

Self-Employment in the Great Recession

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Objectives

LED stats currently include wage and salary jobs only. How do flows into and out of wage and salary work look if we capture flows to self-employment?

Each year, over 10% of workers have some self-employment earnings. How are transitions into and out of self-employment impacted by Great Recession?

Will not directly address details of our effort to integrate self-employment jobs.

Measuring Self-employment

Focus on Sole Proprietorships:

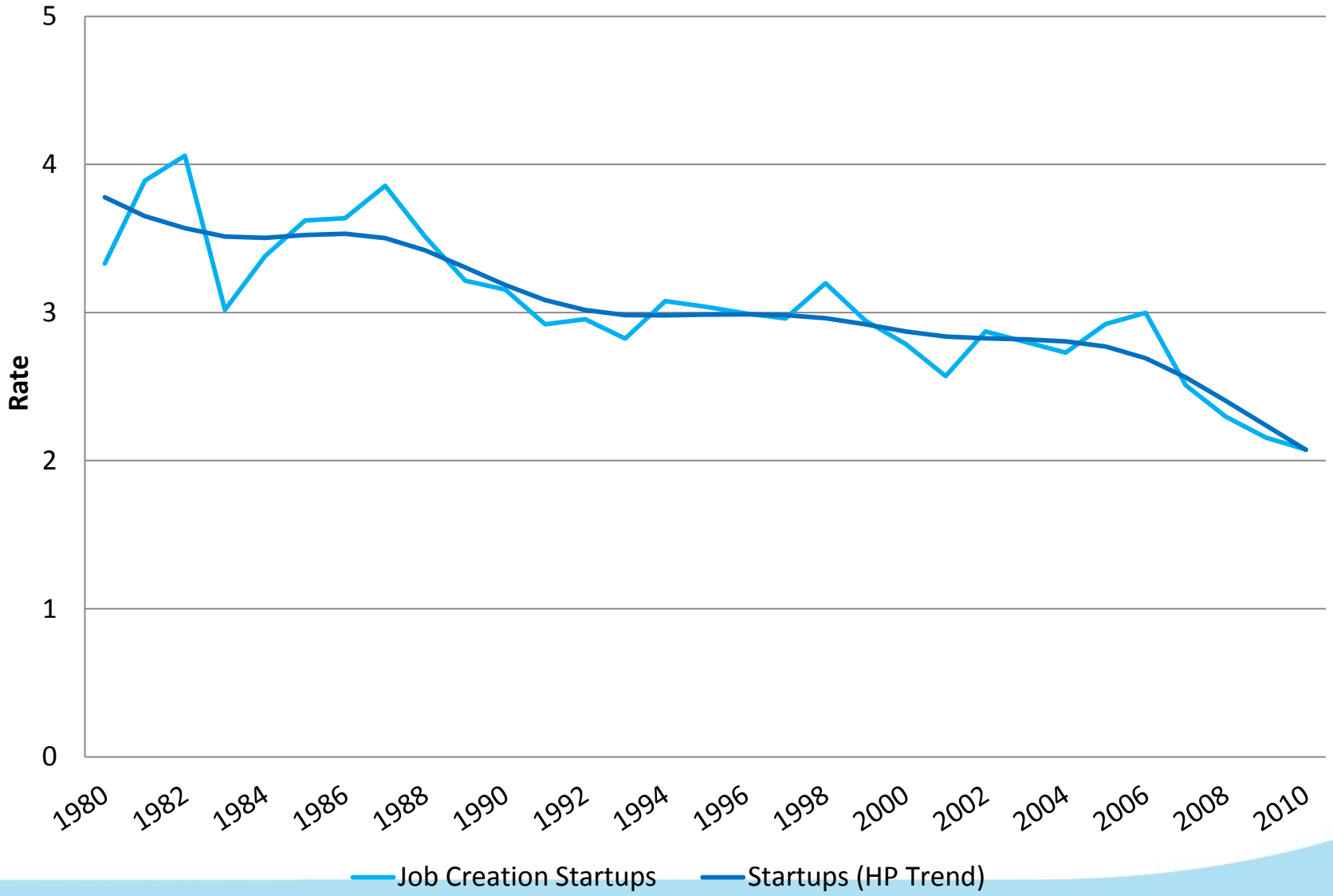
Data from IRS 1040 Schedule C supplemented with SE earnings reported to SSA.

- Business ID is SSN
- 70% of businesses operated as sole props.
- We also cover sole proprietors with and without employees, including any “reclassified” workers.
- Owners of corporations appear in wage and salary records as paid employees.
- In future, explore ways to identify all owners of partnewships.

What do we expect to find?

- Positive Impact:
 - During recessionary periods, businesses may reclassify workers
 - For non-employer sole props, self-employment characterized by flexibility of entry and exit
- Negative Impact:
 - Sole proprietors own businesses. Many small/young businesses may fail to thrive in times of economic downturn.
 - Similarly, recession may inhibit entry of new small businesses.

Annual Job Creation from Startups, U.S. Private Sector, Business Dynamic Statistics



Implications for Analysis?

Characterize workers by bundle of earnings sources. Without following specific workers, note how these groups change over time.

Explore transitions between wage and salary work and self-employment.

Track these transitions over time.

Which types of transitions are most common?

At a minimum, we should look separately at businesses with and without employees.

Analysis Data and Key Definitions

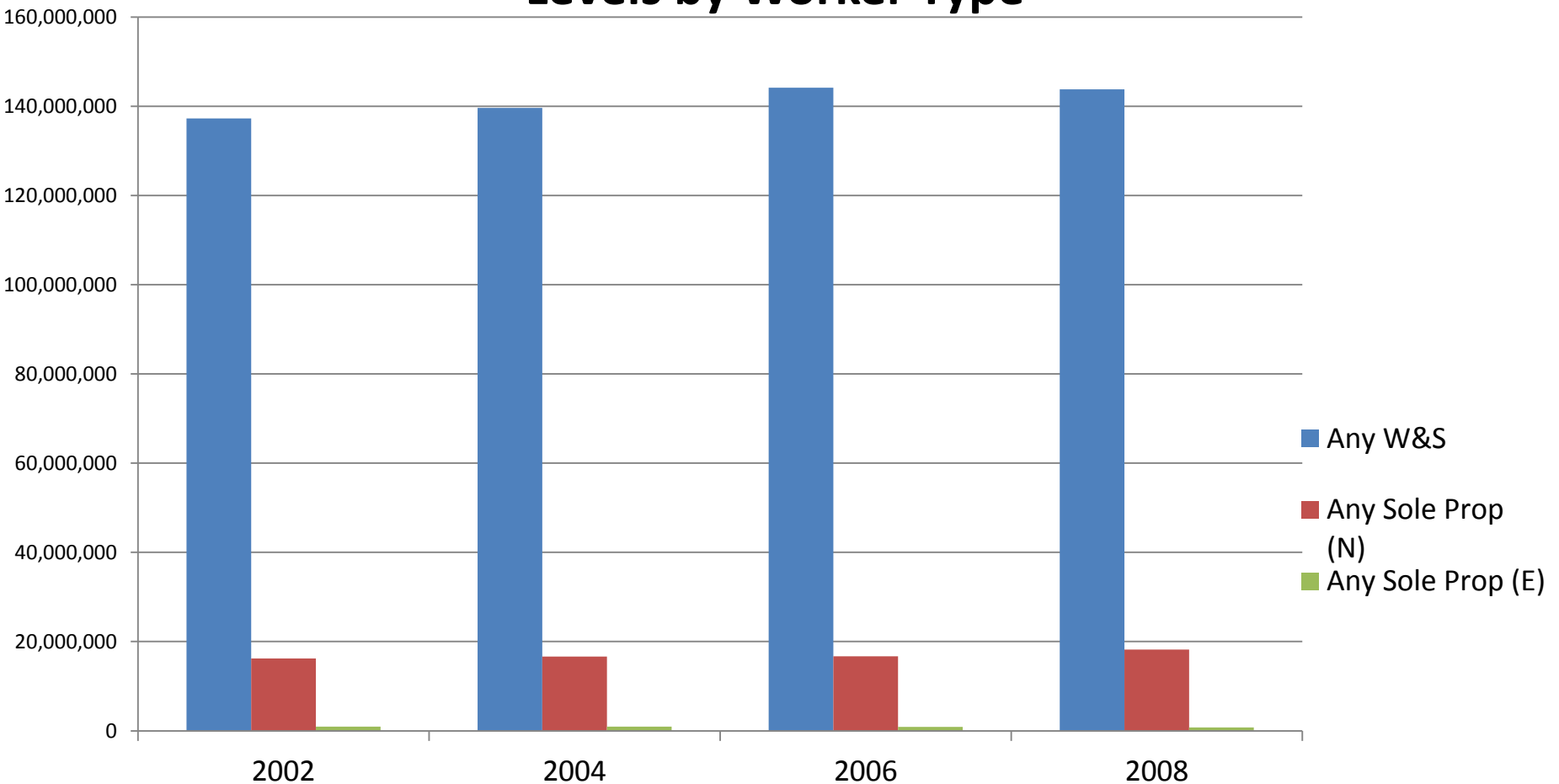
- Time period for each observation covers a calendar year.
- Self-employed worker– owns a sole proprietorship with positive net receipts for the year
 - Non-employers (N) have no paid employees
 - Employers (E) own active sole proprietorships with paid employees.
- Wage and Salary worker (W)– has positive earnings from UI
- Link by PIK to annual wage and salary data for all states (excluding 5).

Step 1

Characterize Dynamics of each “type”(note that a worker may be in more than one category in each year):

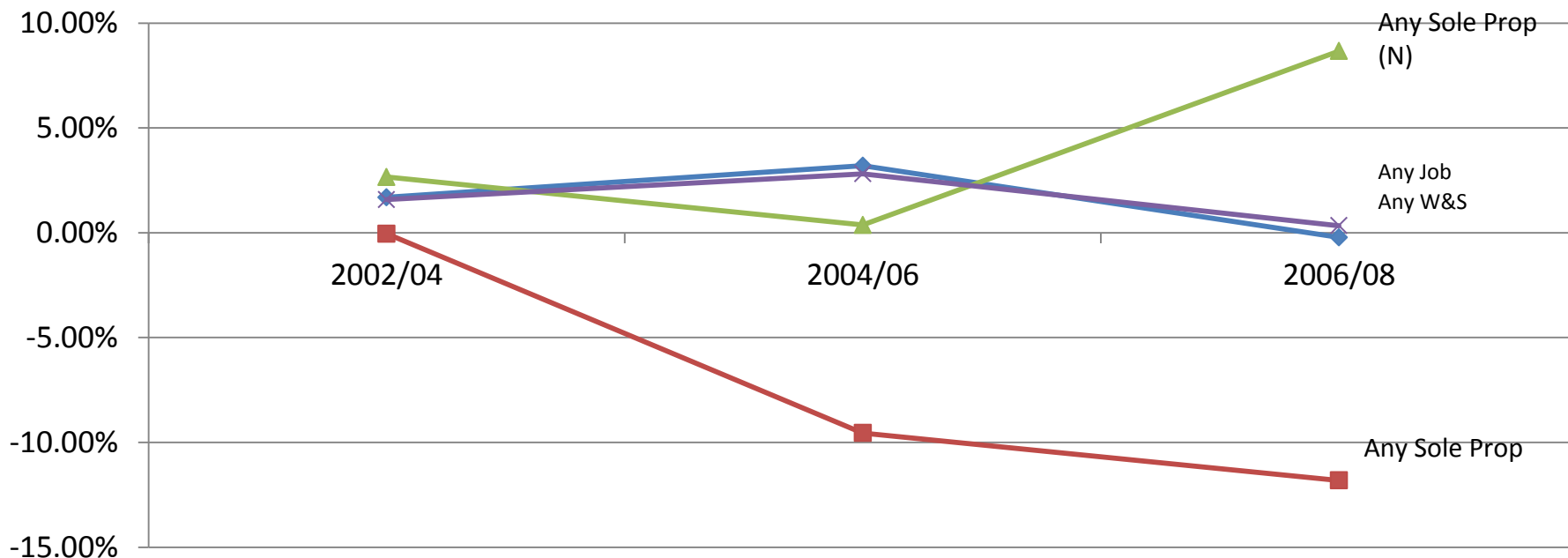
- Wage and salary (W)
- Self-employment non-employer (N)
- Self-Employment employer (E)
- Current Analysis is based on a national file covering years 2002-2008.

Levels by Worker Type



Worker type dominated by W&S workers. Note that while W&S worker counts rise during expansionary periods and fall during recessions, counts of non-employer jobs show opposite pattern.

Growth Rate Patterns By Worker Type

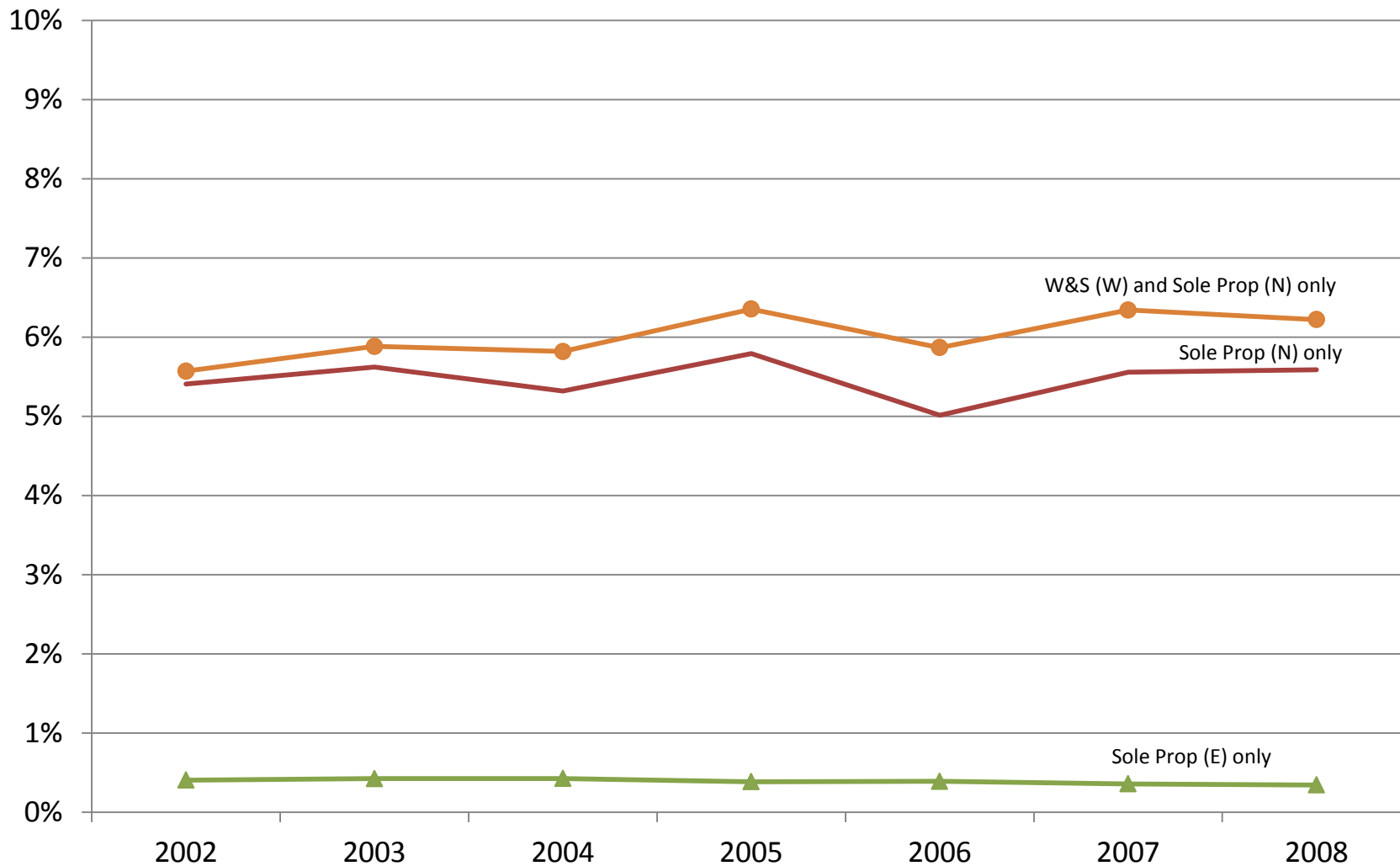


1. W&S worker counts show slowed growth after 2006.
2. Sole prop (employers) show net decline overall, accelerated after 2006.
3. Interestingly, Sole proprietors (Non-employers) increased post 2006. *
4. But note that “Any Job” close to Any W&S. So only modest impact of this on Employment growth.

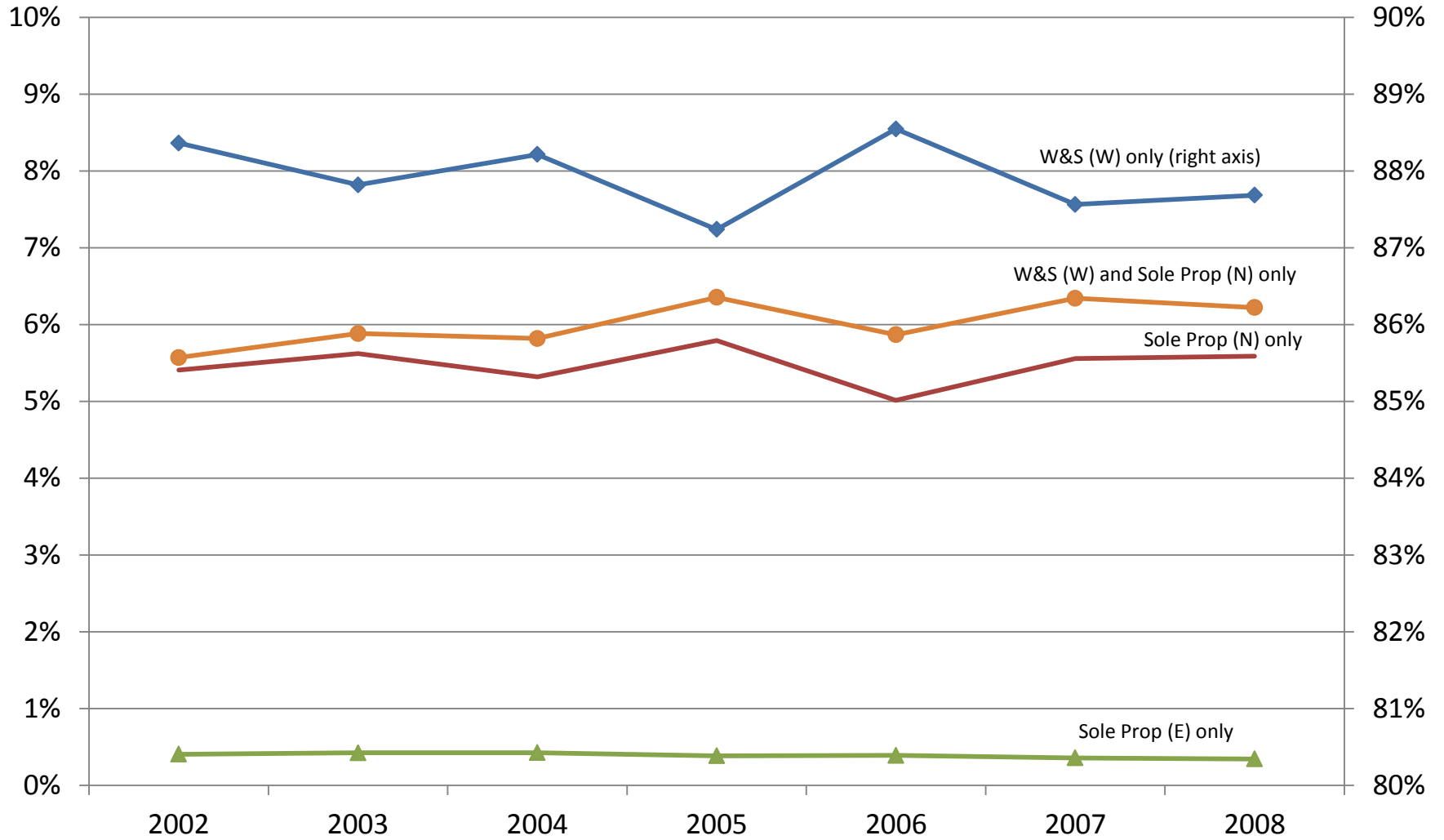
Who are non-employer sole props?

- Some (N) have earnings in the year only from non-employer sole prop, including:
 - Those operating as employer sole prop all year
 - Those operating as employer sole prop and also having spells outside workforce
- Some (WN) have earnings during the year from both wage and salary work and self-employment as non-employer sole prop including:
 - Those with W&S job and N job at the same time
 - Those who transition directly between W&S and N during the year on any day other than Jan 1, either on their own or due to employment reclassification

Largest Shares of Worker Activity



Largest Shares of Worker Activity



Step 2:

Characterize transitions over time to and from:

Wage and salary work

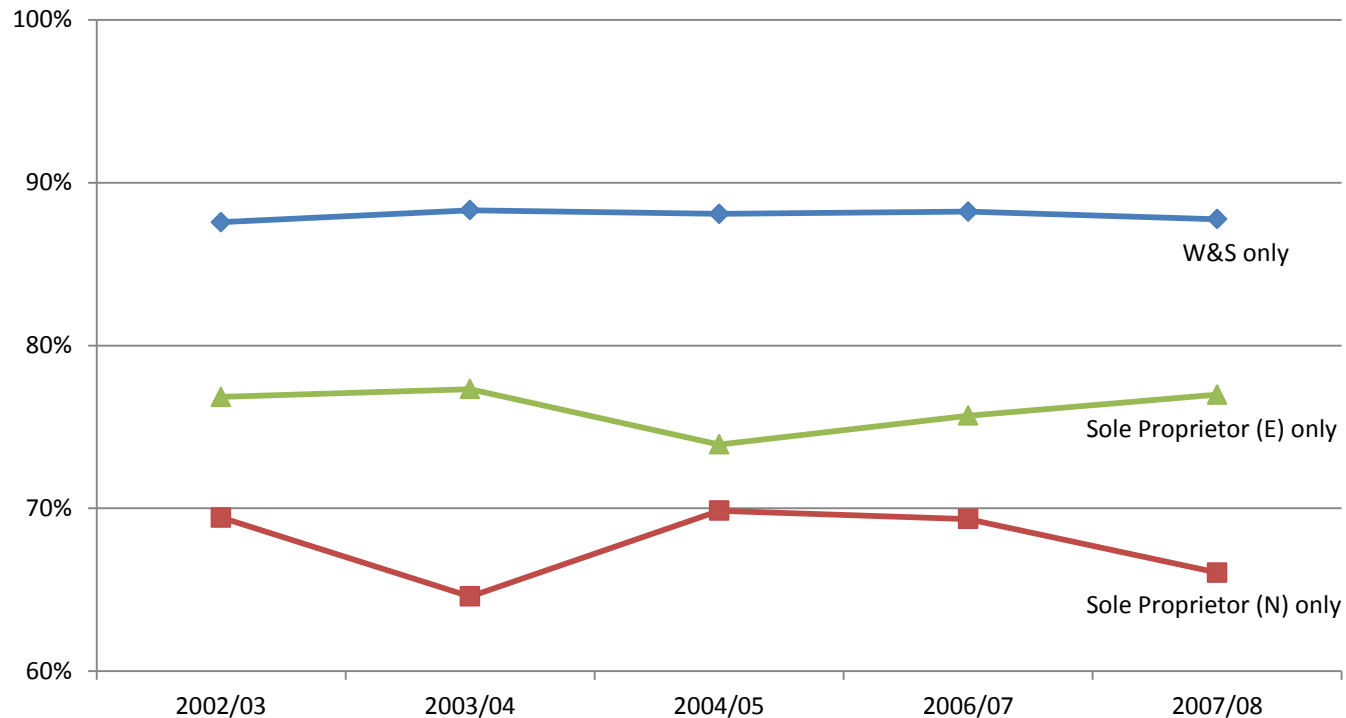
Self-Employment

How?

Identify their bundle of income sources in each year
track how this bundle of income sources changes for
each worker from one year to the next.

Show how this transitions fluctuate during recession

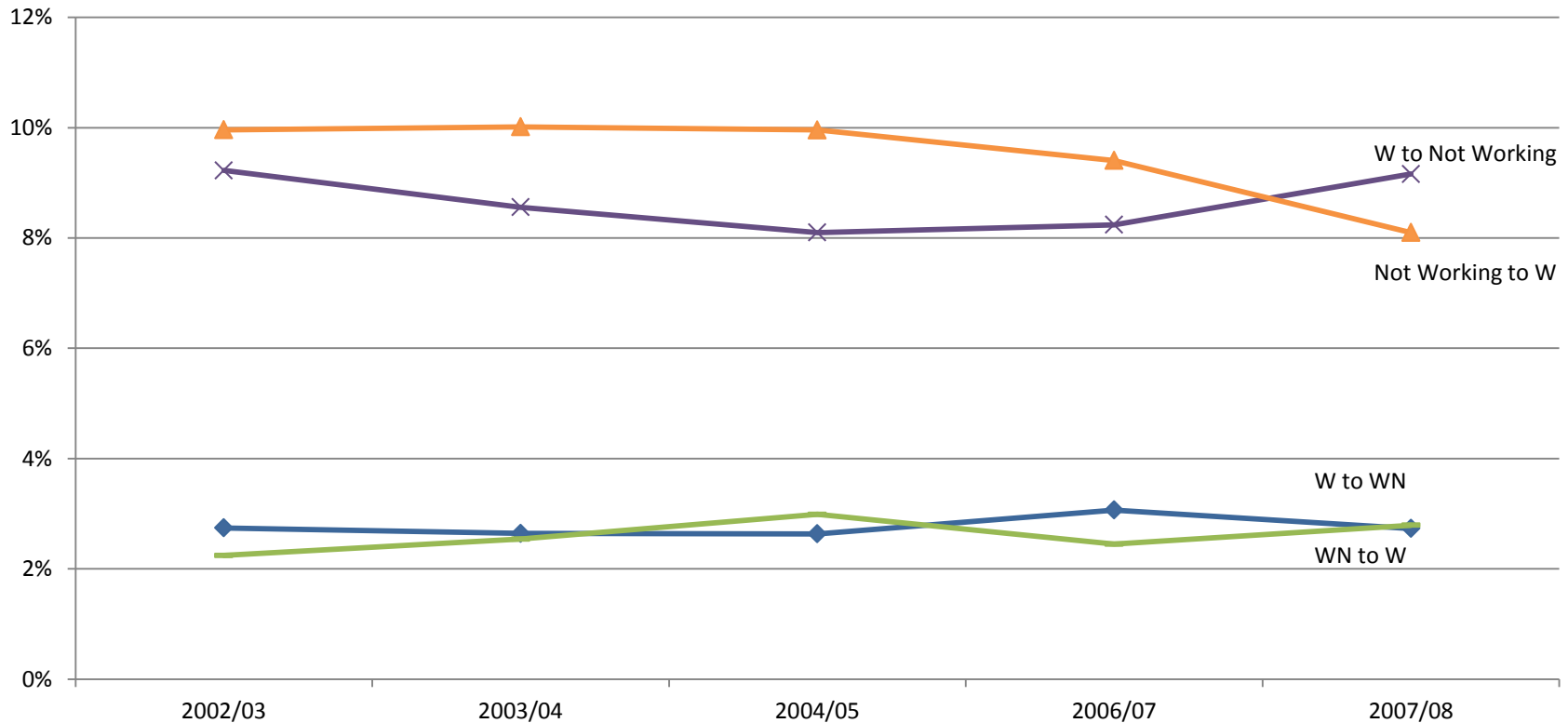
Likelihood of Staying in Same Labor Market State



1. W&S work more stable income source than self-employment
2. Among self-emp, having an employer business affords some stability
3. Operating as a non-emp sole prop is least stable form of self-emp, likelihood remaining non-employer from year to year declines during recession

What Happens to Exiting Wage and Salary Workers?

Selected Transitions to and From W&S Work (Percent of W&S Workers)



Most of the decline in W&S is due to:

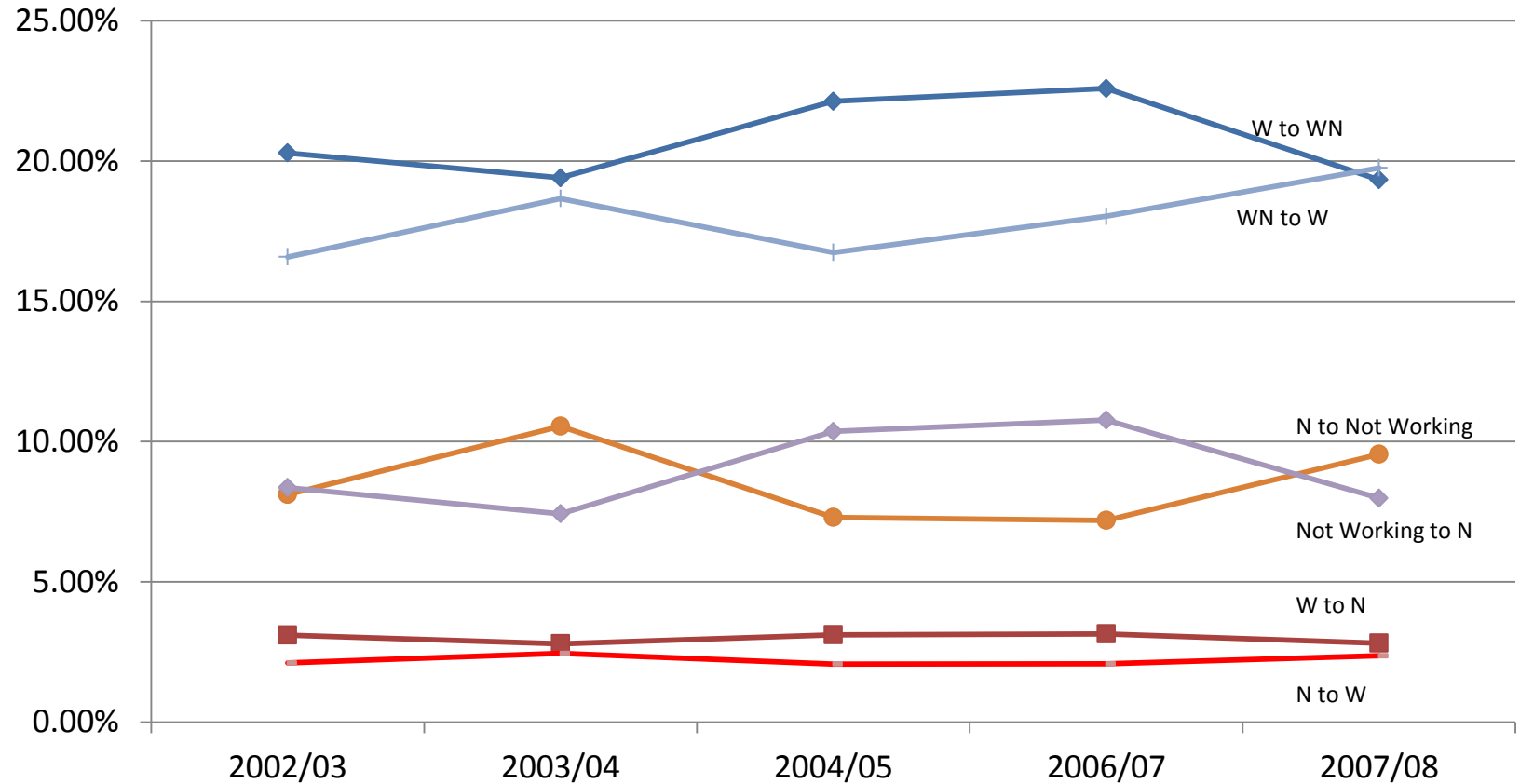
rise in W&S transiting to joblessness

decline in jobless workers transiting to W&S.

Transitions to and from Sole Props too small to make a big difference relative to W&S workers.

- What Happens to Flows To and From Self-employment?

Selected Transitions to and from Self-Employment Percent of Self-Employed



1. Much more likely to transit to/from W and WN than to/from W and N.
2. Transitions from N to Not Working increased in 2007/08 and transition from Not Working to N decreased.

Main Points

Number workers having any self-emp earnings grew between 2006 and 2008

Many SE also have wage and salary earnings

Self-employment less “stable” than wage and salary work

Self-employed no more likely to transition to non-employment

Workers separating from wage and salary jobs are not flowing into self-employment at increasing rate

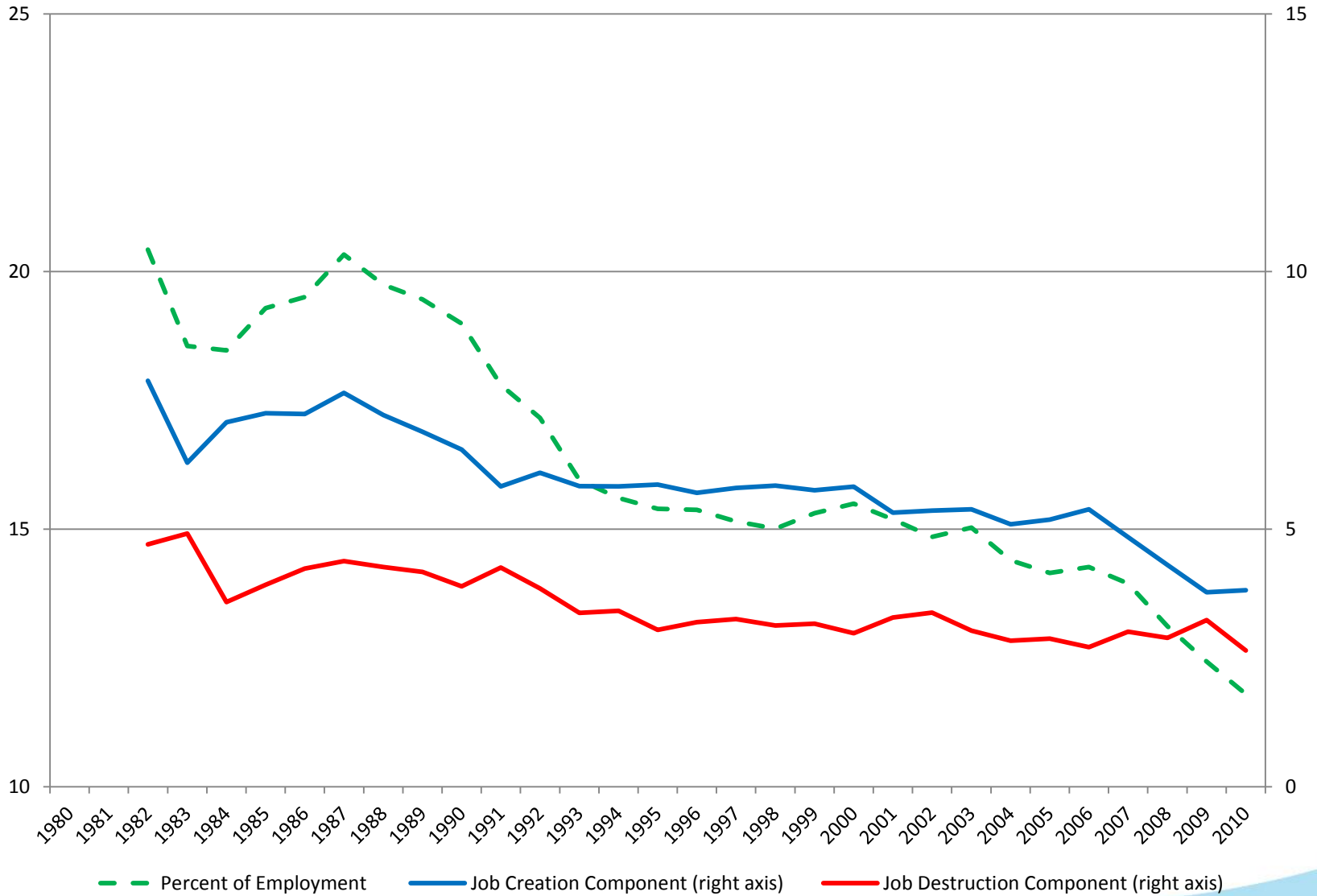
Most likely transition between W&S and SE is W to WN

This transition not as impacted by recession as transitions to and from non-employment

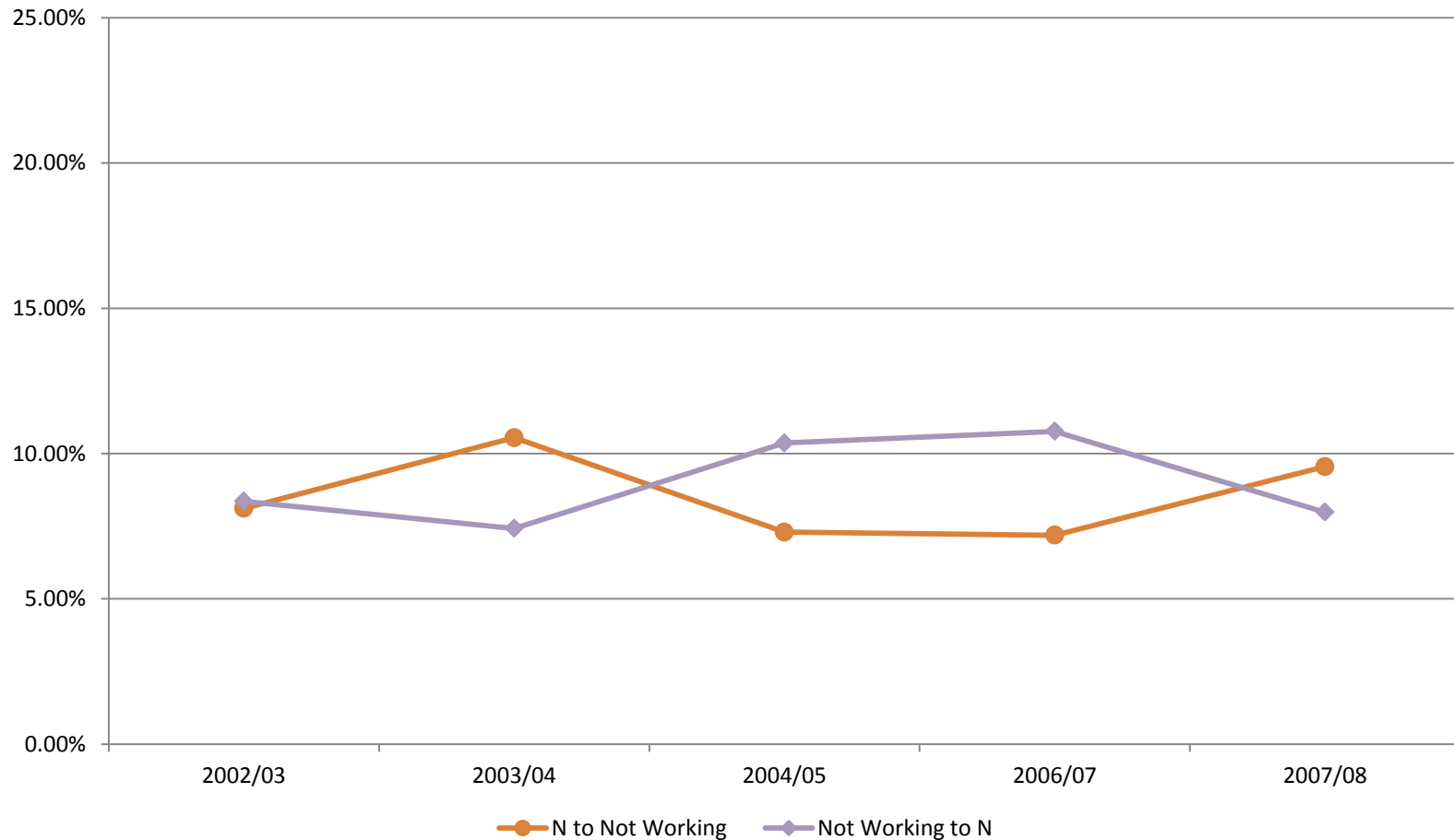
Measuring Self-employment (continued)

- For non-married sole props or those married but not filing jointly, straightforward to ID business owner.
- For tax reports filed by married couples filing jointly (70 percent of records), we must determine in many cases which spouse is self-employed
- Additional information from schedule SE helps ID the business owner in 2/3 cases but 1/3 do not report SE earnings to SSA.

Job Creation, Job Destruction and Employment (Age<5)

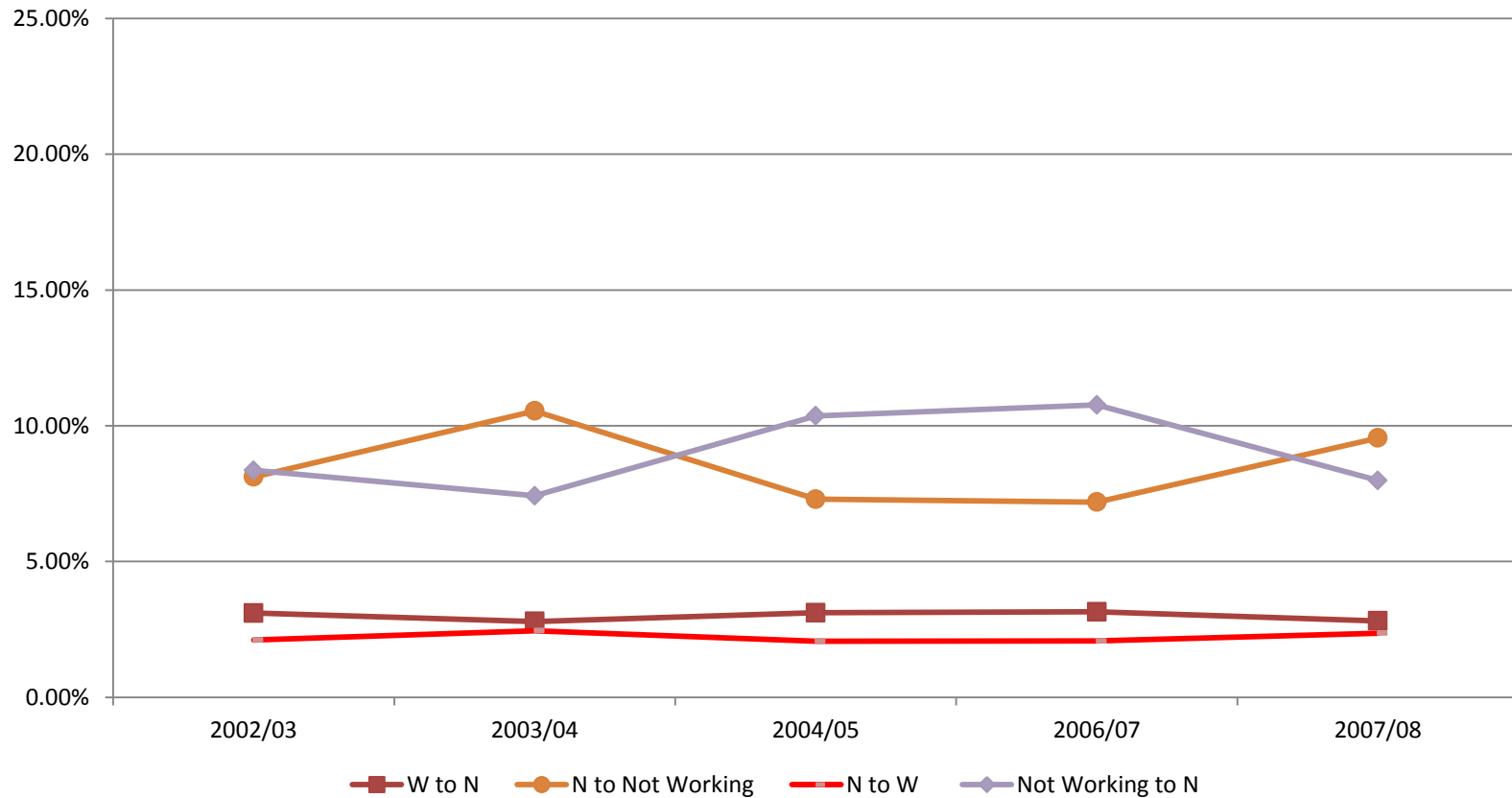


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