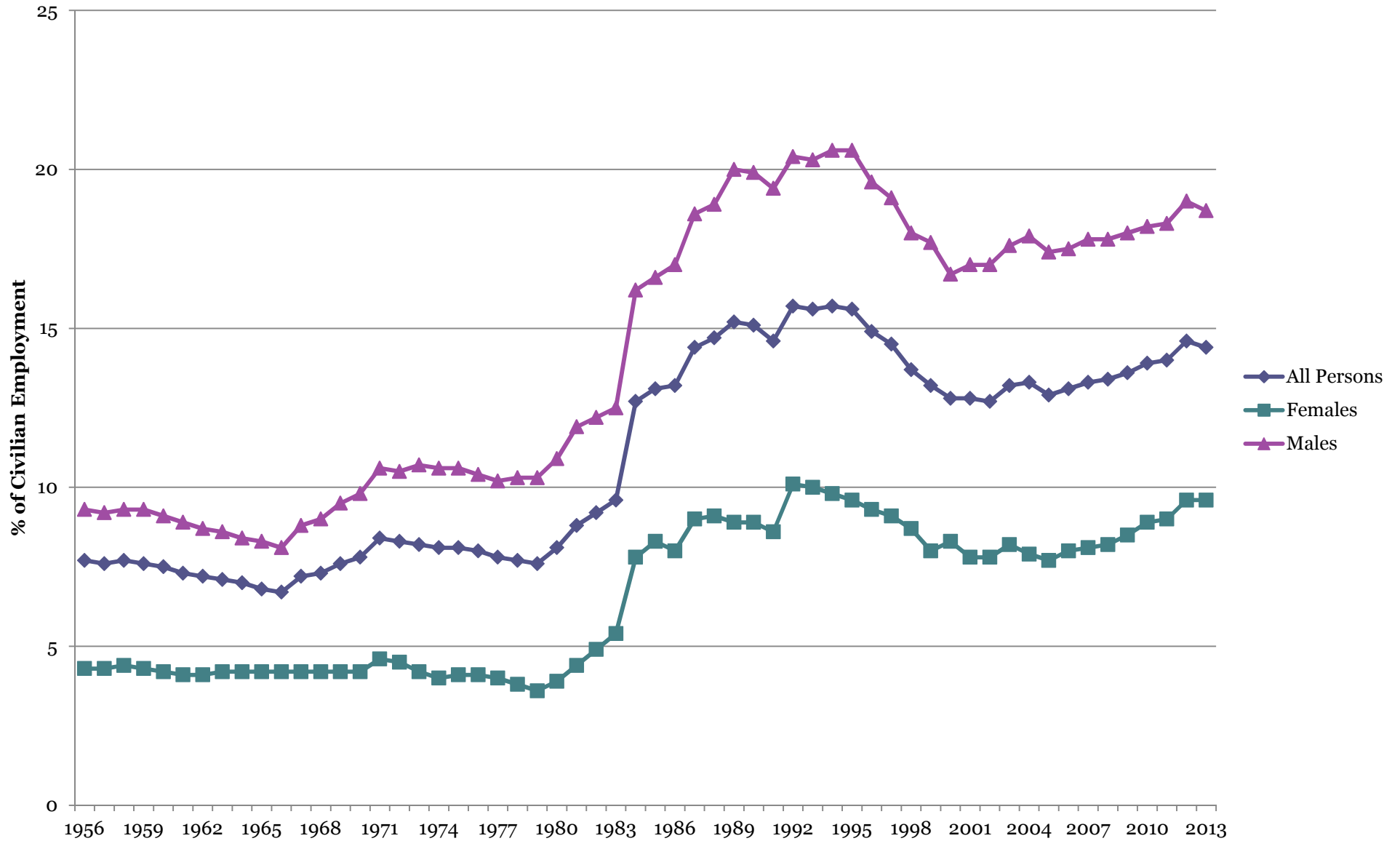


Self-Employment: Opportunity or Necessity? The Case of the United Kingdom

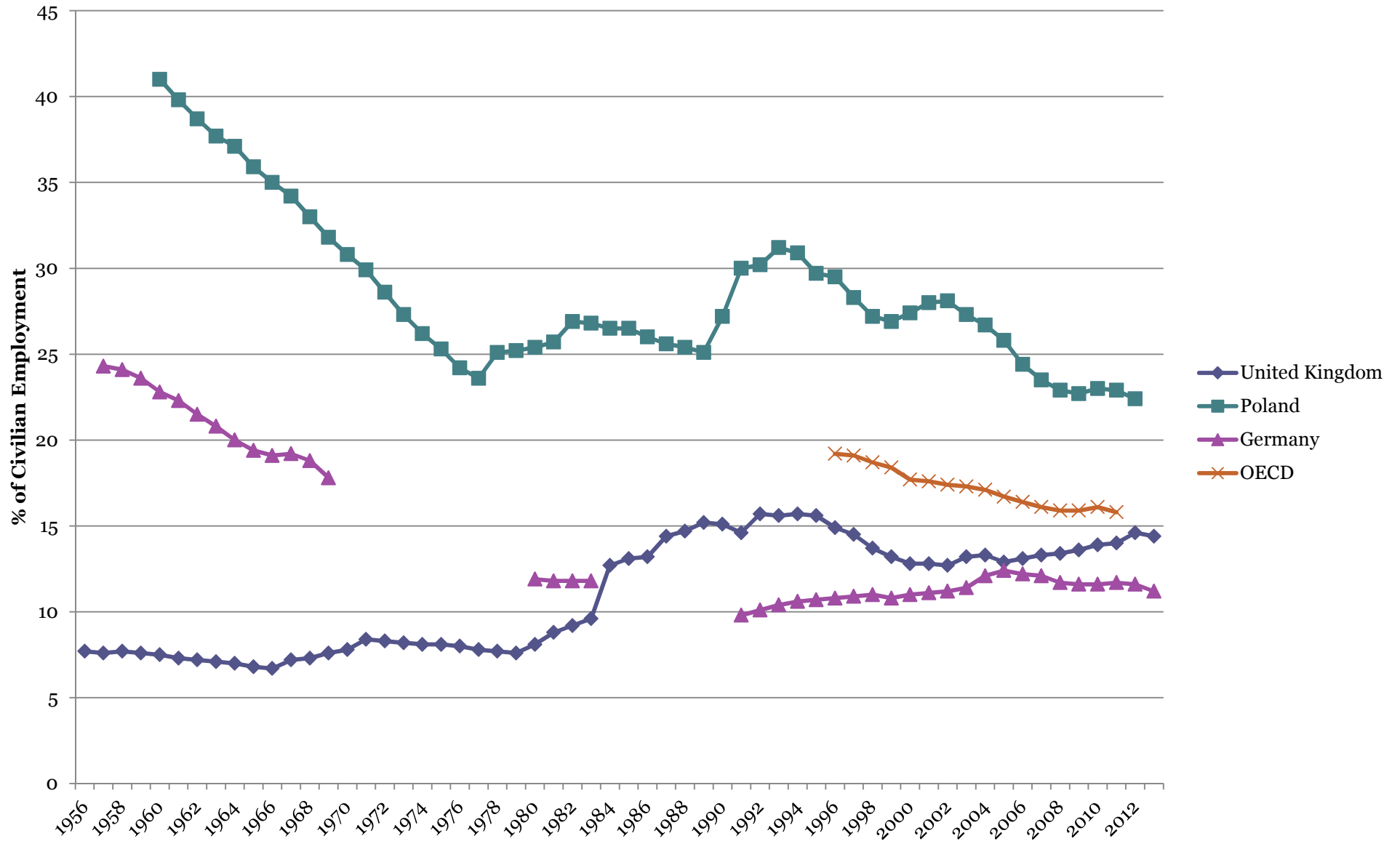
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Rate of Self-Employment in United Kingdom: 1956-2013



Self-Employment Rate in Selected Countries





Aims

- Why has the rate of self-employment risen in the United Kingdom?
- Necessity or opportunity?
- Implications for Poland.



Self-Employment as a Necessity

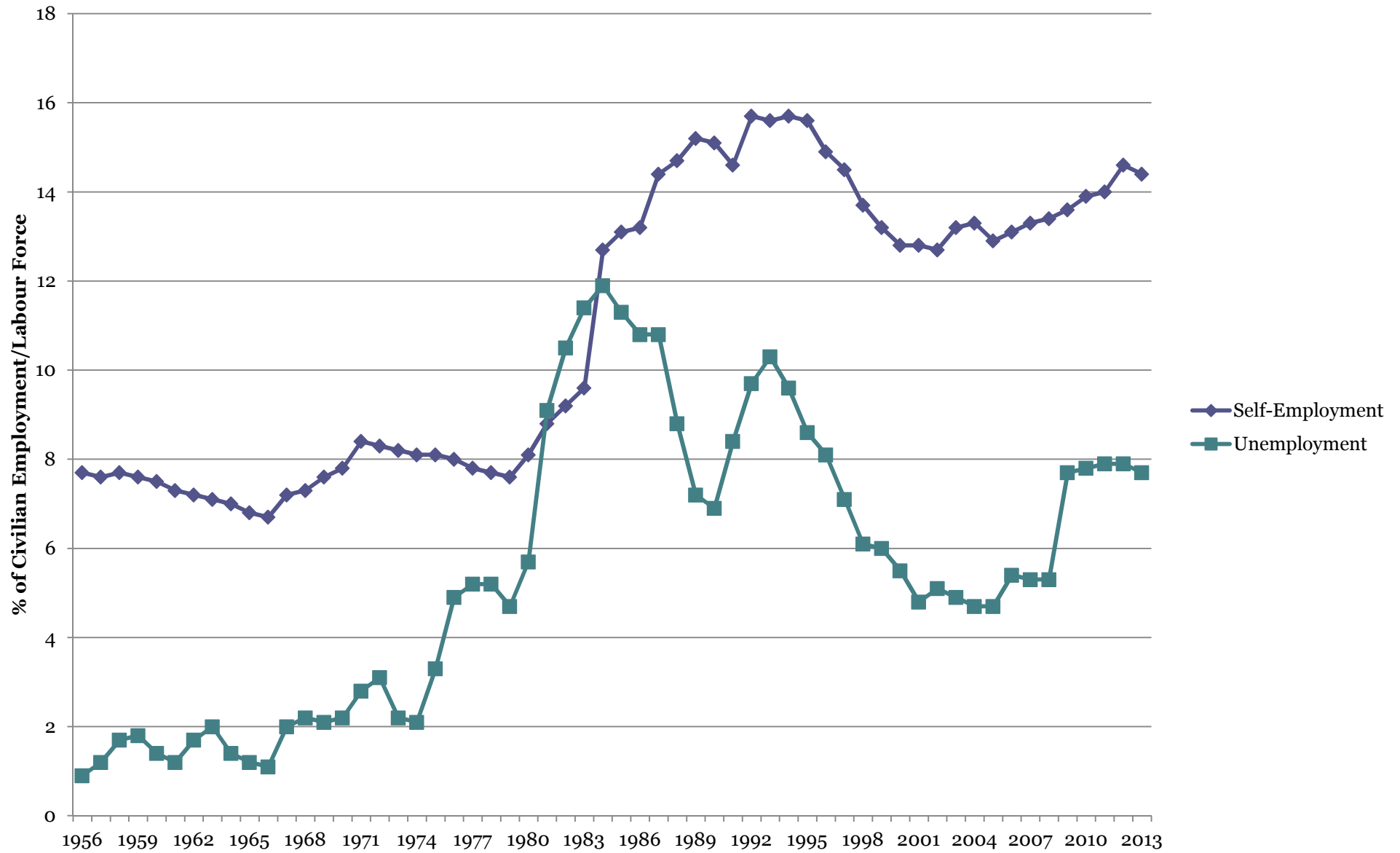
- Unemployment leads to increasing start-up activity.
- The opportunity cost of starting a firm has fallen (Blau, 1987, Evans and Jovanovic, 1989, Blanchflower and Meyer, 1994).
- ‘Recession push’ effect.

Self-Employment as an Opportunity

Counter-arguments:

- Unemployed tend to possess lower endowments of human capital and entrepreneurial talent.
- High unemployment rates may lead to lower personal wealth (Johansson, 2000; Hurst and Lusardi, 2004).
 - May correlate with stagnant rates of economic growth.
 - Hence, fewer entrepreneurial opportunities (Audretsch et al., 2002).
- ‘Prosperity pull’ effects.

Rates of Self-Employment and Unemployment in the UK





Unemployment and Self-Employment: What Does the Evidence Say?

- Discrepancy between time-series analysis and cross-section or panel analysis (Storey, 1991).
- Early time-series studies generally find a +ve relationship between the rate of unemployment and the rate of self-employment – e.g. Hamilton (1989), Parker (1996), Schuetze (2000).
- But see Robson (1998a) for a different view.



Unemployment and Self-Employment: What Does the Evidence Say?

- Panel data studies tend to find a –ve relationship between these variables.
 - E.g. Blanchflower (2000), Parker and Robson (2004) (relatively weak)
- As do studies using individual level data.
 - E.g. Taylor (1996), Henley (2004), Millan *et al.*, (2012)

Unemployment and Self-Employment: What Does the Evidence Say?

$$\widehat{\Delta SER}_t = 0.006 + 0.529 \Delta UR$$

(0.14) (6.20)

1957-2013 n=57 S.E.= 0.306
 $R^2 = 0.587$ $F(1, 55) = 78.26$
LM(2): $Chi^2(2) = 0.905$ $p = 0.636$

OLS estimates

t-ratios in parentheses



Role of Employment Protection Legislation

- Does the rate of self-employment rise as a way of avoiding employment protection legislation (EPL)?
- Early studies suggested that it does – e.g. Grubb & Wells (1993), OECD (1999).
- However, Robson (2003), Torrini (2005) cast doubt on validity of these findings.
- Robson (2007) fails to find evidence of significant effect of EPL on self-employment in a cross-country study.

'Prosperity Pull' Effects

- Aggregate demand and development.
 - Kuznets (1966)
- Robson (1998a) finds +ve relationship between log of real GDP and log of the rate of SE.
- However, Robson (2007) finds a –ve relationship between log of GNP per capita and log of rate of SE.
- +ve relationship found for % employed in agriculture and services.
- Pietrobelli et al. (2004) find –ve relationship between log of GDP per capita and log of rate of SE.
- Acs et al. (1994) argue for existence of a U-shaped relationship between the rate of SE and level of economic development.



Personal Wealth and Collateral

- Evans & Jovanovic (1989), Cagetti & De Nardi (2006)
- Robson (1998a) finds +ve relationships between personal sector liquid assets and net housing wealth on rate of SE.
- On housing wealth, supported by Robson (1998b), Blanchflower & Oswald (1998), Henley (2005), Disney & Gathergood (2009) (relatively weak)
- Taylor (2001) – receipt of redundancy payments has +ve effect on rate of entry to SE.

Tax Rates

- Kanbur (1981), Kihlstrom & Laffont (1983)
 - Changes in income tax rate have ambiguous effect on number of entrepreneurs.
- Empirical evidence suggests +ve relationship.
 - E.g. Blau (1987), Evans & Leighton (1989 a,b), Parker (1996), Robson (1998a), Schuetze (2000), Parker & Robson (2004)
- Some studies find –ve relationship.
 - E.g. Fölster (2002), Torrini (2005)
 - But +ve when studying countries which have a high possibility of evading taxes.



Tax Rates

- Some confusion between roles of average versus marginal rates of tax.
- Robson & Wren (1999): -ve effect Marginal Tax rate; +ve effect Average Tax rate.
- Supported by empirical evidence for 15 OECD countries.



Unemployment Benefit

- High replacement rate might discourage unemployed workers from entering SE.
- Might discourage workers from moving from paid-employment to SE for fear of losing access to benefits.
- Staber & Bogenhold (1993), Parker & Robson (2004), Torrini (2005), Robson (2007) find –ve effects from replacement rate or overall index of generosity of unemployment benefits.



Education, the Law and Culture

- Parental influences and education have important effects on SE.
- Disagreement concerning sign of education effects.
- However, Rees & Shah (1986), Henley (2004) find +ve effects on SE in UK.
- Number of procedures to start a business +ve effect on SE (Robson, 2007).
- Not necessarily good.
- Former Command Economies: -ve effect on SE.

Conclusions

- SE in UK has benefitted from increasing opportunities.
- Due to:
 - Increasing aggregate demand;
 - Increase in service sector activity;
 - Increase in personal wealth and collateral
- Increasing house prices;
 - Increasing educational attainment.
 - May have benefitted from greater necessity.
- Due to increasing unemployment(?).
 - Jury still out on this.

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