



# Community Economics

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## SELF-EMPLOYMENT IN THE U.S.<sup>1</sup>

by

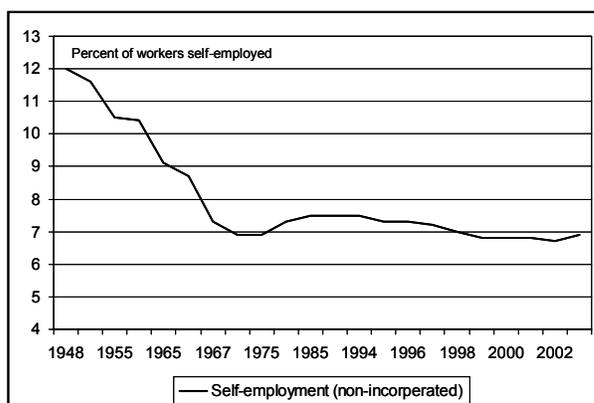
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The role of small businesses in economic growth and development has been at the center of a large and long public policy discussion. In community economic development, it is widely accepted that the creation of small businesses is critical to successful communities. Much of this latter discussion focuses on the importance of entrepreneurship and the entrepreneurial spirit necessary to adapt to economic and institutional changes. What is happening to trends in small business development as measured by levels of self-employment? Although self-employment is not a perfect proxy for small business development, it is an important indicator.

In 1948, of the 50.7 million persons employed in unincorporated nonagricultural businesses 6.1 million or 12 percent were self-employed. In 2003, the most current year for which data are available, of the 135.5 million employed persons in unincorporated nonagricultural businesses 9.3 million, or 6.9 percent were self-employed. As seen in Figure 1 there has been a steady decline in the percent of people that are self-employed. Since the late 1960s, however, the share of self-employed has stabilized at around seven percent. A raise in the rate of incorporation – often for tax purposes – explains some of this decline the rate of those self-employed. The share of incorporated self-employed raised from 2.9 percent in 1989 to 3.6 percent in 2003.

Figure 1. Self-employment patterns in non-agricultural occupations



What role does self-employment have with respect to net job growth? In a study of U.S. and Canadian job growth, Marilyn Manser and Garnett Picott found that during the 1980s the role of self-employment within the two countries was somewhat similar. During the 1990s, however, self-employment accounted for essentially none of the net job creation in the U.S. whereas the majority of net employment growth in Canada over the same period was composed of self-employed workers.

Generally, during labor market contractions (e.g., recessions), most labor force groups are impacted negatively and experience a decline in

employment. This response to the business cycle affects many of the self-employed, as their businesses fail when profits decline or become negative. A countervailing effect could result if laid-off wage and salary workers rely on what was formerly "moonlighting" self-employment or possibly enter the ranks of the self-employed. Recent analysis conducted by Ellen Rissman found that flows into self-employment occur during recessions and flows out of self-employment occur during economic expansions.

<sup>1</sup> This essay draws on the work of Steven Hipple, "Self-employment in the United States: An Update." *Monthly Labor Review*. July 2004, pp:13-23.

This latter result is particularly important to community economic development practitioners. Historically, an increase in the number of small businesses at the community level has been viewed as an indicator of a strong and growing economy. The results of Rissman and others, however, suggest that an increase in the number of self-employed is actually an indication of a weak economy. Unemployment payments may be near their end and gainful employment opportunities are limited; people may find that they have little alternative other than self-employment. With respect to programs offered by practitioners, one may consider entrepreneurship and small business development training opportunities during economic downturns as a priority.

What is the make-up of those that are currently self-employed? In 2003, older workers are much more likely to be self-employed than younger workers. The self-employment rate for workers age 65 and older was 19.1 percent in contrast to only two percent for workers aged 16 to 24. Younger workers rarely have acquired the capital and managerial skills needed to start a business, whereas many older workers may be able to obtain the resources through their own efforts or through available credit. Furthermore, older workers who have retired from wage and salary jobs may become self-employed to supplement their retirement income or to enjoy the non-monetary benefits of owning and running one's own business.

Self-employment is more common among men than women. According to the analysis by Steven Hipple in 2003, 8.8 percent of men were self-employed compared with six percent of women. Self-employed men are more likely than their women counterparts to be employed in industries – such as construction and landscaping – that have a large proportion of self-employed workers. At the same time whites are more likely than blacks or Hispanics to operate their own businesses. The self-employment rate for whites was eight percent in 2003, but only 4.1 and 5.5 percent, respectively for blacks and Hispanics. The rate for Asians was 6.9 percent.

Again, based on the analysis of Steven Hipple education levels do not seem to be a predictor of self-employment levels. Considering all non-incorporated self-employed persons, 9.2 percent of persons with less than a high school education are self-employed, of those with a high school diploma 8.7 percent are self-employed and those with some college are self-employed at a rate of 8.6 percent. Those with a college degree the rate is 8.0 percent and 9.2 percent of those with an advanced degree are self-employed. If one looks at self-employed persons who are incorporated, the rate with advanced degrees is 6.5 percent, which is more than three times the rate for their counter-parts with less than a high school education – 2.1 percent. It may be that those with a lower level of education fail to see the benefits of incorporation.

In terms of work schedules, about one third of the non-agricultural self-employed, worked part-time – that is 1 to 34 hours per week. There were significant differences between men and women where about one quarter of all self-employed men worked part-time compared to nearly half of all self-employed women. At the other end, self-employed men are much more likely to put in longer workweeks than self-employed women. The average workweek for self-employed men was nearly eight hours longer than that for women (41.3 vs. 33.8 hours). This surprisingly high percentage of self-employed persons that work part-time, can be partially explained by the higher percentage of older persons that are self-employed after retirement.

The descriptive analysis presented here clearly cannot address the question posed at the beginning of this essay: if small business growth is the engine of the new economy, why has there been a decline and more recently, stagnation in the percent of all employed persons being self-employed? Small business development is vital to successful community economic development, but it is not a magic bullet and should be one part of a comprehensive approach to economic development.

**Additional readings:**

Marilyn E. Manser and Garnett Picot, "The role of self-employment in U.S. and Canadian job growth," *Monthly Labor Review*, April 1999, pp. 10–25.

Ellen R. Rissman, "Self-employment as an Alternative to Unemployment," Working Paper Number 34, Fourth Quarter 2003 (Federal Reserve Bank of Chicago, 2003).

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