include entrepreneurial training providers on their eligible training provider lists."

² U.S. Microenterprise Census Highlights, FY 2008 Data, The Aspen Institute, Washington, DC.

³ Source: Budget of the U.S. Government, Fiscal Year 2011, Office of Management and Budget.

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