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|                |     |          |
|----------------|-----|----------|
| Belgium        | BEF | 40.3399  |
| Denmark        | DKK | 7.4155   |
| Germany        | DEM | 1.95583  |
| Greece         | GRD | 321.400  |
| Spain          | ESP | 166.386  |
| France         | FRF | 6.55957  |
| Ireland        | IEP | 0.787564 |
| Italy          | ITL | 1.936.27 |
| Luxembourg     | LFR | 40.3399  |
| Netherlands    | NLG | 2.20371  |
| Austria        | ATS | 13.7603  |
| Portugal       | PTE | 200.482  |
| Finland        | FIM | 5.94573  |
| Sweden         | SEK | 8.8928   |
| United Kingdom | GBP | 0.6889   |

# EMPLOYMENT OBSERVATORY **Trends**



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and Monitoring on Employment Policies  
(SYSDERM)

No. 31, Winter 1998

*Trends* provides a comparative and in-depth overview of selected policies and developments in the labour markets of the Member States on the basis of articles provided by the SYSDERM correspondents. It appears twice a year and is published in English, French and German. SYSDERM is one of the networks of the European Employment Observatory (EEO) and is administered on behalf of the European Commission (DG V) by I.A.S., Institute for Applied Socio-Economics.

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## Self-employment in

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## Self-employment in Europe: A summary introduction<sup>1</sup>

Self-employment has increasingly become a central element of the European Employment Strategy, not least because of the conviction that the creation of new businesses and greater entrepreneurial spirit not only increases the number of people in self-employment, but also has a positive impact on employment as a whole. Number 11 of the Employment Policy Guidelines for 1999, which were agreed in the Vienna Council, calls for the strengthening of self-employment through the uncovering and possible reduction of obstacles pertaining to tax and social security law, on the one hand, and through specific offers of support for entrepreneurs, on the other. The guideline is closely connected with another of the guidelines (Number 13), which aims to make the most of the employment potential in the services sector. Support for self-employment as a possible path out of unemployment has also become firmly anchored in the labour market policy of many Member States as well.

### Questions of definition

The point of departure for arriving at an understanding of self-employment is the forms it has traditionally taken: farmers, craft professionals, the liberal professionals, retail traders and owner-managers of small companies. At the national level, specific views are reflected in the prevailing institutional and legal conditions for self-employment, and on the whole these have become less restrictive over time.

Self-employment trends are heavily influenced by the ongoing decline of agriculture and the increasing importance of services. At the same time, the size structure of companies within the industrial sector and their division of labour with the service sector have changed; the trend towards outsourcing is the most prominent example here. Modern informa-

tion and communication technologies have also led to substantial changes. As a result, the social position of the self-employed, the size of their workforces and the functions of self-employment have all undergone fundamental changes in all Member States.

Definitions of self-employment tend to be based on an opposition between self-employment and dependent employment. All those who do not work on the basis of an employment contract offering pay per unit of time and, in most cases, for a single employer are independent, i.e. they work on their own account or are self-employed. In the national reports, examples are offered to illustrate different forms of self-employment. This involves the question of whether and in what form the self-employed are incorporated into statutory social insurance systems. In this respect, there is considerable variation between the EU Member States. In some countries, the self-employed have no protection under statutory social insurance provisions (as in Germany), while in several others, the self-employed are either at least partially (as in Belgium or Italy) or totally (as in Finland) integrated within the social insurance system. Apart from labour and social insurance law, taxation and trading legislation in many Member States also distinguish between the self-employed and dependent employees, so that the different definitions used in each case often mean that the number of people considered self-employed in a given country varies considerably.

An important aspect of self-employment is whether it is performed alone, without paid staff, or whether salaried labour is recruited. In most EU countries, the majority of the self-employed work alone, perhaps assisted by unpaid family workers or trainees. Family workers are encountered particularly frequently in agriculture, but also in the retail trade. In

most of the national reports, such workers are listed separately and are not included in the self-employment figures. Another distinction that is sometimes made is between self-employment as a main and as a supplementary activity.

All of the contributions discuss the growing difficulty of drawing a clear dividing line between self-employment and dependent employment. Here, the focus is often on the fact that certain forms of employment are legally considered to be self-employment, despite the fact that in substantive terms they meet the criteria of salaried employment (lack of independence and wage-centredness) just as well, if not better. These "new" forms of self-employment are frequently considered to be covert dependent employment and are tagged "phantom" or "pseudo" self-employment. The status is usually chosen, more or less legally, in order to reduce the cost burden of, for example, social insurance contributions. These intermediary forms between self-employment and dependent employment are usually associated with certain contractual forms such as:

- subcontracts;
- franchising;
- domestic and telework; and
- freelance contracts.

The importance of such mixed forms, including illegal practices, seems to have increased in all the Member States, and now accounts for a considerable proportion of overall self-employment, and indeed of total employment. In fact, they have become typical in certain branches: for example, subcontracting in the construction industry, domestic and telework in communication and computer services for companies, and freelance work in the media, science/education and cultural fields.

<sup>1</sup> By Frank Stille, Scientific programme manager of the European Employment Observatory (EEO).

**Table 1: Employment shares (1) and distribution of the self-employed (2) by sector**

|       | EU   |       | B    |       | DK   |       | D    |       | GR   |       | E    |       | F    |       | IRL  |       |
|-------|------|-------|------|-------|------|-------|------|-------|------|-------|------|-------|------|-------|------|-------|
|       | (1)  | (2)   | (1)  | (2)   | (1)  | (2)   | (1)  | (2)   | (1)  | (2)   | (1)  | (2)   | (1)  | (2)   | (1)  | (2)   |
| A     | 2.8  | 18.2  | 1.7  | 10.8  | 1.8  | 21.1  | 1.0  | 10.6  | 13.3 | 34.7  | 5.0  | 22.2  | 2.8  | 23.7  | 8.9  | 42.4  |
| I     | 3.4  | 22.3  | 2.5  | 15.8  | 1.7  | 20.2  | 2.1  | 21.8  | 6.9  | 17.8  | 5.0  | 22.2  | 2.4  | 20.6  | 3.3  | 15.7  |
| S     | 9.1  | 59.5  | 11.6 | 73.4  | 4.9  | 57.7  | 6.4  | 67.6  | 18.3 | 47.5  | 12.6 | 55.6  | 6.6  | 55.7  | 8.8  | 41.9  |
| Total | 15.3 | 100.0 | 15.8 | 100.0 | 8.5  | 100.0 | 9.5  | 100.0 | 38.5 | 100.0 | 22.6 | 100.0 | 11.8 | 100.0 | 21.0 | 100.0 |
|       | I    |       | L    |       | NL   |       | A    |       | P    |       | FIN  |       | S    |       | UK   |       |
|       | (1)  | (2)   | (1)  | (2)   | (1)  | (2)   | (1)  | (2)   | (1)  | (2)   | (1)  | (2)   | (1)  | (2)   | (1)  | (2)   |
| A     | 3.6  | 14.1  | 2.5  | 23.4  | 2.0  | 18.0  | 4.6  | 40.4  | 9.0  | 34.3  | 5.4  | 37.5  | 1.9  | 17.0  | 1.1  | 8.4   |
| I     | 5.6  | 21.9  | 1.3  | 12.1  | 1.6  | 14.4  | 1.5  | 13.1  | 5.4  | 20.4  | 2.7  | 18.8  | 2.5  | 21.7  | 4.1  | 31.3  |
| S     | 16.4 | 64.0  | 6.9  | 64.5  | 7.5  | 67.6  | 5.3  | 46.5  | 11.9 | 45.3  | 6.3  | 43.7  | 7.0  | 61.3  | 7.9  | 60.3  |
| Total | 25.6 | 100.0 | 10.7 | 100.0 | 11.1 | 100.0 | 11.4 | 100.0 | 26.3 | 100.0 | 14.4 | 100.0 | 11.4 | 100.0 | 13.1 | 100.0 |

*Notes:* (1) = Self-employed as a % of total employment; (2) = Vertical structure of the self-employed; A = agricultural sector; I = industrial sector; S = service sector.

*Source:* Calculations on the basis of Eurostat data.

## Findings

Evidence relating to the various aspects of self-employment discussed above is provided in the national reports in the form of information drawn from a wide variety of sources; the systematic sections of the contributions, however, are based consistently on national surveys of the population or working population, such as also form the basis for the corresponding Eurostat statistics. Thus, they are based on the self-assessment of those surveyed. Such assessments must not and will not always coincide with the definitions discussed earlier, particularly not with the legal classifications, even though this may have been intended when the questionnaire was drawn up.

In most of the reports, self-employment trends are illustrated using absolute figures. Between 1985 and 1995, the number of self-employed increased in the vast majority of Member States; the increase was by far most pronounced in the Netherlands, but was also recorded in Ireland, the United Kingdom, Germany (particularly since unification), Luxembourg, Spain, Belgium and Portugal. Self-employment in Italy and France has remained virtually constant, while it has decreased only in Denmark (slightly) and in Greece

(substantially) (see also Figures 1 and 2 in Kruppe et al., 1998<sup>2</sup>, which are based on the Eurostat figures). Here, the importance of and changes in the agricultural sector need to be taken into account (see below).

The national reports provide information on a large number of characteristics of self-employment. These characteristics are compared with those of salaried employees or of the overall labour force. In terms of occupations, for example, in Austria the self-employed are concentrated in trade and transport occupations, service occupations, and health, teaching and cultural work, whereas self-employment is comparatively rare in production occupations. In the United Kingdom, self-employment rates are above average in crafts and related occupations and among managers and administrators, although in the latter group the figures are falling. This development is linked to the declining importance of the self-employed with salaried staff.

The findings on occupations correspond broadly to those on education and skill levels. In Austria or France, for example, the educational level of the self-employed is comparatively high. In Spain, Italy and Finland, on the other hand, the self-employed are (still) overrepresented in groups with a low educational level; in many Member States, however, the in-

creased inflow of younger, highly skilled self-employed is steadily raising the average scale level.

In almost all the Member States, the self-employed have the following common characteristics: most of them are men (this is particularly true of those employing salaried staff); the self-employed consistently work longer hours per week than dependent workers; self-employment rates increase with age; and, finally, the income differentials both within the category of self-employed and in comparison to wage- and salary-earners are extremely high in those countries for which information is presented (Greece, Italy and Austria).

Similarities also emerge with respect to sectoral structure. By 1995, the overwhelming majority of self-employed were active in the service sector in all Member States. On EU averages, almost two-thirds of the self-employed were active in the service sector. This means that around 9% of total employment in the EU consisted of self-employed persons active in the tertiary sector (see Table 1). The findings differ less between the Member States for the service sector than for the agricultur-

<sup>2</sup> T. Kruppe, H. Oschmiansky & K. Schömann (1998): "Self-employment: Employment dynamics in the European Union." *informISEP "Policies"*. No. 64, pp. 32-41.

al sector. In view of its quantitative importance, the service sector largely determines the overall self-employment rates (self-employed as a percentage of total employment<sup>3</sup>) in the Member States. According to Eurostat, in 1995 more than 15% of all those in employment were self-employed in 1995. The differences between the Member States are significant, however. In Greece, the self-employment rate was in excess of one-third, compared to less than one-tenth in Denmark (cf. Table 1).

### Excursus: Influence of the agricultural sector on national self-employment rates

The self-employment rates in the agricultural sector (SRA) are far higher than in the other two main sectors (1995), whereby the service sector almost always exhibits a higher self-employment rate than industry. An exception here is Great Britain (see Table 2). Overall self-employment rates are frequently particularly high in countries in which an above-average proportion of the workforce is active in the agricultural sector (ERA). Both factors have a lasting impact on the overall self-employment rate (SR). This influence can be seen from the (relative) difference between the overall self-employment rate and the self-employment

rate excluding the agricultural sector (SRWA). The relative difference is by far the greatest in Ireland (42%); in Austria and Finland, but also in Greece and Portugal, the SRWA was slightly more – and in Luxembourg slightly less – than one-third below the overall national self-employment rate. Even in France, Sweden and Denmark, this effect is still considerable (around one-fifth), which is approximately equal to the EU average. In the United Kingdom, Belgium and Germany, on the other hand, the difference amounts to just about a tenth.

Even when the agricultural sector is excluded, the self-employment rate in Greece, at 25%, is twice the EU average. In Spain and Portugal, self-employment outside the agricultural sector was still of far greater importance than in the other Member States (1995). Italy, where the effects of the agricultural sector on the SR are below average, still has one of the highest SRWAs, exceeded only by Greece. Ireland, by contrast, exhibits an SRWA that is broadly in line with the EU average, although its SR is far higher.

The influence of sectoral structure affects not only the level of the SR, but also its *development* over time. In most countries with a marked decline in the size of the agricultural sector, there has been a negative effect on the

national SR. In general, this applies to countries in which the ERA was still high in 1995. The SR has remained constant in Greece, Italy, Finland and Sweden, despite the contraction of agricultural activities there.

### Explanations

The heterogeneity of self-employment means that one-dimensional explanatory approaches are almost certainly inappropriate. Even so, a comparison of the national reports does reveal certain common explanatory patterns. In the context of the growth of the *tertiary sector*, the following trends, in particular, are seen as decisive for the expansion of self-employment:

- the ongoing development of information and communications technologies, offering new scope for telework (contracting out and *sohos* [small office, home office], which are important in France but only marginal in Denmark) and corresponding employment chances for the self-employed;

<sup>3</sup> In the Belgian report, the number of self-employed is expressed as a proportion of private-sector employment, in the Dutch report, with respect to the active population. Consequently, the self-employment rate is in the first case higher and in the second case lower than according to the definition used here. In the Spanish article, the total population is also used for the purpose of comparison.

**Table 2: Employment Shares (ES) and Self-employment Rates (SR) by sector, 1995 (in %)**

|               | EU   | B    | DK   | D    | GR   | E    | F    | IRL  | I    | L    | NL   | A    | P    | FIN  | S    | UK   |
|---------------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| ERA           | 4.4  | 2.2  | 4.0  | 2.5  | 14.5 | 8.2  | 4.1  | 11.2 | 6.4  | 3.1  | 3.5  | 5.7  | 10.7 | 6.8  | 3.0  | 1.9  |
| SRA           | 63.2 | 78.8 | 44.2 | 40.4 | 92.0 | 61.4 | 68.8 | 79.3 | 56.2 | 80.0 | 57.9 | 82.1 | 84.4 | 79.3 | 64.2 | 53.9 |
| ERI           | 30.6 | 28.7 | 27.1 | 36.3 | 25.0 | 30.9 | 27.1 | 28.0 | 33.0 | 25.6 | 22.9 | 32.9 | 32.5 | 27.8 | 25.8 | 27.4 |
| SRI           | 11.1 | 8.8  | 6.3  | 5.7  | 27.4 | 16.2 | 9.0  | 11.7 | 17.0 | 4.9  | 6.9  | 4.7  | 16.5 | 9.8  | 9.5  | 15.0 |
| ERS           | 64.9 | 69.2 | 68.6 | 61.2 | 60.4 | 60.9 | 68.7 | 60.4 | 60.5 | 71.3 | 71.1 | 61.7 | 56.8 | 65.2 | 71.1 | 70.5 |
| SRS           | 14.0 | 16.8 | 7.1  | 10.5 | 30.3 | 20.6 | 9.6  | 14.5 | 27.1 | 9.6  | 10.5 | 8.5  | 21.0 | 9.7  | 9.8  | 11.1 |
| SR            | 15.3 | 15.8 | 8.5  | 9.5  | 38.5 | 22.6 | 11.8 | 21.0 | 25.6 | 10.7 | 11.1 | 11.4 | 26.3 | 14.4 | 11.4 | 13.1 |
| SRWA          | 12.5 | 14.1 | 6.6  | 8.5  | 25.2 | 17.6 | 9.0  | 12.1 | 22.0 | 8.1  | 9.1  | 6.8  | 17.3 | 9.1  | 9.4  | 12.0 |
| SR/SRWA       | 2.8  | 1.7  | 1.9  | 1.0  | 13.3 | 5.0  | 2.8  | 8.9  | 3.6  | 2.6  | 2.0  | 4.6  | 9.0  | 5.3  | 2.0  | 1.1  |
| (SR./SRWA)/SR | 18.0 | 11.0 | 22.0 | 11.0 | 35.0 | 22.0 | 24.0 | 42.0 | 14.0 | 24.0 | 18.0 | 40.0 | 34.0 | 37.0 | 18.0 | 8.0  |

Notes: ES = employment as a share of total employment; SR = self-employed as a % of total employment in the respective sector, whereby A = agricultural sector, I = industrial sector, S = service sector; SRWA = self-employed outside the agricultural sector as a % of total employment

Source: Calculations on the basis of Eurostat data.

– flexibilisation and individualisation as a precondition for improving competitiveness and reducing costs, especially the burden of social insurance contributions, by resorting to new forms of self-employment. Many reports focus on the increasing importance of subcontracting and the associated increase in the self-employment rate in the construction industry, much of which is seen as covert dependent employment. Other “new” contractual forms are also mentioned, such as self-employed work on call (Netherlands), mixed forms in nominee companies and time-sharing associations for the self-employed (France) and cooperatives (Finland, Italy) as well as “team-hiring” in Spain. Such trends depend greatly on the framework of institutional conditions. In Denmark, for example, it is not possible to reduce indirect labour costs significantly by contracting out because the social security system is largely tax-financed. Completely different experiences are reported from Italy, which exhibits a rich and illustrative variety of “new” contractual forms.

In the Netherlands and a number of other countries, a wave of *new business start-ups*, mostly single-person firms, has been of fundamental importance for the expansion of self-employment and thus for employment trends as a whole. With respect to business start-ups and self-employment trends, too, differences in regulatory and institutional conditions are likely to be important. Many of the reports describe the barriers that continue to exist and which prevent new businesses from being created. Such barriers are to be found, for example, in the restrictive conditions of access to the liberal and craft professions, the lack of access to venture capital, existing bureaucratic and administrative procedures, the complex regulations of taxation law or accounting requirements, the lack of scope for training, and, more generally, the risks involved in setting

up a business. However, on the whole, the risks of self-employment in comparison to those associated with dependent employment have almost certainly shifted in favour of the former; dependent employment has become more precarious, whereas self-employment has increasingly received support from public policies aiming to reduce the risks involved.

Existing and proposed measures to *support self-employment* come under two main categories. On the one hand, measures have been introduced or are planned to relax the stringent conditions of entry to craft and professional occupations (Austria), deregulate and simplify institutional conditions (Netherlands, Finland), liberalise conditions of access (Germany), etc. On the other hand, all the EU countries have initiated programmes, in some cases comprehensive in scope, in order to offer direct support for new businesses; many of them are linked to corresponding initiatives at European level. A broad range of support instruments is used, including financial and capital support, counselling and training, and reductions in social insurance contributions or tax concessions. Detailed information on such programmes is provided in the national reports. Comparison of the reports indicates that the impact of both barriers and support measures on self-employment trends varies considerably. The conditions for business start-ups are considered to be less restrictive in the United Kingdom, for example, than in many other EU countries. Similar conclusions are drawn regarding the ease of obtaining finance for new businesses.

All of the reports discuss the question of the impact of the *business cycle* and *economic trends* on changes in start-up behaviour and the number of self-employed. Rising economic activity during growth phases can normally be expected to have a positive impact on self-employment. In Ireland, though, for example, during such a phase the growth of dependent employment exceeded that of self-employment, leading to a fall

in the self-employment rate. In the Netherlands, self-employment rose more strongly during the 1990s than in any other EU country, but as overall employment also experienced strong growth, only a slight increase in the self-employment rate was recorded.

Of greater interest is what happens during a downswing or recession. Is it possible to maintain (or even increase) the number in self-employment, and thus, stabilise (or even raise) the overall employment level in the face of a fall in salaried employment? The report on the United Kingdom indicates that experiences were different in the 1980s compared with the 1990s: In the 1990s, the recession actually led to a sharper reduction in self-employment than in dependent employment, so that the self-employment rate declined.

In most of the other countries, on the other hand, unemployment is usually seen as a push factor. In Ireland, self-employment has risen significantly during periods of economic stagnation or recession; in one of the periods, the positive overall employment trend was due entirely to the growth of self-employment. In Portugal, permanent dependent employment declined in the years after 1991, whereas self-employment has consistently made a positive contribution to overall employment; for some years, it has more than offset the decline in dependent employment. The German report also describes the positive influence of unemployment on new business creation. Fifteen percent of the people entering self-employment at the start of the 1990s had previously been unemployed. The support measure for this process (payment of a bridging allowance) is reported to have had positive effects. After three years, 70% of benefit recipients were still self-employed. Survey evidence indicates that in Greece, too, the lack of salaried employment opportunities and the desire to avoid unemployment were motives for entering self-employment. In some countries

(e.g. Spain), however, unemployment has played only a minor role as a push factor.

The framework of institutional conditions is likely to play an important role here, as well. In addition to the level of benefits and the conditions of entitlement in the unemployment insurance system, the existence of *labour market policy* measures is also likely to be important, in particular the extent to which they provide support for the transition from unemployment to self-employment. The reports have collated substantial evidence from the Member States on this issue. In most countries, self-employment receives support as a direct employment opportunity for the unemployed. In many countries, there are special small business programmes for the unemployed, involving, among other things, the following instruments: equity capital support (Belgium, Sweden), grants (Germany, Greece, Spain), capitalisation of unemployment benefit entitlements (Spain), and support for appropriate organisational forms, such as employer groups, cooperatives or time-sharing associations for managers (Spain, France, Finland). In the Netherlands, wide-ranging initiatives for the transition to self-employment have been developed and receive public funding. Only in Denmark has a measure to support unemployed persons entering self-employment (introduced in 1985) been abolished (as of the start of 1998).

### The public debate

In most Member States, self-employment tends to be seen in the context of problem areas such as:

- new business start-ups and support for them;
- support for self-employment as an instrument of labour market and employment policy;
- incorporation of the self-employed, and especially the "new" self-employed, into social security systems;
- prevention of illegal self-employment.

As already mentioned, the first two points have become more or less fixed components of policy programmes in most Member States. Substantial differences prevail, however, regarding the last two problem areas. The intensity of the public debate is linked directly to the urgency of the problems in each country.

In both Greece and Italy, bringing "informal" (illegal) self-employment into the "formal" (legal) economy is high on the political agenda. While this problem has also been perceived and discussed in other Member States, the discourse has not (yet) been reflected in corresponding policy measures.

The inclusion of the "new" self-employed, situated in the grey area between economic independence and dependence, on the other hand, is a problem that has led to political initiatives in a number of countries. There is a general trend towards extending social insurance protection to cover these "new" forms of self-employment. In Austria, following amendments to the social insurance law, certain categories of the self-employed have been subjected to statutory social insurance cover since the start of 1998. In Italy, the trade unions, for example, have made proposals for offering better social pro-

tection to freelance workers. In Belgium, restrictions are to be placed on "phantom" self-employment by introducing legal measures (for example, the reversal of the burden of proof), and supplementary work on a self-employed basis is to be restricted with the help of financial disincentives. Discussions are under way in Germany on making self-employed persons who do not employ paid staff and who are active for just one "client" subject to statutory social insurance.

This debate can be distinguished from proposals for a generalised extension of social insurance protection to all the self-employed (or alternatively, bringing into line the social insurance conditions for the self-employed with those applying to wage- and salary-earners. In Belgium, this debate forms part of the goal of harmonising self-employed and dependent forms of labour, towards which a harmonisation of social insurance contributions is one step. Similar initiatives are reported on from Italy. In the United Kingdom, calls have been made for a harmonisation of the pension system, at least, with the argument that self-employment is increasingly associated with income instability and an inadequate level of protection in old age.

To conclude, it is interesting to note that two contributions (Italy, United Kingdom) draw attention to the problem of the inadequate continuing and further training of the self-employed and call for appropriate adjustments to be made to training systems.



## Belgium

### Assessment of self-employment

#### Types of self-employment

This section outlines the main differences between employees and the self-employed as far as benefits and contributions are concerned. The financing of social security is based on two pillars: contributions and taxes. In the case of salaried employment, a global contribution equal to 37.94% of labour costs is paid to the Public Social Security Service (*Rijksdienst voor Sociale Zekerheid* – RSZ) (13.07% contribution by the employee and 24.87% contribution by the employer). This contribution is calculated without being subject to any limit on the total labour cost of the employee. In the case of self-employment, the self-employed individual pays his/her contribution to the social security insurance body of his/her choice, which then transfers it to the National Institute for the Social Insurance of the Self-Employed (*Rijksinstituut der Sociale Vaerzekeringen der Zelfstandigen* – RSVZ). The principle is degressive: the more one earns, the less one pays relatively.

The share accounted for by taxes is relatively smaller in the system of salaried employment than in that of self-employment. There is a fundamental difference between the two groups; the self-employed are not insured for two risks: labour accidents/occupational illnesses and unemployment. Expressed in more positive terms: they are only insured for medical insurance, pensions and family allowances. However, the benefits are lower for self-employed than for employees.

Besides salaried employment and self-employment, there is also the category of the “phantom self-employed”. The name derives from the fact that while the agreement be-

tween the “employer” and the “employee” stipulates a self-employment contract, in practice all the important elements of a labour agreement are present: the sale of labour against a certain wage in a subordinate relationship. This last element is of crucial importance in the distinction between employees and self-employed. Because there is a lot of juridical confusion about this subordinate relationship, employers can transform existing salaried employment into self-employment or hire new personnel on the basis of a contract of self-employment instead of an employment contract. They are doing so increasingly in order to avoid social security contributions and the economic risks of salaried employment; for phantom self-employed, payment is linked to performance. According to the Ministry of Labour, at the moment there are about 100,000 phantom self-employed in Belgium.

These phantom self-employed are common in the building industry, in transport and in the commercial sector (salespersons, publicity agencies), in low-skill professions (cooks, people working in the catering industry, cleaning personnel), in the free professions and in the service industry (architects, accountants, translators) (Holderbeke, 1997).

This phantom self-employed economy should not be confused with the informal economy. The latter concerns people who do paid work with-

out being registered as self-employed or as employees. As such they do not fall under any form of social protection. In building, transport and catering, the monitoring by the Ministry of Labour has been made more efficient over recent years, so that official employment has risen by more than 10,000 units in these sectors (Tegenbos, 1998).

#### Quantitative trends

##### By the distinction between main activity and supplementary activity

The first distinction within the group of self-employed concerns those who are self-employed in a main activity and those who are paid salaries as well as having a professional activity as self-employed in a supplementary activity. Table 1 shows the evolution of both groups between 1991 and 1996: The number of self-employed has risen from 635,000 in 1991 to 697,000 in 1996, amounting to an increase of 9.8%; the number of self-employed in a main activity has grown by 5.4%, whereas the number of self-employed in a supplementary activity has risen by 35.4%. In 1996, 18% of the total number of self-employed had their main activity in their salaried employment.

##### By the contribution to employment change

In Table 2, we compare the evolution of salaried employment with that of

**Table 1: Evolution of self-employment in a main activity and in a supplementary activity, 1991–1996**

|      | Main activity | Supplementary activity | Total   |
|------|---------------|------------------------|---------|
| 1991 | 542,464       | 92,515                 | 634,979 |
| 1992 | 548,156       | 98,290                 | 646,446 |
| 1993 | 558,053       | 110,834                | 668,887 |
| 1994 | 564,500       | 114,146                | 678,646 |
| 1995 | 568,343       | 120,378                | 688,721 |
| 1996 | 571,754       | 125,292                | 697,046 |

Source: RSVZ: Annual report.

self-employment (in a main activity) over a relatively long period (1982–1994).

Table 2 shows that the share of self-employment in overall private-sector employment (salaried employment in the private sector and self-employment in a main activity) rose by almost 2% from 19.5% (1982) to 21.4% (1994). This is the consequence of a weak increase in the number of employees (1.5%) and of a strong rise in the number of self-employed (14%).

As far as the share of women is concerned, Table 2 indicates that they are less well represented in self-employment (27% in 1996) than in salaried employment (39%). Women's share of self-employment rose from 25.9% in 1982 to 27.4% in 1994. This increase is lower than that for salaried employment, where the share of women rose from 34.5% to 39.1%.

### By sector

In Table 3, self-employment is shown according to sector; the sectoral trends of self-employment are also indicated for the 1990–1994 period.

When we focus on the sectoral distribution of the self-employed in a main activity for 1994, we see that the three most important sectors are trade (40%), industry (23%) and the liberal professions (17%). Although the top three are the same in the case of self-employment in a supplementary activity – trade (45%), industry (20%) and liberal professions (18%) – there is a clear distinction between the two forms of self-employment as far as the evolution from 1990 to 1994 is concerned. In the case of main activity, the development was most significant in the liberal professions (+12%), trade (+11%) and services (+7%); in the case of supplementary activity, growth was highest in services (+32%), industry (+30%) and the liberal professions (+26%).

### Analysis and evaluation

Three reasons are generally given for the significant increase in self-

**Table 2: Evolution of salaried employment (private sector) and self-employment (in a main activity), 1982–1994**

|      | Salaried employment<br>(private sector) |                     |                        | Self-employment<br>(as a main activity) |                     |                        |   |
|------|---|---------------------|------------------------|---|---------------------|------------------------|---|
|      | Number<br>in 1,000s                     | Index<br>1982 = 100 | Share of<br>women<br>% | Number<br>in 1,000                      | Index<br>1982 = 100 | Share of<br>women<br>% | Share in<br>private<br>employ-<br>ment<br>% |
| 1982 | 2,005.6                                 | 100.0               | 34.5                   | 485.7                                   | 100.0               | 25.9                   | 19.5  |
| 1986 | 1,966.6                                 | 98.1                | 36.1                   | 505.7                                   | 104.1               | 26.4                   | 20.5  |
| 1990 | 2,117.7                                 | 105.6               | 38.3                   | 532.7                                   | 109.7               | 26.9                   | 20.1  |
| 1992 | 2,103.4                                 | 104.9               | 38.7                   | 539.5                                   | 111.1               | 27.2                   | 20.4  |
| 1994 | 2,035.4                                 | 101.5               | 39.1                   | 553.9                                   | 114.0               | 27.4                   | 21.4  |

*Source: Ministry of Labour: The Labour Force in Belgium; cited in Holderbeke (1997).*

employment (Ministerie voor Tewerkstelling en Arbeid, 1997). Firstly, the rise can be linked with the general expansion of the service sector, as was shown above. Secondly, a lot of companies have developed strategies to subcontract certain jobs and to outsource not only certain secondary service activities, but also core activities. Thirdly, self-employment is seen as a way to avoid unemployment; this is especially the case when pressure from unemployment is growing (cf. p. 11). This transition from unemployment to self-employment is actively encouraged by the government (cf. p. 11). Although we do not have quantitative data, we would like to add a fourth reason, namely, the increase in the share of the phantom self-employed. As evidence we refer to several intermediaries for the Flemish Service for Employment (VDAB), who have complained that more and more em-

ployers are looking for people who want to work for them on a self-employed basis. Because only a few unemployed are prepared to do so, most of these vacancies remain empty.

### Subcontracting and outsourcing

In each company, managers have to choose between entrusting a certain activity to their own employees – under an employment contract – or letting a third party execute the activities under a commercial contract with a supplier or a subcontractor. In the past, many companies transferred the tasks of secondary activities – such as catering and maintenance – to specialised companies. However, for some years now, this form of outsourcing has also been used for certain core activities. The newest information technology

**Table 3: Self-employment by sector, 1994**

| Sector              | Main activity |                     |       | Supplementary activity |                     |       |
|---------------------|---------------|---------------------|-------|------------------------|---------------------|-------|
|                     | Number        | Index<br>1990 = 100 | Share | Number                 | Index<br>1990 = 100 | Share |
| Agriculture         | 53,250        | 91.6                | 9.4   | 8,494                  | 109.7               | 7.4   |
| Fishing             | 3,796         | 85.0                | 0.7   | 91                     | 91.0                | 0.0   |
| Industry            | 128,530       | 101.7               | 22.6  | 22,714                 | 129.7               | 19.8  |
| Trade               | 225,252       | 110.8               | 39.6  | 51,162                 | 124.0               | 44.6  |
| Liberal professions | 97,503        | 111.7               | 17.0  | 20,482                 | 125.6               | 17.9  |
| Services            | 47,052        | 107.0               | 8.3   | 8,755                  | 131.9               | 7.6   |
| Other               | 13,186        | 82.4                | 2.3   | 3,013                  | 147.3               | 2.6   |
| Total               | 568,569       | 105.5               | 100.0 | 114,711                | 125.8               | 100.0 |

*Source: RSVZ Statistics; cited in Holderbeke (1997).*

makes it possible to outsource to third parties activities which were until recently kept within the organisation. Examples of this phenomenon can be found in accountancy, invoicing, data-processing, personnel management and the maintenance of information systems (Verecken, 1998).

This evolution partly explains the rise of self-employment. A decisive element behind this new trend is the reduction of costs. It should be said in this context that the cost of labour in Belgium is very high because of high social security contributions. By outsourcing certain activities, the employer avoids paying social security contributions. A second important element is the increase in productivity and flexibility, because the employer only has to pay for the delivered service.

### Pressure from unemployment

In 1975, the unemployment rate was 4.4%, rising to 7.9% in 1980, to 12.3% in 1985 and to 13.1% in 1995. In June 1997, the unemployment rate was 12.6%. In its annual evaluation report, the Ministry of Labour (Ministerie van Tewerkstelling en Arbeid, 1998) drew attention to the changes in the composition of the unemployed population, comparing the situation in 1980 after the first long-term increase in unemployment to that in 1995. First of all, the share of the middle age groups (25–50 years) has risen (from 53 to 70%). Secondly, although the loss of a job remains the most important reason for becoming unemployed, there has been a clear increase in the number of unemployed who have never had a job. Thirdly, long-term unemployment has become an important facet of unemployment: The share of long-term unemployed among the unemployed population rose from 36% in 1985 to 64% in 1995. Finally, the educational level of the unemployed has increased considerably.

## Policy

### Policy issues

Firstly, we will point to several barriers that discourage people from embarking on a self-employed activity. Secondly, we will provide an overview of recent initiatives taken by the Belgian government within the framework of the European Employment Guidelines that aim to lower these barriers.

### Barriers to self-employment

In a recent study (Holderbeke, 1997), an analysis was made of labour mobility between salaried employment (employees and public servants) and non-salaried employment (mainly self-employment) in the period from 1989 to 1995. As far as mobility from salaried employment to non-salaried employment is concerned, about 10,500 employees entered self-employment annually, which is relatively low in comparison with an average 2.87 million employees and public servants. This means that every two years only one out of 100 employees and public servants becomes self-employed; employees are in general reticent about starting a professional activity on their own. The most important barriers are the required starting capital, the low social security protection, the administrative formalities and the fear of failure. On the other hand, the increase of this form of mobility from 0.35% in 1989 to 0.43% in 1995 can be explained by the increasing job insecurity of employees.

The opposite form of mobility, from self-employment to salaried employment, occurs more frequently. Between 1989 and 1995, about 5,500 self-employed made the transition to paid employment each year. This represents a mobility rate of 1.1%. For them, salaried employment is more attractive than self-employment; the main reason can be seen in the higher level of social security.

### Policies to promote self-employment

Under the framework of the Belgian Action Plan for 1998, a special effort has been made to offer better support for entrepreneurs, in particular for the young unemployed and the long-term unemployed, in their attempt to become self-employed. In this respect, four provisions have been modified in the existing system of cheap loans of BEF 800,000 (approx. ECU 20,000) for start-ups. Firstly, the possibility of obtaining such a loan is no longer restricted to the unemployed drawing benefits but has been extended to the group of (in particular, young) unemployed who are not yet entitled to such an unemployment allowance. Secondly, the minimal period of unemployment has been reduced from three months (earlier: six months) to a single day. Thirdly, the minimum sum that the candidates have to invest from their own budget has been lowered from 50% of the loan to 25% (approx. ECU 5,000). Fourthly, the period in which the loan has to be paid back has been increased from 10 to 13 years. Alongside these modifications, the maintenance of the unemployment allowance during the preparatory period of self-employment has been extended from three to six months.

In addition to these initiatives, seven other measures have been taken in order to stimulate the development of small companies and self-employment:

- an improvement in access to the capital market for small and medium-sized enterprises through the introduction of a new simplified guarantee mechanism;
- a simplification of administrative regulations and the necessary formalities through the creation of a new specific interdepartmental service that will stimulate cooperation between the different administrations involved;
- a simplification of conveyance of firms through reduced registration fees (e.g. in the case of a familial conveyance);

- facilitation of new recruitments through a reduction of the employers' contributions to the social security system for the first three employees;
- an improvement of the situation of employees in SMEs through promotion of permanent vocational training outside normal working hours;
- promotion of intellectual and liberal professions, e.g. by improving the statute of apprenticeship for accountants;
- an improvement of the social status of the self-employed by offering them the possibility of a supplementary pension.

### The public debate

#### Towards a harmonisation of the two systems

Efforts are being made to harmonise the two systems of self-employment and salaried employment. This means that the two different systems would be "tuned" to each other, but not that two identical systems would be created. In 1995, the Institute of Social Law (K.U. Leuven) conducted a study on the financial harmonisation of the social security systems (Mathot et al., 1996). The point of departure was that there should be no difference in the conditions an employee or a self-employed individual has to meet in order to be entitled to benefit, but that there may exist a difference in benefits in response to a proportional difference in the contribution for the benefit in question.

First of all, this implies that the structure of the contributions has to be comparable. Therefore, the *basis of the contribution* – the wage (employee) or the income (self-employed) – has to be brought into line.

The basis of the contribution would be the net social income. Next to such a harmonisation of the basis of the contribution, there should also be a proportional adaptation of the rate of the *contribution* (i.e. the percentage of income) in order to maintain equal revenues from the contributions.

#### Combating the "phantom self-employed"

There is a growing consensus that measures should be taken against the increase in the number of the phantom self-employed. Experts from the Ministry of Labour say that the Belgian courts are too formal in their approach to the problem, for they only base their judgements on the kind of contract involved (a trade register or an employment contract). The Dutch approach, for example, is totally different. If there exists a suspicion of phantom self-employment (e.g. if a self-employed individual only works for one client), then the onus of proof is reversed: The employer (the "client") has to prove that the "employee" is self-employed (Tegenbos, 1998).

#### The precarious status of the cooperating spouse

The cooperating spouse of a self-employed person has a precarious social status. Only the self-employed pays a contribution to the social security insurance body, while his/her spouse only has certain derived rights. Women's organisations, in particular, have argued in favour of a new social status for cooperating spouses (in particular women). The aim should be to enable the cooperating spouse to pay her/his own contributions in order to obtain full social security rights.

#### The significant increase of self-employed in a supplementary activity

As described above, the number of self-employed in a supplementary activity increased by 35% from 1991 to 1996. This phenomenon is particularly due to the reduction of working hours and the increase of leisure time. The growth of self-employment as a supplementary activity leads in certain sectors (like the building industry) to competition with the primarily self-employed. Thus, two initiatives were taken in 1997. Firstly, the contribution rate to the social security for self-employed in a supplementary activity was raised from 12% to 16%. Secondly, the barrier of exemption was lowered from BEF 80,000 (approx. ECU 2,000) to BEF 40,000. Because the number of self-employed in a supplementary activity is still growing, other initiatives are being studied at the moment in order to reduce their number.

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## Denmark

### Forms of self-employment in Denmark

The traditional form of self-employment in Denmark – as in other countries – is the farmer, craftsman or owner of a small shop, who, apart from himself, employs his wife and maybe a few workers besides. Along with this traditional group of self-employed, one also finds the large and growing group of traditional professionals such as doctors, lawyers, accountants and architects. These persons are often self-employed, but new forms of organisation are also on the increase, such as large – often international – accounting and consulting firms.

However, new forms of self-employment are also becoming more prominent in other areas. Firstly, a number of producers of business services (advertising, computer software, etc.) are organised as self-employed more or less along the same lines as the traditional professionals. But, secondly, a growing number of self-employed are also working under conditions which are very similar to those of wage-earners in the sense that their business relationship is with only one firm and their main supply of services is their personal labour. Finally, as a special case of self-employment, one may add some of the activities in the informal economy, where there is no employer-employee relationship between the supplier and the user of the services exchanged.

Legally, self-employment in Denmark may take several forms. The simplest case is where the self-employed person owns his or her own firm as a *personal firm*. Here, the self-employed worker will be fully responsible for the liabilities of the firm. Other forms are various versions of *limited companies*, where the economic responsibility of the

self-employed owner is limited to a certain amount and there is a clear borderline between the economy of the owner and that of the company. Especially among smaller and newly started firms, the personal firm is the most widespread. Thus, of the 16,300 new firms started in the private non-farming sector in 1994, 90% were personal firms, while 8% were limited companies and the remainder had other forms of ownership (Erhvervsministeriet, 1997a, Table 14.16). Normally, some form of limited company is necessary if the owner wishes to take advantage of separate taxation of personal and firm income. However, Danish tax laws also allow for taxpayers with personal firms to enjoy some of the advantages of owners of limited companies.

### Characteristics of self-employment

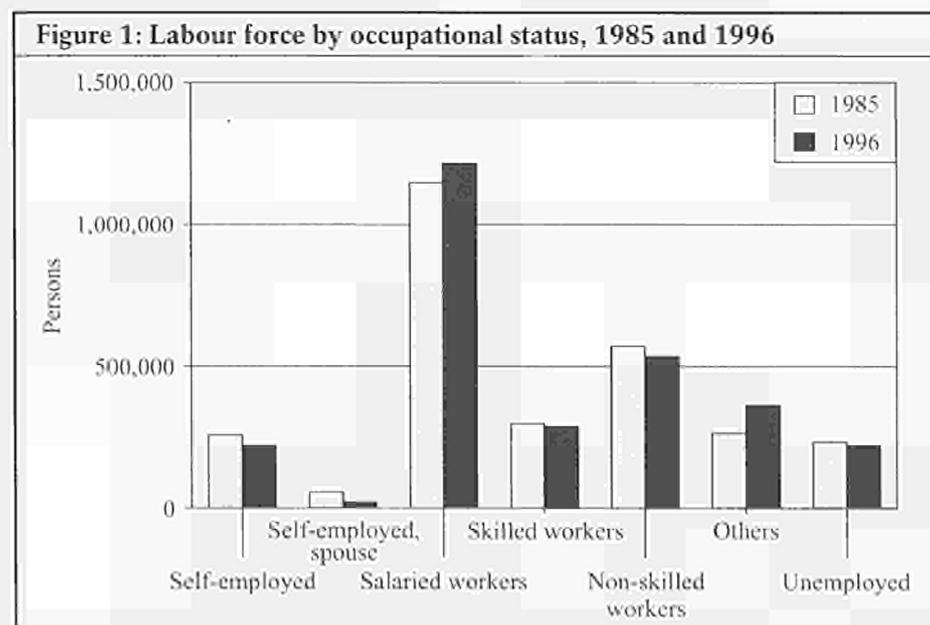
In the Danish labour force statistics, the main distinction among the employed is made between the self-employed and wage-earners, the latter being defined as having an employ-

ment relationship and receiving a wage income as defined by tax law, which implies payment of contributions to the supplementary labour market pension. For persons receiving both wage and non-wage income from self-employment, estimates are made of their most significant labour force status based on the size of the various incomes.

### The quantitative importance of self-employment

On 1 January 1997, out of a total labour force of 2.9 million, there were approximately 239,900 self-employed and 19,500 spouses of self-employed working in the family business. Figure 1 shows the number of persons in the labour force by occupational status in 1985 and 1996 based on the annual labour force statistics. As a proportion of total employment, self-employment has been steadily declining – from 12.7% in 1983 to 9% in 1997.

This decline in the importance of self-employment represents a long-term historical trend, as seen from Figure 2, which has data on self-em-



**Figure 2: Self-employment in agriculture and in the private business sector since 1970**



ployment in agriculture and in the private business sector since 1970.

As seen from Table 1, self-employment as a share of total employment fell gradually between 1970 and 1997. This development is, however, the result of different developments in different sectors. As Figure 2 shows, while total employment rose steadily from 2.3 to 2.7 million persons, self-employment in agriculture fell dramatically, as in the years prior to 1970. In agriculture, self-employment still is the dominant form of employment, with about 60% of total employment. Over time the

share has remained largely constant. Thus, the decline in total agricultural employment has mainly contributed to the fall in the overall share of self-employment.

Self-employment in the business sector has also been falling since the mid-1960s, but to a much lesser extent than in agriculture. Furthermore, the number of self-employed in the private business sector seems to be more sensitive to the cyclical fluctuations in the economy. Thus, during the boom periods of the mid-1980s, and again in the mid-1990s, the number of self-employed in the

private non-business sector remained constant.

When comparing 1970 and 1997, construction, trade, hotels and business services show a rather high incidence of self-employment in 1997. In construction, the share is reasonably constant, while there is a declining incidence of self-employment in trade and hotels. In the transport sector, the importance of self-employment fell dramatically between 1970 and 1997. The same applies to public and personal services. Quite differently, the share of self-employment in finance and business services has risen rapidly. Finally, one notes the high and rising share of self-employed in the group of those employed that is not categorised by sector.

### Gender and self-employment

As shown in Table 2, the majority of self-employed are men, though the share of women increased a little from 1985 to 1996. The low share of women in self-employment is also related to the low share of women among skilled workers, the point being that, traditionally, many self-employed begin as skilled workers who set up their own small businesses. Among spouses of self-employed working in the family business, the vast majority are women, reflecting the traditional family structure of the small self-employed man who owns a farm or a retail store or who works as a craftsman.

### Working hours and adult education

Not surprisingly, self-employed people report longer working hours than dependent employees. Thus, the labour force survey for the first quarter of 1998 reports the average weekly working time for self-employed to be 48.2 hours, compared to 34.1 hours for wage-earners. Only wage-earners classified as "top management" worked similar hours to the self-employed (43.3 hours per week). Only 11% of the self-employed report that they have normal working hours, compared to 46% of wage-earners.

**Table 1: Self-employment (incl. working spouses) and total employment by sector, 1970, 1983 and 1997**

| Sector                        | 1970                                       | 1983  | 1997 | 1997            |                  |
|-------------------------------|--|-------|------|-----------------|------------------|
|                               | Share of self-employed in total employment |       |      | Self-employment | Total employment |
|                               | in %                                       |       |      | Persons         |                  |
| Agriculture, etc.             | 54.9                                       | 63.6  | 56.2 | 67,700          | 120,600          |
| Manufacturing                 | 7.0  | 4.7   | 3.0  | 14,400          | 476,100          |
| Electricity, etc.             | 1.2  | n. d. | 2.3  | 400             | 17,800           |
| Construction                  | 13.7                                       | 16.1  | 12.0 | 18,800          | 156,600          |
| Trade, hotels, etc.           | 20.5                                       | 15.7  | 12.1 | 57,900          | 478,500          |
| Transport                     | 12.3                                       | 8.9   | 6.9  | 12,400          | 178,100          |
| Finance and business services | 1.7  | 9.7   | 11.2 | 33,300          | 296,300          |
| Public and personal services  | 5.3  | 3.8   | 2.2  | 20,300          | 931,800          |
| Others                        | n. a.                                      | 60.9  | 99.1 | 13,800          | 13,900           |
| Total employment              | 14.9                                       | 12.7  | 9.0  | 238,900         | 2,669,700        |

n. a. = not available.

Source: Own calculations based on *Statistisk Årbog* (Statistical Yearbook) 1973, 1985, 1998.

**Table 2: Share of women in different occupational categories, 1985 and 1996 (in %)**

| Occupational category  | 1985 | 1996 |
|------------------------|------|------|
| Self-employed          | 18.5 | 23.3 |
| Self-employed, spouses | 98.9 | 95.5 |
| Salaried workers       | 53.2 | 55.9 |
| Skilled workers        | 6.4  | 8.9  |
| Non-skilled workers    | 50.1 | 46.9 |
| Others                 | 51.6 | 48.4 |
| Unemployed             | 54.4 | 52.3 |

*Source: Statistisk Tiåsoversigt (Statistical Ten-year Survey) 1998.*

As regards adult education, too, the self-employed seem on average to be an underprivileged group. When asked in the first quarter of 1998 whether they had received any form of education during the last four weeks, 87% of the self-employed replied in the negative, compared to 72% of the wage-earners.

## Understanding current trends in self-employment

As shown in the previous section, self-employment is declining in Denmark, not only in agriculture but also in the private business sector. This development can be seen to be the result of a number of long-term factors.

### The shift away from agriculture

One important long-term factor is of course the structural shift in total employment away from agriculture and towards sectors with much lower shares of self-employment. But even within the different sectors, there are trends towards less self-employment. As shown in Table 2, this is clearly the case in trade, hotels, transport and personal services, where the changes in the structure of trade and private services away from small shops and businesses to supermarkets in the trade sector and similar large units in other sectors are widespread.

### New forms of self-employment

There are, however, some countervailing forces which – as indicated in Figure 2 – from time to time may halt the long-term fall in the number of self-employed. One such factor is related to the growth of self-employment in various business-related services. However, there is little hard evidence on this development. The labour force survey for the first quarter of 1998 reports that 81,000 wage-earners, or 3.4% of the total number of employees, have the status of “other”, implying that they have a fixed-term contract without being an apprentice, a trainee or a replacement worker. But this does not tell us anything about the number of persons counted as self-employed who have a more permanent relationship with just one firm.

However, there are signs of a growing number of self-employed in such areas as consulting, computing, etc. (cf. also Table 2). This tendency is well known internationally. One should be aware, however, that the forces traditionally referred to in efforts to understand this development are probably weaker in Denmark than in most other European countries. This is due to two factors:

1. There is weak protection of wage-earners as far as dismissal protection is concerned. Thus, among the EU countries, OECD's Jobs Study ranked Denmark among the most liberal in this respect, surpassed only by Ireland and the United Kingdom (Part II, p. 71). Therefore, there is less to gain from substituting the traditional employer-employee relationship by other forms of employment.

2. In Denmark, no social security contributions are paid as a share of wages. This implies that there are fewer incentives to disguise a long-term employment relationship as self-employment than in a number of other European countries.

Apart from this, some of the same factors as in other countries are certainly also involved; firms in Denmark also increase flexibility by using methods of subcontracting and outsourcing.

### Self-employment and unemployment

As in other countries, the relationship between self-employment and unemployment in Denmark is complicated. On the one hand, a recession may lead to bankruptcy and unemployment for a number of self-employed and thus reduce total self-employment. This effect could be strong in Denmark, since self-employed persons may also become members of unemployment insurance funds and thus receive unemployment benefits in cases of unemployment. In principle, the same set of basic rules and levels of benefits apply to wage-earners and self-employed when they become unemployed.

Of course, there are special regulations when it comes to determining whether a self-employed person has permanently closed down the business and what should be the actual level of benefits (measured as a share of previous income from self-employment). In 1997, the number of insured self-employed was 178,000; this is equal to about 73% of the total number of self-employed (incl. working spouses). The rate of unemployment of the self-employed is below average; it seems to be slightly less sensitive to the business cycle than the average unemployment rate. Thus, when average total unemployment reached 13.0% in 1993, unemployment in the dominating insurance fund for self-employed was 5.5%. In 1997, when average unemployment came down to 8.1%, un-

employment among self-employed was down to 4.1%.

On the other hand, one could also expect a rise in self-employment as a result of rising unemployment, because the unemployed are forced to look for other sources of income. In Denmark, this process is influenced by two main factors. One is the rather generous system of unemployment benefits, which means that persons at the lower end of the income scale will receive up to 90% of their previous income as unemployment benefits for up to five years. On average, the rate of compensation of Danish unemployment insurance is around 65%. This, of course, limits the economic incentive to enter self-employment as a result of unemployment, especially for the lower-skilled groups.

The other factor influencing the flow from unemployment to self-employment was the scheme to promote self-employment among the unemployed, which was established in 1985 and abolished on 1 January 1998.

The scheme was changed somewhat over the years, but the general principle was that any insured unemployed person had the right to receive a grant for establishing his or her own business after a spell of unemployment lasting a certain length of time. The grant amounted to 50% of unemployment benefits (in 1997 equal to almost DKK 70,000 per year) paid on a monthly basis for 2.5 years. In 1997, the required duration of previous unemployment was five months of unemployment during the last eight months. A similar scheme existed for the non-insured unemployed.

The number of participants in the two schemes rose quickly to between 10,000 and 15,000 full-time participants. The volume declined somewhat during the upswing from 1994 onwards. Thus, in 1995, the number of full-time participants was 14,000. In 1997, the number had declined to 11,200 persons, while there were 220,000 persons registered as unemployed.

The scheme for the insured unemployed was evaluated in 1992 by the Danish National Institute of Social Research (*Socialforskningsinstituttet*) and the Danish Institute of Technology (*Dansk Teknologisk Institut*). After two years, 14% of the participants were back in unemployment, and a considerable number of the newly started firms were doing badly financially. The evaluation showed that after four years more than half of the participants had given up self-employment. Though this figure may seem high, it does not differ significantly from the closure rate of other newly started firms. The evaluators also noted the risk of deadweight effects, though they considered them to be limited. The overall assessment of the scheme was positive, but the evaluators pointed to the need for better support for participants to acquire the business skills needed to survive in self-employment.

By 1 January 1998, the schemes for both insured and uninsured unemployed had been abolished following a government proposal. The main argument against the schemes was the change in the overall situation on the Danish labour market, with significantly lower registered unemployment from 1994 onwards. Given this situation, the scheme was considered to reduce the supply of labour, because the participants were not available for ordinary jobs when they received the grant to start their own business. The government further argued that the scheme did not provide the unemployed with new qualifications that would improve their long-term situation on the labour market. Finally, the risk of deadweight was included among the arguments against the schemes; they will be fully phased out by the year 2000.

## Policy issues

The question of promoting self-employment as a direct instrument to increase employment is not high on the Danish political agenda. As indicated by the fate of the scheme to

promote self-employment among the unemployed, self-employment is not seen as a relevant option for groups with employment problems.

When concern is expressed about the gradual decline in self-employment documented above (see page 16), the focus is more on the importance of small businesses in exploiting new commercial opportunities and thus – indirectly – on the creation of new jobs. Among the barriers to self-employment in this respect, attention is often drawn to the administrative burdens put on small firms and to the lack of financing for SMEs. Ideological and sociological factors related to the dominance of wage-earner-related values and attitudes in the Danish educational system are also mentioned.

In order to reduce the barriers to self-employment and to the development of SMEs, the government has recently launched a number of initiatives:

- New initiatives to reduce the administrative burden on the self-employed, including a reduction in the paperwork involved in setting up and running a small business.
- Free consultancy services to anybody who wants to start their own business. A subsidy of DKK 7,000 to cover consultancy fees is given to persons who are considering starting up their own business.
- Establishing special support for persons wanting to start a business in high-tech industries in the form of six “innovation parks”, where innovators can work with researchers and other experts in developing their business idea. The “innovation parks” will also provide financing for this initial phase.
- Special aid to persons who want to take over an existing small business when the owner intends to retire. This involves considering changes in tax laws, but also establishing a national database which contains information about persons who want to buy or sell existing small firms. A special commit-

tee will submit a report on these matters by 1 January 1999.

- The development of new forms of financing for persons who want to start their own business.

Finally, there is an important initiative related to stimulating positive attitudes towards self-employment in the educational system. Since 1996, the Ministry of Education has launched a number of initiatives aimed at making school pupils and students aware of self-employment

as an alternative to becoming wage-earners. These aim at both motivating and qualifying the young to become self-employed.

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## Germany

### A survey of new forms of self-employment

Over recent decades, self-employment has shifted away from the traditional entrepreneur running a small or medium-sized enterprise. The focus of self-employment is no longer the craft-based or industrial firm, but rather the large number of self-employed professionals active in the service sector. Modern self-employed professionals rely far more on their skills in specialist areas (technical, legal or economic) as the basis for their economic success than on their endowment with real capital. In addition, the persistently high level of unemployment in Germany has made self-employment an alternative to dependent employment for both employees and the unemployed. The rising number of self-employed, and particularly of those employing no staff (one-person enterprises), has led to an intensive debate on the concept of self-employment. Clearly, the straight line that previously could be drawn between dependent employment and self-employment no longer exists.

### Forms of self-employment

The legal distinction between self-employment and dependent activity is not set out unequivocally in German law and varies according to the labour law and social insurance context (cf. Table 1). In labour law, it is the definition of the concept of employee that is decisive, whereas in social security legislation, what is important is the employment relationship.

An employee is dependent in personal and economic terms on his or her employer (Worch, 1994; Dietrich, 1996). Of crucial importance is the degree of personal dependence. German labour law also covers an additional category known as "persons similar to employees" (*arbeitnehmerähnliche Personen*), who, without being employees, are nonetheless economically dependent and thus in a position deserving of legal protection. This category covers:

- Homeworkers and those of equal status performing simple activities
  - increasingly in the form of telework - in their own homes or workshops who do not themselves

market the products of their labour. Low investment requirements and a low turnover are the central criteria entitling those in such a situation to legal protection.

- Freelance workers usually active for a single client on the basis of contracts for specific work or limited periods of time (*Dienstverträge* or *Werkverträge*). Such freelance workers are concentrated largely in the media and the software industry.

Labour law provides partial legal protection specifically for homeworkers under a special law (*Heimarbeitsgesetz*). They are entitled, for instance, to dismissal protection, holiday, pay on bank holidays and sick pay, although at a reduced level of provision compared with "normal" employees. Freelance workers, on the other hand, are covered only by collective agreement legislation.

Social insurance law distinguishes only two forms of employment: self-employment and dependent employment. Apart from a few exceptional cases, only dependent employees

**Table 1: Protection enjoyed by various forms of dependent employment and self-employment under labour and social insurance laws**

|   | Employees | "Persons similar to employees"  |                   | Self-employed |
|---|-----------|---------------------------------|-------------------|---------------|
|   |           | Home-workers                    | Freelance workers |               |
| Individual labour law (dismissal protection, holiday entitlement, etc.) | yes       | partly, see law on home-workers | no                | no            |
| Collective agreement legislation  | yes       | yes                             | yes               | no            |
| Social insurance law  | yes       | yes                             | no                | no            |

have access to social insurance systems.

In practice, the borderline between the above categories and the self-employed is fluid. Many "new" self-employed persons are economically dependent to a high degree on a single client, a trend that has given rise to a controversial discussion within labour law on the "pseudo-self-employed". This trend affects not only "simple" activities, such as typing, but also activities requiring a high skill level.

In connection with the trend towards self-employment and the dissolution of the standard employment relationship, the growth of the black economy needs to be mentioned. In 1975, the informal sector was estimated to account for 5% of GDP in

western Germany; by 1997, this figure is estimated to have risen to 15% in Germany as a whole, with particularly high rates of growth of the informal economy in recent years (Dichmann, 1998, p. 56).

#### Self-employment: quantitative trends

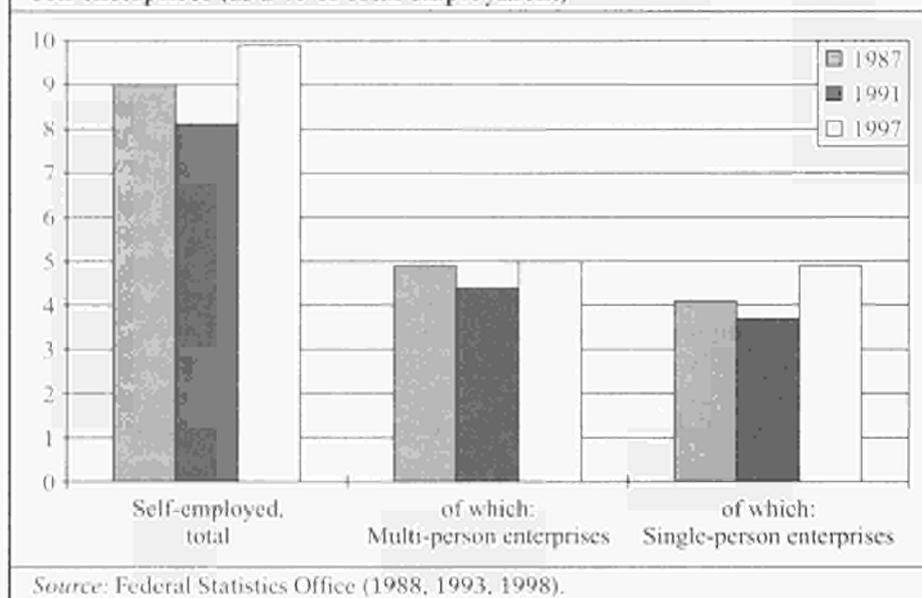
In 1997, just under 10% of the gainfully employed in Germany, i.e. around 3.5 million people, were performing a self-employed activity. According to the definition used in the annual microcensus, this figure includes both the self-employed and freelance workers. Homeworkers, on the other hand, are counted as employees. There was a renewed increase in self-employment as a pro-

portion of the labour force in the latter half of the 1990s, following an initial fall in the wake of German unification (Figure 1). According to the microcensus, between 1991 and 1997 the number of people in self-employment rose by around 500,000. One-third of this increase occurred in eastern Germany (including eastern Berlin), reflecting the economic "catching-up process" in eastern Germany.

The expansion of self-employment in Germany has been accompanied by a very high entry and exit dynamic among small companies. According to calculations by the German Institute for Economic Research (DIW), since the start of the 1990s more than two million people have entered self-employment (DIW, 1998).<sup>1</sup> On the other hand, there were 1.5 million exits during the same period. However, two-thirds of the exits in western Germany related to firms set up before the start of the 1990s. These flow data indicate the significant structural upheavals in the area of self-employment and emphasise the importance of new business start-ups to a greater extent than is evident from the changes in the stock data.

Around half of the self-employed work alone (Table 2). The above-average growth of single-person firms (Figure 1) results from the deterioration in employment opportunities for dependent employees, but also reflects the increasing orientation of the self-employed towards services. More highly differentiated analysis shows, however, that not only the number of single-person firms, but also the number of self-employed with more than four employees, has increased substantially (Pfeiffer, 1998b).

New business start-ups are normally associated with significant job-creation effects. According to a study by the Institute for Employment Research (IAB), while only 34% of the firms set up in West Germany in

**Figure 1: Self-employment trends, including multi-person and single-person enterprises (as a % of total employment)**

<sup>1</sup> This study is based on the Socio-economic Panel and relates to the period 1990 to 1996.

1983 survived the first ten years, the successful new firms doubled the size of their workforce during this period. On average, each successful new company created 3.8 additional jobs. Even allowing for the job losses due to closures, there was still employment growth of 38% for the firms set up in 1983, whether they were successful or not (Bellmann et al., 1996). The number of jobs created in this way in eastern Germany was significantly higher. Of the firms founded in 1991, 60% survived the first four years and had on average five additional employees at the end of that period (Brixy & Kohaut, 1997).

With the exception of agriculture, the self-employed are most frequently encountered in the service sector. Between 1991 and 1997 alone, the number of self-employed persons in the service sector rose by 28%, compared with an increase of just 8% in the goods-producing sector over the same period (Federal Statistics Office, 1993, 1998). One-third of the new business start-ups in western Germany since the start of the 1990s have been accounted for by professionals (DIW 1998). Self-employment increased in the area of secondary services alongside the traditional advisory activities such as consultancy and accounting, particularly in the area of the new information and communications technologies (e.g. software development). Self-employment is also traditionally wide-

spread in trade and hotels and restaurants. During the last ten years, the proportion of the self-employed active in the service sector has increased from 59% to 69%, whereas the proportion of the total working in the goods-producing sector has declined slightly from 24% to 22%; a major loss in relative importance was suffered by the agricultural sector (Federal Statistics Office, 1988, 1998).

Between 1991 and 1997, the number of self-employed women rose by 180,000 or 23%, and thus by far more than the number of self-employed men (14%) (Federal Statistics Office, 1993, 1998). Yet even by 1997, women accounted for little more than a quarter of all the self-employed. Women represent around one-third of the self-employed without employees, however. Women are frequently found in the service sector, whereas companies in the goods-producing and agricultural sectors are mostly run by men (Table 2).

Of those persons who have entered self-employment since the start of the 1990s, an average of 14% had previously been unemployed in western Germany compared with 16% in eastern Germany (DIW, 1998). The formerly unemployed who took the risk of entering self-employment with support from the employment office were divided roughly equally between start-ups in

the area of primary services with rather low skill requirements and start-ups in the area of secondary services or the professions.<sup>2</sup> The latter require profound knowledge, often higher education and expert know-how (Wießner, 1997c). It is striking to note that almost one-third of all new western German self-employed came directly from education/training or inactivity: Clearly, self-employment is also used as a way of entering or re-entering working life (DIW, 1998).

Depending on the definitions used, the "pseudo-self-employed" account for between 1 and 4% of total employment (Dietrich, 1996). According to an empirical study by the IAB, the grey area between self-employment and dependent employment is populated largely by technical and clerical workers, publicists and interpreters, teachers, those practising arts and science occupations, and workers in body-care and hotel and catering occupations (Dietrich, 1996).

## Analysis and evaluation

The increasing importance of self-employment is due both to changes in economic structures and to the dissolution of the traditional employment relationship. The following factors have promoted this trend:

- Faced with tougher international competition, employers have developed strategies to optimise capacity utilisation and minimise costs. The well-known buzzwords in this context are: outsourcing, lean production and subcontracting. Not only simple, standardised tasks are contracted out to external firms, but also highly qualified tasks, as the expansion of manage-

**Table 2: Self-employed (excluding family workers) by sector, single- or multi-person enterprise and gender – results of the 1997 microcensus**

|  | Self-employed, total (in 1,000s) | Self-employed as a % of total employment | Self-employed in single-person firms as a % of all self-employed | Self-employed women as a % of total self-employed |
|--|----------------------------------|--|--|---|
| Agriculture                              | 325                              | 31.0                                     | 68.6   | 15.7  |
| Goods-producing sector                   | 778                              | 6.3                                      | 36.8   | 11.6  |
| Trade, hotels and restaurants, transport | 1,088                            | 13.3                                     | 43.5   | 32.0  |
| Other services                           | 1,337                            | 9.4                                      | 57.7   | 35.3  |
| Total                                    | 3,528                            | 9.9                                      | 49.7   | 27.2  |

Source: Federal Statistics Office (1998).

<sup>2</sup> The professions (*freie Berufe*), many of which provide secondary services, encompass the following occupational groups: health professions (e.g. doctors, chemists, freelance care providers); legal, economic and accounting occupations (e.g. solicitors, accountants, auditors); technical and natural science professions (e.g. architects, engineering consultants) and cultural professions (e.g. journalists, translators, designers, writers, musicians).

ment and legal consultancy services and the increasing use of outsourcing in the computer field illustrate (Dostal, 1995). Higher labour costs and the over-regulation of the labour market can lead to outsourcing, as can efficiency considerations in work organisation.

- A trend can be observed towards smaller, more flexible corporate units. The competitive situation requires a high degree of flexibility, a requirement that smaller corporate units are better able to meet. Small, innovative companies willing to take risks can take advantage of growth opportunities, particularly in the expanding service sector, thus making a decisive contribution to macroeconomic growth.
- The development of new information and communications technologies makes it easier to outsource activities, excising them from in-plant linkages. Telework, particularly on a self-employed basis, remains a marginal phenomenon in Germany, although it is expected to increase in importance in the coming years.
- The motive of avoiding social insurance costs can often induce firms to contract out some of its tasks. Contributions to the statutory social insurance system are paid on a 50/50 basis by employees and employers. The self-employed, on the other hand, must see to their own social insurance. Normally they are free to choose between private providers and, under certain conditions, the statutory social insurance institutions. Although the free choice of insurance provider generally has financial advantages, contributions to health and pension insurance can represent a significant financial burden for many self-employed, particularly for the "pseudo-self-employed".
- It is not only the technical parameters but also the high level of unemployment that has promoted the expansion of self-employment. Empirical evidence reveals

a positive influence of rising unemployment on entries into self-employment in western Germany, particularly in trade, repair workshops, hotels and restaurants, and small-scale industry (Pfeiffer, 1998a).

## Policies

### Political challenges and measures

#### a) Barriers

Some occupations and branches require certain conditions to be met for market entry; the regulations thus constitute an obstacle to self-employment. These restrictions are imposed both by law and by chambers and other occupational associations. Particularly strict regulations apply to craft trades. With the exception of professions requiring compulsory membership in the appropriate occupational organisation, the services sector offers a greater degree of entrepreneurial scope for those interested in self-employment because of its low degree of institutionalisation. This is one of the factors behind the concentration of self-employment in these areas.

Problems in gaining access to capital markets, especially compared with established companies and particularly large firms, constitute an important barrier to entering self-employment. Some commentators see the comparatively generous level of support for the unemployed in Germany as an obstacle to a greater incidence of self-employment (Dichmann, 1998).

#### b) Measures to promote self-employment

A wide variety of programmes and financial support measures exist to promote entry into self-employment. They include equity capital support and business start-up programmes under the European Recovery Programme, funding from the joint federal/state government programme to improve regional economic infrastructure, subsidised loans by the

*Kreditanstalt für Wiederaufbau*, business start-up programmes run by the *Deutsche Ausgleichbank*, and grants provided under EU programmes. The most common form of support taken is subsidised loans with long pay-back periods, but investment grants are also important. Such support programmes particularly promote business start-ups in the craft sector and also the service sector. The measures focus on providing support for small and medium-sized enterprises.

Unemployed persons wishing to enter self-employment are entitled to a bridging allowance (*Überbrückungsgeld* – under § 57 of the Social Law Code [SGB III]; prior to 1998, under § 55a of the Labour Promotion Act [AFG]). In order to provide maintenance in the first few months of business start-ups, unemployed persons wishing to enter self-employment are entitled to the allowance, the level of which is equal to unemployment benefit or unemployment assistance, for up to six months. The social insurance contributions to be paid on these benefits are also assumed by the employment office. The bridging allowance was introduced in 1986, and the conditions for support have since been repeatedly improved. Recent years have seen a sharp increase in the number of persons receiving support; by 1997, the figure was 79,000, representing more than a doubling of the volume of the programme within the space of two years.

An analysis by the IAB into the success of the bridging allowance arrives at a very positive evaluation of its employment effects: Around three years after entering self-employment, more than 70% of those who had received support were still self-employed, while 12% had entered dependent employment in the intervening period. Just 11% of former recipients of the bridging allowances, were once again unemployed after three years. On average, each benefit recipient had taken on one employee after this time. Half of the additional employees were in an employment relationship subject to

social insurance contributions; the other half consisted largely of casual employees, family workers or trainees (Wießner, 1998).

There is scarcely any overlap between the various types of support: Only one in five recipients of the bridging allowance even attempted to obtain additional forms of support, and a total of just 15% of all beneficiaries were in receipt of other forms of support (Wießner, 1998). It seems that each of the various types of support has a specific clientele.

### The public debate

There have been frequent calls for greater support for the self-employed. Alongside improvements in existing instruments – in particular greater transparency regarding the range of support measures – there have been calls for statutory and branch-specific regulations to be cut back, and for the top rates of tax to be reduced. Proposals have also been made for steps to improve human capital in the relevant areas, for example by offering self-employment courses within the framework of vocational training and university studies (Dichmann, 1998, p. 60 ff.).

The growth of precarious forms of employment relationships, atypical employment and “pseudo-self-employment” poses the question of whether the existing protection offered by labour and social security law can be considered sufficient. The criteria deemed necessary by the labour courts for a person to be considered in dependent employment are increasingly coming under fire from the trade unions, social insurance institutions and labour law experts. Proposals have been made for alternative solutions with the aim of moving away from personal dependence, in the sense of being subject to instruction, as the central criterion, towards “the need for social protection” or the “loss of dispositional freedom”. In recent years, attention has focused on an alternative approach based on “entrepreneurial risk” rather than personal depend-

ence (Dietrich, 1996). Here the decisive criterion is whether the person affected is merely exposed to risks, or also enjoys market opportunities.

In addition, the associations representing social insurance institutions have made a proposal concerning new definitions to determine whether social insurance contributions apply (Dietrich, 1996). According to this proposal, all those who do not employ employees in the context of their economic activity, are normally active for just one client, and perform labour services typically performed by dependent employees should be subject to compulsory social insurance.

In contrast to the efforts being made to extend social security systems and to introduce statutory regulations in order to prevent the dissolution of the standard employment relationship, employers and their allied organisations are calling for comprehensive flexibilisation of the labour market and a reduction in the burden on employers of indirect labour costs and costly protective regulation. It is only in this way, they argue, that the trend towards a dissolution of the employment relationship can be averted. At the same time, a reduction in labour costs will enable entrepreneurs to take on additional labour, or make business start-ups feasible in the first place.

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## Greece

### Introduction

Greece has the highest rate of self-employment of all the EU countries, a rate which amounts to more than double the EU average. Despite the impressive incidence and the significance of self-employment in the country, however, there has been little research on its morphology, role or development. Here, an attempt is made to look into certain aspects of self-employment and to discuss policy issues related to it. The work that can be done in this regard is restricted by the limited availability of quantitative and qualitative information, particularly in relation to new forms of self-employment.

### Assessment of self-employment

#### Types of self-employment

The self-employed can be divided into two major groups: those who also employ other people and those who work by themselves or are assisted only by unpaid members of their families or trainees. The latter group is the predominant one in Greece, accounting for nearly 80% of all self-employed (77% in the case of men and 85% in the case of women).

Self-employment is the main type of employment in the agricultural sector. In the non-agricultural sector, the group of self-employed is very heterogeneous, including businesspeople, professionals, craftspeople, storekeepers, etc. This group is also heterogeneous with regard to incomes, which range from the very low to the very high, and social security coverage, which is provided by various schemes yielding different levels of benefit.

The majority of the self-employed are covered by TEVE, which yields

the lowest benefits within the non-agricultural sector and is currently facing serious financial problems. An undetermined but probably substantial share of the self-employed, particularly those without employees, do not declare themselves as employed and are not covered by social security.

A particular category of the self-employed which has attracted special attention in recent years are those working on subcontracts for a set fee or for piece rates. Contract work has traditionally been used in manufacturing, handicraft production, and construction. In recent years, it has also been used in services, e.g. cleaning and catering, and in activities such as word-processing, drafting and designing, translation, publishing, accounting and marketing. Teleworking and other types of self-employment associated with new technology are not as developed as in other countries, but their incidence is increasing.

The self-employed on subcontracts may use premises outside their homes or may work where they live. Those working for piece rates usually work at home, have some simple equipment, do not provide materials and do not work permanently for one employer. According to an unofficial estimate, about 200,000 persons were working at home under piece-rate arrangements in 1994, and most of them were women (Katsoridas, 1994). A survey sponsored by the General Confederation of Greek Workers (GSEE) revealed that 77% of those working for piece rates were associated with the clothing industry, while 7.5% were involved in the jewellery industry (Katsoridas, 1998).

Work for piece rates is associated with very low remuneration. According to the GSEE survey, about 39% of those engaged in piecework

earned less than 65,000 drachmas per month, while only 6% of those in dependent employment had similarly low earnings. This type of work is also very unstable: The GSEE survey revealed that only 35% of the respondents had steady work. Because of fluctuations, working hours showed significant swings.

For social security purposes, those who work on subcontracts are considered to be self-employed and can be covered by TEVE if they provide their own materials, use their own equipment of a relatively high value, or employ and pay other workers. If they work on their own, they must be insured with the social security fund for dependent employment (IKA).

In the Labour Force Survey (LFS), the criterion for self-employment is the perception of the respondents about their status; the social security or tax regimes are irrelevant. Therefore, some people included among the self-employed in the LFS statistics may be considered to be dependently employed by the social security or tax regime.

In order to avoid social security contributions and taxation and to be more competitive in the market for contracts, a substantial share of the self-employed working on subcontracts do not declare their work and do not have any social security coverage. According to the GSEE survey, about 38% of those working at home for piece rates did not have any coverage.

There have been no official estimates about the extent to which self-employment represents disguised dependent employment or about the self-employed operating partly or totally in the informal economy. According to unofficial information, the number of people in these categories is relatively large.

## Incidence and evolution of self-employment

Table 1 presents the rate of self-employment (as a percentage of total employment) by gender since 1985. For both men and women, there was a substantial increase in this rate from 1985 to 1990, a period during which unemployment did not show any significant change. In the case of men, the rate increased slightly in 1991 and 1992 and then decreased from 1993 to 1997, while for women there was a slight decrease from 1991 onwards.

Figure 1 shows the contribution of self-employment to the change in employment between 1985 and 1997. During that period, more than half of the new jobs for men and a little under a quarter of those for women resulted from self-employment. These gains were realised in the period 1985–1990, as self-employment contributed negatively to the change in employment between 1990 and 1997. The decrease in self-employment in the latter period was substantial for men and insignificant for women.

The contraction of self-employment during the 1990–1997 period can be attributed to several factors, such as the decline in employment in the agricultural sector, the economic recession, the overcrowding in most activities where the self-employed traditionally operated, and the replacement of small firms by large firms in almost all sectors, particularly in trade. The introduction of the system of "objective taxation criteria", whereby certain categories of self-employed have to pay a sum of tax which is determined by various criteria and is independent of declared income,<sup>1</sup> pushed a large number of self-employed out of business or into the informal economy.

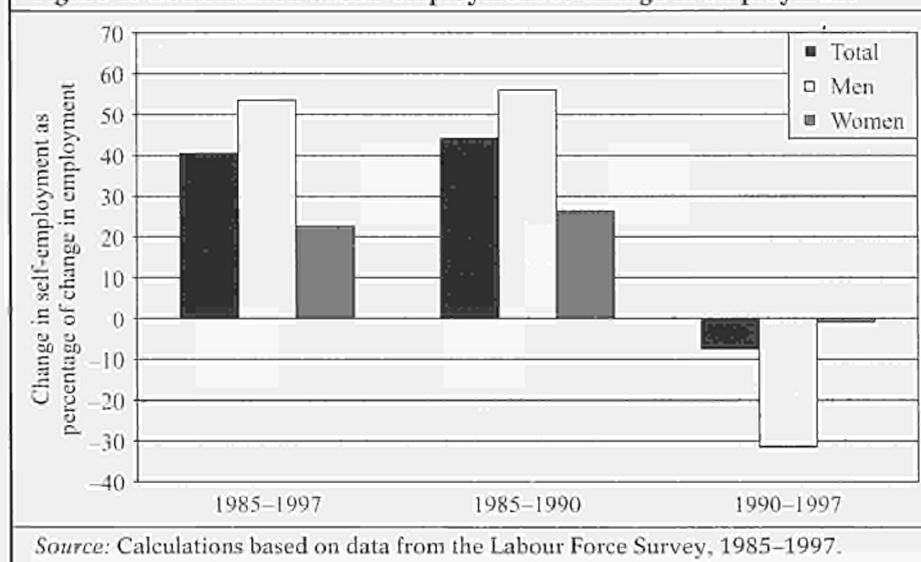
During this period, there were also changes in the number of people working at home for piece rates. Increases resulted from the fact that small firms, in their efforts to reduce costs, used this type of work more extensively; decreases are attributed to the fact that many subcontracting

Table 1: Self-employment by gender, 1985–1997

| Year | Self-employed as % of all employed |      |       |
|------|------------------------------------|------|-------|
|      | Total                              | Men  | Women |
| 1985 | 26.5                               | 32.4 | 13.8  |
| 1990 | 34.8                               | 42.6 | 20.3  |
| 1991 | 35.2                               | 42.9 | 20.1  |
| 1992 | 35.3                               | 43.5 | 19.9  |
| 1993 | 34.6                               | 42.7 | 19.7  |
| 1994 | 34.4                               | 42.5 | 19.5  |
| 1995 | 33.7                               | 42.2 | 18.7  |
| 1996 | 33.7                               | 41.8 | 19.4  |
| 1997 | 33.3                               | 41.7 | 18.8  |

Source: ESYE, Labour Force Survey, 1985–1997.

Figure 1: Contribution of self-employment to change in employment



Source: Calculations based on data from the Labour Force Survey, 1985–1997.

firms had to close down or reduce their workload because of competition from abroad. It is not known to what extent these changes have affected the official statistics, since some of this work may have been undeclared.

The share of self-employment is also underestimated because there are many people in dependent employment who have a second job in self-employment, and these people usually declare only their dependent employment.

Table 2 presents the rates of self-employment by sector, industry and gender. In 1997, more than half of those employed in the primary sector and more than a quarter of those employed in the secondary and tertiary sectors were self-employed. In all sectors, the self-employment rates for men were much higher than those

for women. During the period 1992–1997, the self-employment rates in the primary sector showed a slight increase, while those in the secondary and tertiary sectors showed a small decrease for both men and women.

In 1997, more than half of the self-employed women and just under half of the self-employed men were engaged in services. Commerce, hotels and restaurants were the main areas of self-employment. During the period 1992–1997, there was a small decrease in the percentage of self-employed in manufacturing for both men and women, but the change was not significant. In the case of men, a substantial increase in self-employment in construction was observed.

<sup>1</sup> In 1997, about 800,000 (62%) of the self-employed were taxed under this system.

**Table 2: Rates of self-employment by sector, industry and gender, 1992 and 1997 (in %)**

| Sectors and industries  | 1997  |      |       | 1992  |      |       |
|---|-------|------|-------|-------|------|-------|
|   | Total | Men  | Women | Total | Men  | Women |
| A. Primary sector<br>(Agriculture, animal husbandry, fishing, etc.) | 58.7  | 80.0 | 30.2  | 60.2  | 79.7 | 29.5  |
| B. Secondary sector   | 25.9  | 30.4 | 9.8   | 27.4  | 32.3 | 10.3  |
| Extraction and mining   | 4.5   | 4.5  | –     | 4.5   | 4.5  | –     |
| Manufacturing   | 24.1  | 30.7 | 10.0  | 26.9  | 34.1 | 10.4  |
| Electricity   | –     | –    | –     | –     | –    | –     |
| Construction  | 35.6  | 35.8 | 18.4  | 34.6  | 34.7 | 24.3  |
| C. Service sector   | 27.3  | 34.8 | 16.4  | 28.8  | 35.3 | 18.4  |
| Commerce  | 46.5  | 56.2 | 29.6  | 46.5  | 57.1 | 29.6  |
| Hotels and restaurants  | 34.3  | 47.3 | 16.8  |       |      |       |
| Transport and storage   | 25.9  | 28.9 | 5.3   | 25.7  | 28.4 | 5.4   |
| Financial intermediation  | 4.8   | 5.3  | 3.9   | 38.0  | 47.7 | 23.6  |
| Real estate   | 50.9  | 64.2 | 30.7  | 10.9  | 11.9 | 9.8   |
| Public administration and defense                                   | –     | –    | –     |       |      |       |
| Education   | 8.7   | 9.9  | 8.1   |       |      |       |
| Health and social welfare   | 14.1  | 21.6 | 9.3   |       |      |       |
| Others  | 22.3  | 24.6 | 20.1  |       |      |       |
| Total   | 33.3  | 41.7 | 18.8  | 35.3  | 43.5 | 19.9  |

Source: ESYE, *Labour Force Survey*, 1992 and 1997.

### Characteristics of the self-employed

In 1997, almost half of the self-employed were between 45 and 64 years old and about 85% were in the 30–64 age bracket. Self-employed women were somewhat younger than self-employed men. About 56% of the self-employed men and 54% of the women had only an elementary education or less. The low level of education characterises the self-employed not only in agriculture but also in other sectors.

Table 3 presents the occupational structure of the self-employed. Women had a higher share than men among administrative, executive, managerial and professional personnel and in occupations related to agriculture.

Self-employed people work long hours: In 1997, about 55% of them worked more than 47 hours per week (only 17% of those in dependent employment worked as many hours).

The percentage of self-employed among all employed does not show significant variation in urban areas of

different size. In all cases, it was close to the national average. Likewise in all areas, men had higher self-employment rates than women.

### Factors affecting self-employment

#### Subcontracting and outsourcing strategies of firms

Subcontracting to small firms or individuals has been used in certain industries, such as manufacturing and construction, for a long time. Due to

pressure from increasing competition, its use has expanded in recent years. Through subcontracting, firms can reduce their labour costs significantly because they not only avoid the relatively high social security contributions, but also other labour costs such as Easter, summer and Christmas bonuses, and compensation for dismissal. In addition, they avoid the cost of providing space for the workers and of heating and lighting, etc. It is not unusual for small firms to dismiss workers and afterwards offer them subcontracted work.

The massive influx of illegal immigrants into the country since 1990 has led to a substantial shift towards the practice of subcontracting. The immigrants provided a large pool of cheap labour which could be used without the cost of social security contributions or other charges. The bigger firms could not employ illegal immigrants, but could lower costs by subcontracting work to small firms or individuals who could operate partly or totally in the informal economy.

A common way for some firms in Greece to avoid social security contributions and other costs associated with dependent employment is to employ people on the so-called "Receipt System for Provision of Services". Under this system, persons offering independent services are considered to be self-employed, must issue receipts authorised by the tax authorities for whatever payments are made to them, and are required to be

**Table 3: Structure of self-employment by occupation and gender, 1997 (in %)**

| Occupational category                              | Total | Men   | Women |
|--|-------|-------|-------|
| Administrative, executive and managerial personnel | 29.0  | 28.4  | 31.0  |
| Professional personnel                             | 8.7   | 7.2   | 14.3  |
| Technical personnel                                | 2.2   | 2.1   | 2.4   |
| Clerical personnel                                 | 0.7   | 0.6   | 1.4   |
| Service personnel                                  | 2.7   | 1.8   | 6.6   |
| Farmers, loggers and related workers               | 34.6  | 33.9  | 37.0  |
| Craftspeople                                       | 15.2  | 17.9  | 5.0   |
| Machine operators                                  | 5.8   | 7.2   | 0.6   |
| Non-specialised labourers                          | 1.1   | 0.9   | 1.7   |
| Total  | 100.0 | 100.0 | 100.0 |

Source: ESYE, *Labour Force Survey*, 1997.

self-insured. There are restrictions regarding the use of this system, but these can be by-passed.

### **Pull and push factors for the self-employed**

People become self-employed either because they are attracted by certain advantages of self-employment or because they are pushed into self-employment by the threat of unemployment. According to a survey of 1,156 newly self-employed persons (Haratsis, Petraki-Kottis et al., 1993), the advantages of self-employment, e.g. better economic prospects, professional independence, etc., were the main factors behind the decision to become self-employed. Only 2.6% of the men and 2.3% of the women indicated that they chose self-employment because of the risk of unemployment; all the others were attracted by specific advantages. About half of the women indicated that they chose self-employment in order to be independent and have flexible working hours.

### **Policies regarding self-employment**

#### **Obstacles to self-employment and the general business environment**

It is not difficult to become self-employed in Greece in view of the moderate and, in most cases, minimal degree of regulation regarding authorisation of new start-ups. In general, tradition, family support and limited legal requirements are factors that have encouraged self-employment.

On the other hand, bureaucratic administrative procedures and problems in dealing with the public administration, financing difficulties, accountancy requirements and the tax legislation usually represent heavy burdens for the self-employed. In some cases, formal certificates are needed for a new start-up, and obtaining these may demand substantial time and effort. The introduction of the "objective taxation

criteria" a few years ago was a particular disincentive to self-employment.

The survey of newly self-employed people discussed above (Haratsis, Petraki-Kottis et al., 1993) revealed that about 60% of them mainly faced the problems of severe competition and limited possibilities for borrowing. Financial problems were associated with the lack of access to credit institutions. The difficulties the self-employed had in their dealings with the public administration were also mentioned.

#### **Programmes to promote self-employment**

Since the mid-1980s, the Manpower Employment Organisation (OAED) has been administering a series of programmes to encourage self-employment by providing financial aid to unemployed persons who wish to establish a new business. From 1986 to 1997, more than 70,000 people became self-employed with the help of these programmes. In 1998, according to plans, 10,000 unemployed aged 20–27 and 2,000 long-term unemployed aged 28–64 were expected to receive subsidies towards self-employment.

These programmes have been productive, but at the same time are subject to certain problems which have reduced their effectiveness (Haratsis, Petraki-Kottis et al., 1993). It was found that there was significant deadweight because the grant was very small and could help only those who would have started a business anyway. Moreover, no other kind of aid was provided, such as technical or administrative support, or assistance in obtaining financing. Due to the lack of information, the newly self-employed largely chose traditional types of activities that were already saturated, thus creating significant crowding-out effects.

In recent years, the Ministry of Development and the Greek Organisation for Small and Medium-Sized Enterprises (EOMMEX) have been administering certain programmes to

encourage new enterprise creation; however, information about these programmes is not very widespread.

The Ministry of Development and the General Secretariat for Youth recently announced specific programmes to encourage women and young people to become small entrepreneurs. It is too early, however, to assess these schemes.

### **Moving self-employment from the informal to the formal economy**

In recent years, the government has passed legislation and has established institutions in an effort to prevent undeclared self-employment. Legislation to regulate subcontracting so as to prevent its use for the purpose of disguising dependent employment was part of a new law on industrial relations passed in August 1998. According to this new legislation, a written agreement between the subcontractor and the self-employed person must be submitted to the Ministry of Labour within eight days of its conclusion. If this is not done, or if the self-employed person works exclusively for one subcontractor, the work is considered to be dependent employment and is treated as such.

In addition, legislation was recently passed and administrative procedures established to regularise illegal immigration. Under the new law, employers who do not report the immigrants they employ to the social security authorities are heavily penalised.

#### **The public debate**

Important issues of public concern are the relatively large number of self-employed operating partly or totally in the informal sector, the resulting evasion of social security contributions and taxation and the financial implications for the social security system. There is also concern about the unfair competition that law-abiding firms have to face because of this type of activity. Recent legislation might improve the situa-

tion, but there is need for action to ensure its strict enforcement. The relatively short life of small business start-ups, the increasing frequency of business failures and the public action needed in this regard are also widely debated.

The promotion of self-employment through modernisation of the public sector, simplification of administrative procedures and easier access to financial institutions, the abolition of the system of "objective taxation criteria", the development of networks and the general im-

provement of the environment for small businesses are also issues of considerable public concern. A question of particular importance is the lack of an organisation which could provide comprehensive information and multi-dimensional support to those entering self-employment. The financial aid provided by OAED is not very effective as long as it is not combined with other types of support.

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## Spain

### Introduction

This article presents recent trends in self-employment in Spain, following the common guidelines used in analysing all European countries. In Spain, as in other southern European countries, non-wage-earning work is already important in spite of the steady growth of dependent work throughout this century. Moreover, in the last two or three decades, a stabilisation of self-employment with respect to total employment has emerged. After examining the types and quantities of self-employment involved, we turn to dealing with the analysis and evaluation of self-employment in relation to two basic topics (the pressure from unemployment and the subcontracting and outsourcing strategies of firms), concluding with a discussion of policy issues and the public debate involved in the promotion of self-employment.

### Assessment of self-employment

#### Types of self-employment

As in other countries, in Spain the parties involved are not allowed to define the legal status of an employer-employee relationship, since this would make the enforcement of labour law optional. However, the presumption of employee status has tended to recede, and an effort has been made to provide a legal framework for "genuine" self-employment. Until the 1980s, both to protect workers and to guarantee the basis for social security contributions, law and jurisprudence generally interpreted the notion of contract of employment for a wage in the broadest sense of the term, rendering self-employment more difficult to practise. The opposite seems to be true now: The tendency is to refrain from obstructing the development of genuine self-employment. Recent Spanish case law seeks alternatives to the

employment contract by allowing some room for the express will of the parties involved, provided this is not then contradicted by their behaviour<sup>1</sup>. Such extension of the scope of self-employment risks depriving these workers of any social protection and of excluding them from labour law without offering them any other employment status. Two conditions must be met to avoid these risks. First, the principle of reclassifying false self-employment as waged work must be firmly enforced. And, second, genuine self-employment must be endowed with true employment status, primarily to guarantee social protection.

The wide range of specific situations prevailing in self-employment makes it difficult to formulate such a framework. This diversity is not al-

<sup>1</sup> Supreme Court ruling (*Sala de lo Social*), 13 April 1989. See M. Rodríguez-Piñero (1996): "La voluntad de las partes en la calificación del contrato de trabajo." In: *Relaciones Laborales*, Vol. 18.

ways fully grasped, legally speaking. In Spain, there is no generic category covering semi-independent workers, i.e. the law proceeds case by case and subjects certain professions to partial enforcement of labour law. This is the case in Spain for wage-earning managers who are only subject to part of the provisions of the Workers' Statute. Fostering self-employment is inconceivable if the effect is to drain social security systems of their revenue, nor is self-employment status attractive if, in addition to the inevitable financial up-and-downs, it also entails inadequate social protection (we shall come back to this issue later). In addition, the existence of self-employment or semi-independent work involves handling the transition from one employment status to another.

### Quantities

In order to analyse the evolution and the incidence of self-employment in Spain, we will make use of the Labour Force Survey carried out quarterly by the Spanish Statistical Institute (INE). The survey for the second quarter provides the basis for the in-

formation used in the European-wide LFS.

A few terminological clarifications are required before proceeding. When speaking about work (or professional) status, we mainly refer to the position of the person employed. So we distinguish between people who work for others (dependent workers) and people who work on their own account (self-employed). The self-employed may be divided into people who employ others (employers), people who work on their own (autonomous workers), and people who work on their own account who are associated with others in cooperatives.

Table 1 provides the basic figures for grasping the evolution of total employment and self-employment in Spain for the period 1987–1997, considering five possible work statuses (employers, autonomous workers, cooperative workers, unpaid family workers, and wage- and salary-earners) and combining them with industry (agriculture and non-agriculture). We have selected three sub-periods in order to gain an idea of what has happened in recent Spanish

economic history: The period 1987–1991 corresponds to a period of rapid and intensive employment creation; in 1991–1994, there was a severe economic crisis; and from 1994 onwards, the Spanish economy expanded again. As can be seen, in the first period employment creation was very important (over 1.3 million jobs, 12% over the period), mainly due to the growth of waged and salaried employment (which increased by 19%); autonomous employment declined in numbers (in agriculture), although cooperative workers increased. In the second period, total employment declined and dependent employment even more so since non-agricultural autonomous and cooperative employment remained more or less the same while the number of employers increased. Finally, in the third period, employment increased very rapidly due to the growth of waged and salaried employment, but non-agricultural autonomous and cooperative employment declined, while the number of employers again expanded rapidly.

Over the whole period, the number of self-employed in agricul-

**Table 1: Evolution of total employment by employment status, 1987–1997**

|                                       | 1987                      | 1991   | 1994   | 1997   | 1987–1991                      | 1991–1994 | 1994–1997 |
|---------------------------------------|---------------------------|--------|--------|--------|--------------------------------|-----------|-----------|
|                                       | Numbers (thousands)       |        |        |        | Relative change (in %)         |           |           |
| Total                                 | 11,179                    | 12,482 | 11,599 | 12,609 | 11.7                           | -7.1      | 8.7       |
| Agriculture employers                 | 35                        | 27     | 34     | 36     | -22.9                          | 25.9      | 5.9       |
| Non-agriculture employers             | 345                       | 458    | 507    | 618    | 32.8                           | 10.7      | 21.9      |
| Agriculture autonomous workers        | 758                       | 577    | 534    | 461    | -23.9                          | -7.5      | -13.7     |
| Non-agriculture autonomous workers    | 1,352                     | 1,317  | 1,325  | 1,378  | -2.6                           | 0.6       | 4.0       |
| Cooperative workers                   | 71                        | 105    | 107    | 96     | 47.9                           | 1.9       | -10.3     |
| Agriculture unpaid family workers     | 347                       | 225    | 183    | 138    | -35.2                          | -18.7     | -24.6     |
| Non-agriculture unpaid family workers | 395                       | 391    | 304    | 245    | -1.0                           | -22.3     | -19.4     |
| Wage-earners                          | 7,876                     | 9,382  | 8,605  | 9,637  | 19.1                           | -8.3      | 12.0      |
|                                       | Distribution (percentage) |        |        |        | Decomposition of change (in %) |           |           |
| Total                                 | 100.0                     | 100.0  | 100.0  | 100.0  | 100                            | 100       | 100       |
| Agriculture employers                 | 0.3                       | 0.2    | 0.3    | 0.3    | -1                             | -1        | 0         |
| Non-agriculture employers             | 3.1                       | 3.7    | 4.4    | 4.9    | 9                              | -6        | 11        |
| Agriculture autonomous workers        | 6.8                       | 4.6    | 4.6    | 3.7    | -14                            | 5         | -7        |
| Non-agriculture autonomous workers    | 12.1                      | 10.6   | 11.4   | 10.9   | -3                             | -1        | 5         |
| Cooperative workers                   | 0.6                       | 0.8    | 0.9    | 0.8    | 3                              | 0         | -1        |
| Agriculture unpaid family workers     | 3.1                       | 1.8    | 1.6    | 1.1    | -9                             | 5         | -4        |
| Non-agriculture unpaid family workers | 3.5                       | 3.1    | 2.6    | 1.9    | 0                              | 10        | -6        |
| Wage-earners                          | 70.5                      | 75.2   | 74.2   | 76.4   | 116                            | 88        | 102       |

Source: Labour Force Surveys (LFS).

ture as well as of unpaid family workers declined considerably. An increase in dependent work is observable during the period, this trend being particularly clear during the periods of employment growth. At the same time, the number of employers in the Spanish economy rose and the number of unpaid family workers declined, particularly in agriculture (in fact, the former nearly doubled in this period, while the latter was halved). Finally, the weight of self-employment declined steadily: Although the presence of cooperative workers remained close to 1% of total employment over the whole period, the proportion of autonomous employment declined, in particular during the periods of employment expansion. This is due to the more rapid increase in the number of wage-earners and the reduction in the number of agricultural autonomous workers during expansions, all of which led to a decline in the proportion of self-employment.

Therefore, if we consider self-employment as the sum of employers

and autonomous and cooperative workers, the result is that they represented nearly one out of four employed in 1987 and one out of five employed in 1997. In any case, their contribution to net employment creation during the period 1987–1997 is modest, since the driving force behind employment variations is (private-sector) employees (and unpaid family workers as well as agricultural autonomous workers, who steadily declined during this period). The process is partly dependent on the industrialisation process, as the agricultural sector – where the autonomous self-employed are dominant – loses weight.

Table 2 provides the basic figures on the incidence of self-employment – defined as the proportion of self-employed (employers plus autonomous plus cooperative workers) to total employment – using different indicators: demographic variables (gender, age and educational level) and economic variables (industry and occupational group). The same indicators are used to investigate the

distribution of self-employment. Regarding the incidence, we observe that self-employment is more important in the case of males than females, with differences of 6 to 8 percentage points (this is due to the large share of males among employers, which makes the differences larger). The importance of self-employment grows with age: The proportion of self-employment is small for young people (around 7%) but is rather large for people aged over 45 (around one out of three self-employed, with a declining trend).

When considering education, there is an inverse relationship between the incidence of self-employment and educational levels: One out of three employed with no studies or basic studies (less than six years of education) is self-employed, but this proportion declines to around 12–14% for those with post-compulsory education. However, it is worth noting that, while the incidence of self-employment has declined for those with no studies or basic studies, the incidence has increased for the rest of

**Table 2: Incidence (self-employment as a percentage of total employment) and distribution of self-employment, 1987–1997**

|                      | Incidence |      |      |      | Distribution |       |       |       |
|----------------------|-----------|------|------|------|--------------|-------|-------|-------|
|                      | 1987      | 1991 | 1994 | 1997 | 1987         | 1991  | 1994  | 1997  |
| Total                | 22.9      | 19.9 | 21.6 | 20.5 | 100.0        | 100.0 | 100.0 | 100.0 |
| Sex                  |           |      |      |      |              |       |       |       |
| Male                 | 24.7      | 22.2 | 24.4 | 23.3 | 75.8         | 75.6  | 74.6  | 73.6  |
| Female               | 18.6      | 15.1 | 16.2 | 15.4 | 24.2         | 24.4  | 25.4  | 26.4  |
| Age group            |           |      |      |      |              |       |       |       |
| 16–25 years          | 7.9       | 5.6  | 7.1  | 6.5  | 6.5          | 5.4   | 5.1   | 4.9   |
| 26–45 years          | 21.2      | 18.4 | 19.5 | 19.0 | 44.1         | 46.8  | 48.4  | 49.7  |
| 46–64 years          | 33.8      | 31.7 | 32.9 | 30.2 | 49.4         | 47.7  | 46.4  | 45.4  |
| Education            |           |      |      |      |              |       |       |       |
| Basic                | 29.5      | 27.8 | 30.8 | 29.3 | 75.4         | 67.2  | 57.9  | 47.7  |
| Compulsory           | 14.0      | 13.4 | 17.6 | 18.6 | 10.9         | 14.6  | 19.6  | 23.3  |
| Post-compulsory sec. | 13.7      | 12.3 | 14.8 | 15.5 | 7.7          | 10.9  | 14.2  | 17.9  |
| University           | 12.9      | 11.7 | 12.3 | 13.2 | 5.9          | 7.4   | 8.2   | 11.0  |
| Industry             |           |      |      |      |              |       |       |       |
| Agriculture          | 47.6      | 46.0 | 51.3 | 49.4 | 31.0         | 24.5  | 22.8  | 19.5  |
| Manufacturing        | 10.5      | 9.9  | 12.9 | 11.5 | 11.2         | 11.5  | 12.6  | 11.2  |
| Construction         | 22.8      | 19.9 | 24.3 | 23.1 | 8.1          | 10.2  | 10.3  | 11.2  |
| Private services     | 28.8      | 26.2 | 26.4 | 26.3 | 47.8         | 51.7  | 51.7  | 55.1  |
| Public services      | 3.0       | 2.6  | 3.1  | 3.3  | 1.9          | 2.2   | 2.5   | 3.0   |
| Occupation           |           |      |      |      |              |       |       |       |
| Technicians          | 17.4      | 16.5 | 14.3 | 13.5 | 8.5          | 11.0  | 9.5   | 8.5   |
| Non-manual workers   | 20.3      | 17.9 | 19.6 | 16.6 | 32.3         | 34.4  | 39.4  | 45.9  |
| Manual workers       | 25.9      | 22.4 | 26.2 | 23.5 | 59.2         | 54.6  | 51.2  | 45.6  |

Source: Labour Force Surveys (LFS).

the educational groups since 1991. Regarding industry, we have grouped all economic activities into five categories: agriculture, manufacturing, building, private services and public services. The incidence is greater in agriculture and private services: In agriculture it is one out of two employed and in private services over one out of four employed. Finally, we can consider the incidence of self-employment by occupation. We have grouped occupations into three categories: technicians, non-manual workers, and manual workers (the figures must be interpreted with care because a major reform in occupational classification took place in 1994). The results are similar to those relating to educational levels: The incidence is higher for manual workers and lower for technicians, although for all categories a somewhat declining trend is observed.

Now we turn to the distribution of self-employment by all previous indicators. First, the presence of females is increasing, although they still represent only around a quarter of all self-employment. There has been a change in the distribution by age group, with people aged between 26 and 45 now representing nearly 50% of all self-employed due to a decline in the presence of younger and older people. As to be expected, self-employment is basically associated with agriculture and service activities: The two industries together account for nearly 80% of all self-employment. It is interesting to note, however, that there is an opposing trend in both industries, since the weight of self-employment is declining in agriculture and increasing in services. Therefore, the opposing evolution of self-employment in these two sectors explains the generally stable figures overall (see Table 1): Unpaid family workers and agricultural self-employed show a clearly declining trend (these two developments are probably linked to one another), whereas non-agricultural (service) self-employed have increased. Finally, and in relation to this, the distribution of self-employ-

ment by broad occupational group shows a change in the sense that the significance of manual self-employment is declining (although it is now the largest category) and the presence of technicians and other non-manual workers is increasing.

### Analysis and evaluation

From the previous section, we can conclude that the share of self-employment has remained stable in Spain in the last decade, though there have been hidden changes in the sectoral and occupational composition of self-employment. While agricultural self-employment has declined (due to the fact that the agricultural sector is losing weight in overall employment), non-agricultural self-employment has steadily increased. Now we are interested in analysing two topics related to this change: First, to what extent is self-employment in non-agricultural industries linked to the pressure from unemployment (i.e. does self-employment increase when unemployment is high?); and, second, what is the relationship between the increase in non-agricultural self-employment and the outsourcing strategies of firms?

Regarding the issue of whether self-employment offers some type of "employment shelter" when times are bad, we have seen that on aggregate the numbers of non-agricultural self-employed increased slightly during 1987–1997, independent of the expansionary or recessionary period, suggesting that self-employment has not been used as a defensive instru-

ment in bad periods. However, a more in-depth analysis is worth carrying out. As we are also interested in knowing whether the status of self-employed is more permanent or transitory, we now apply "longitudinal" data. The second quarters of all LFS sample surveys since 1987 contain retrospective questions on the economic status of all interviewees one year before answering the questionnaire. The possible answers are as follows: working, looking for a job, available but not looking for a job, military service, student or other situation. We can assume that working is similar to employed, looking for a job is similar to unemployed, and that the rest of the categories are similar to being out of the labour force.

Table 3 provides the basic figures for analysing this longitudinal follow-up of self-employed workers. As can be seen, the majority of them were already working one year before the interview, while only 2–3% came from unemployment and 2–3% from inactivity. We can gain a deeper insight by looking at the employment status of those previously employed. In other words, we can look at the status (self-employed, unpaid family workers, and wage- or salary-earners) one year before of all those who are classified as self-employed at the moment of the interview. The result is that the majority of them (95%) were already self-employed one year previously, which is a clear sign of attachment to that status. Only 3% of currently self-employed were previously wage- or salary-earners.

**Table 3: Economic status and employment status (of those previously employed) one year before interview, 1987–1997 (in %)**

|                            | 1987 | 1991 | 1994 | 1997 |
|----------------------------|------|------|------|------|
| Previous economic status   |      |      |      |      |
| Working                    | 95.0 | 96.7 | 95.0 | 93.7 |
| Looking for a job          | 2.4  | 1.4  | 2.8  | 3.0  |
| Out of the labour force    | 2.6  | 1.9  | 2.2  | 2.3  |
| Previous employment status |      |      |      |      |
| Self-employed              | 94.4 | 96.1 | 96.0 | 96.2 |
| Unpaid family worker       | 2.0  | 0.6  | 0.6  | 0.5  |
| Wage-earner                | 3.6  | 3.3  | 3.4  | 3.3  |

Source: Retrospective questions from the Labour Force Surveys (LFS).

In the last two to three decades (with the beginning of the employment crisis and the changes in management and firm organisation), the proportion of self-employment with respect to total employment has stabilised. This may be hiding the increasing use by firms of self-employed workers as a way of outsourcing labour (subcontracting workers to carry out activities that were previously done within the firms). This strategy may simply be one of evading labour regulations and reducing costs in traditional lines of business where there is little value added, but it may also tie in with strategies intended to implement an innovative approach in sectors requiring high levels of expertise. The first strategy aims to reduce the costs of human resources, while the objective of the second is to enhance human resources.

Given that the incidence of self-employment is decreasing in agriculture and increasing in services (especially in services to firms), the two previous views can be adopted. On the one hand, self-employment may be regarded as an illegal method of deregulation whereby firms engaging in such practices elude the burden of non-wage labour costs incurred by their competitors (this is apparently particularly common in the case of unskilled and casual workers, who are denied the protection afforded by labour law). On the other hand, workers (in particular, highly qualified workers) gain autonomy and the possibility for innovation and adaptation, being flexible in terms of time, place, types of service and costs, thus meeting the needs of the most advanced economic sectors in which the requirement for innovation and quality depend on the creativity and quality of the people performing the work.

This hypothesis is further investigated in Table 4, which contains the total percentage of self-employed by occupation and industry for the years 1987, 1991, 1994 and 1997. Again, these figures must be interpreted with care because of the reform of

occupational classifications in 1994. These data suggest that manual self-employed are concentrated in the agriculture sector, while non-manual (and highly qualified) self-employed workers are found in the private service sector. As for the observed trends, bearing in mind the previous caveat about available data, it is difficult to say anything categorically, but it seems that the number of manual self-employed in agriculture is decreasing, while non-manual and highly qualified self-employed in services is increasing. This would be indicative of the second above-mentioned view, i.e. self-employment is growing in sectors where the value of labour is increasing in terms of initiative, skills and know-how.

These figures and some incidental information suggest that there is an advent of new kinds of working arrangements, which have given rise to a new generation of homeworkers (with computer and telecommunications links to the "workplace") and technically self-employed professionals who are nonetheless financially dependent. These arrangements mean that there is a category of workers who are dependent but do not have employment contracts. "Work under contract" designates the work done for a natural or artificial person (the user firm) by a person (a worker

employed under contract who can be an autonomous worker) when the work is carried out by the subcontracted worker personally under conditions of actual dependence or subordination with respect to the user firm.

These changes can be viewed in terms of a change in the organisational model. The Fordist companies undertook all the functions required to manufacture their products, thus eliminating the transaction costs involved in dealing with suppliers and making it possible to control the entire working process. However, this model has problems: Firstly, competitiveness calls for companies to cut back costs and business overheads; secondly, technological progress (the role of new information and communications technologies) raises the level of skills required for certain tasks; and, thirdly, the evolution of contracting techniques that give clients a fair knowledge of their suppliers has eliminated the risks of subcontracting certain tasks. The result is that firms have tended to fall back on their core business and to use more intensively the outsourcing of auxiliary tasks requiring little skill (cleaning, catering, transport, etc.) and even those entailing highly qualified skills. This trend implies an increasing tendency to resort to self-em-

**Table 4: Distribution of self-employed by occupational group and industry, 1987-1997 (in %)**

|  | Agriculture | Manufacturing | Construction | Services | Public services |
|--|-------------|---------------|--------------|----------|-----------------|
| <b>1987</b>                                |             |               |              |          |                 |
| Technicians                                | 0.1         | 1.7           | 0.8          | 4.3      | 1.6             |
| Non-manual workers                         | 0.2         | 0.5           | 0.0          | 31.6     | 0.0             |
| Manual workers                             | 30.7        | 9.1           | 7.3          | 11.9     | 0.2             |
| <b>1991</b>                                |             |               |              |          |                 |
| Technicians                                | 0.1         | 1.9           | 1.7          | 5.4      | 2.0             |
| Non-manual workers                         | 0.1         | 0.4           | 0.0          | 33.8     | 0.1             |
| Manual workers                             | 24.3        | 9.2           | 8.5          | 12.5     | 0.2             |
| <b>1994</b>                                |             |               |              |          |                 |
| Technicians                                | 0.2         | 0.4           | 0.1          | 8.6      | 0.2             |
| Non-manual workers                         | 0.8         | 3.3           | 1.2          | 31.8     | 2.1             |
| Manual workers                             | 21.9        | 8.9           | 9.0          | 11.3     | 0.2             |
| <b>1997</b>                                |             |               |              |          |                 |
| Technicians                                | 0.2         | 0.3           | 0.2          | 7.7      | 0.2             |
| Non-manual workers                         | 0.6         | 3.4           | 2.2          | 36.9     | 2.7             |
| Manual workers                             | 18.7        | 7.5           | 8.8          | 10.6     | 0.0             |
| <i>Source: Labour Force Surveys (LFS).</i> |             |               |              |          |                 |

ployment and temporary work. The problem here is how to regulate this kind of service and separate the flexibility of the temporary work market and genuine self-employment from trafficking in labour. In fact, labour trafficking is repressed by Spanish law, which defines it as the illegal exercise of temporary work. It is nonetheless no easy task to distinguish it from the practice of team-hiring, whereby an employer engages a group of workers as such and thereafter represents them as their team leader.

## Policy

### Policy issues

In this section, we will review the programmes currently aimed at fostering job creation through various forms of self-employment in Spain. The following programmes are to be considered: capitalisation of unemployment benefits; promotion of autonomous employment; promotion of employment in cooperatives; and integration of the disabled into the labour market.

#### *a) Unemployment benefit capitalisation*

Workers entitled to unemployment benefits may request advance payment of the full benefit to start up their own business. Prior to 1992 (and since 1985, when this programme was established), eligible businesses included autonomous employment and employment in cooperatives and worker-owned firms. Since 1992, only the second category is eligible for this programme. Workers whose projects are accepted enjoy full exemption from social security contributions. This aid is compatible with other employment-promotion subsidies. The number of participants decreased substantially in 1992, when autonomous employment projects were declared non-eligible. From an average take-up of some 80,000 per year, the current figures are at 10,000 participants annually. It appears that two kinds of

consideration were at work behind this decision (as was the case with the cut in unemployment benefits): the need to reduce public expenditure, which was considered excessive in the case of unemployment compensation, and the belief (not clearly upheld by evaluation studies) that many of these self-employment projects were doomed to failure.

#### *b) Promotion of autonomous employment*

The purpose of this programme is to promote and financially support autonomous employment projects presented by workers registered as unemployed with INEM. The costs of feasibility studies, auditing and counselling are partly or fully subsidised. In addition, a financial subsidy in terms of soft credit is also provided. Finally, for people aged under 25 or long-term unemployed aged over 25, subsistence income is also provided, at a rate of ESP 25,000 per month (equivalent to one-third of the minimum wage), which may be doubled if ESF support is involved. The number of participants in this programme has been relatively modest but constant over the last few years, amounting to some 10,000–15,000 annually.

#### *c) Promotion of employment in cooperatives*

The objective of this programme is to grant financial assistance for investment in the creation or maintenance of jobs in employee-owned companies (*sociedades anónimas laborales*) or other cooperative firms. This investment may be made through the association of additional members or simply by replacing members in the firms. Other activities such as promotion, technical assistance or management training are also eligible for subsidies. In addition, in the case of new cooperatives set up by workers aged under 25, as well as those devoted to educational activities, a maximum subsidy of ESP 500,000 per new member may be awarded.

#### *d) Integration of the disabled into the labour market*

Grants are provided to the so-called special employment centres and to disabled individuals wishing to start their own business. The grants for special employment centres are for technical assistance in the financing of projects which generate steady employment for unemployed disabled individuals or for maintaining the workforce in these centres. Most of those employed in these special centres must be certified as disabled by the health authorities. Auxiliary personnel may also be included in the projects as the needs of the disabled dictate. The grants for self-employed disabled individuals take the form of either a low-interest loan or a subsidy for fixed capital investment.

### The public debate

In spite of the significance of self-employment as a share of total employment and the observed trend that manual self-employment in agriculture is decreasing while non-manual and highly qualified self-employment in services is increasing (indicating that self-employment is growing in sectors where the value of labour is rising), no public debate about self-employment is currently taking place in Spain. One reason may be that politicians and economists are more concerned about other features of the Spanish labour market: the large proportion of employees with fixed-term contracts (and the related issue of excessive worker rotation), employment protection legislation and its effects on employment creation and destruction, the regulation of part-time work, etc. Therefore, self-employment has been viewed as a possible way to allow unemployed workers to escape from unemployment. This is why the programmes promoting job creation through various forms of self-employment were launched during the 1980s, when unemployment was increasing.

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## France

### The French approach to self-employment

The situation in France with respect to "self-employment" is complex: There is no exact French translation of the term. The concept of the *entreprise individuelle* (individual enterprise), which would appear at first sight to be most fitting, seems too limiting, mainly because in France it is associated with a specific legal status. In an article entitled "Individual enterprises: towards a new model for work", which appeared in the review *Futuribles*, the concept of "self-employment" was expressed by the term *entreprise de soi* (personal enterprise).

From the traditional point of view, "self-employment" in France corresponds to *travail indépendant* (independent work), which falls into the category of non-salaried work. A non-salaried worker is one who works independently, in the sense of not being in a position of subordination, whereas the salaried worker is tied to an employer by an employment contract, which imposes a subordinate role. Moreover, the work of salaried employees is generally governed by professional rules, which are outside their control, whereas non-salaried workers are mainly heads of their own businesses.

The appropriate expression is therefore *présomption d'exercice d'une activité indépendante* (being deemed to exercise an independent activity). Indeed, according to the classification of professions and socioprofessional categories published by the INSEE (the French national statistics office), non-salaried work covers precisely three categories: independent workers, persons working for family members and heads of firms.

*Independent workers:* In the INSEE nomenclature, the notion of

independents covers all persons working on their own account or legitimately managing an enterprise or a company without having to delegate this responsibility. Independents are generally classified according to the activity and size of the enterprises they manage.

With respect to size, there are three special cases:

- self-employed professional people and those working in the media, arts and show business are always classified as independents, whatever the size of the enterprises they run;
- farmers are classified according to the size of their farms; if they farm a large amount of land, they are listed as heads of companies;
- other independents are classified according to the number of persons they employ; if they have a staff of ten or more, they are classified as heads of companies.

*Persons working for family members:* This category of non-salaried

worker includes all persons who help a family member working on his/her own account, without themselves being salaried workers. They are generally placed in the same category as the person they help and as such are regarded as independent.

*Heads of companies:* Depending on the legal form of a company, this category covers the manager of an EURL (a form of limited company with one partner), the manager of a limited company, the chairman and managing director of a company, the general manager of a joint-stock company, etc.

The various activities of independent workers are classified as follows: small farmers, craftspeople, tradespeople, heads of companies with ten or more employees and self-employed professionals (*professions libérales*).

Over the past forty years, the boom in the number of salaried workers has led to a reduction by more than half of the population of

**Table 1: Key figures for independent workers, 1975 and 1995**

|  | 1975      | 1995      | Change (in %) |
|--|-----------|-----------|---------------|
| Number of independent workers                  | 3,660,000 | 2,880,000 | -21.0         |
| as % of the total population                   | 7.0       | 5.0       | -40.0         |
| as % of the total working population           | 16.8      | 11.4      | -29.0         |
| <b>Breakdown by sex (%)</b>                    |           |           |               |
| Men  | 67.3      | 65.6      | -2.5          |
| Women  | 32.7      | 34.4      | +5.2          |
| <b>Breakdown by age (%)</b>                    |           |           |               |
| 15-24 years                                    | 4.6       | 1.5       | -67.4         |
| 25-39 years                                    | 25.2      | 30.3      | +20.2         |
| 40-59 years                                    | 52.4      | 59.1      | +12.8         |
| 60 years and older                             | 17.8      | 9.1       | -48.9         |
| <b>Breakdown by activity</b>                   |           |           |               |
| Small farmers                                  | 1,691,000 | 806,826   | -52.3         |
| proportion of all independent workers          | 46.2      | 27.8      | -39.8         |
| Craftspeople, tradespeople, heads of companies | 1,763,000 | 1,737,752 | -1.4          |
| proportion of all independent workers          | 48.1      | 60.4      | +25.6         |
| Self-employed professionals                    | 208,020   | 338,996   | +62.9         |
| proportion of all independent workers          | 5.7       | 11.8      | +107.0        |
| <i>Source: INSEE.</i>                          |           |           |               |

independent workers: Compared with more than 6 million in 1955, they number no more than 2.9 million today. According to official statistics, they made up 11.4% of the working population in 1995.

This fall in overall numbers should not be interpreted as a general decline, however, since it encompasses several highly divergent trends:

- The number of small farmers has dropped very sharply, from 1.7 million to 800,000 in twenty years.
- The numbers of craftspeople and of tradespeople have remained much the same, but the nature of the jobs in these two categories has undergone major transformations. The hotel and restaurant business and various services have seen spectacular growth, whereas the number of retailers has fallen with the development of large stores. Changes in consumer trends have encouraged the establishment of new crafts (in the artistic, cultural, cosmetic and luxury fields), other forms of distribution, such as freelance representatives (whose numbers have greatly increased) and new service providers.
- The number of self-employed professionals, in particular in the areas of law and finance, has greatly increased. Note should also be taken of the increase of new categories of self-employed professionals (engineers, trainers, computer scientists, etc). For example, according to the French government office responsible for SMEs, the number of independent computer scientists working at home has increased from scarcely 1,500 in 1980 to more than 30,000 today. Many of them have the status of self-employed professionals.
- Moreover, the number of heads of companies with ten or more employees has increased significantly. However, their number has declined since the beginning of the 1990s (-20%), partly due to the deep recession that has affected the French economy over the past

few years; this situation also reflects the difficulty in promoting the entrepreneurial spirit in France.

According to the INSEE, the above compilation of independent workers includes both individuals working on their own account (without staff) and individuals running their own enterprises (with staff). However, there is a considerable difference between these two types of workers: The former have created their own jobs, whereas the latter have first created an enterprise. Moreover, although most independent workers enjoy a fair amount of autonomy, others, who are regarded or regard themselves as independent and who can work at home, are in fact "disguised" salaried employees, working for a single employer who "distributes the work and then takes the product". Despite the relative security the employer provides by offering gainful employment, these "quasi-independent" are actually in an insecure position: They are isolated, they have little influence on the market or in negotiations, and they are usually not covered by labour law.

Not all of these points emerge from the statistics. Today more than ever, it seems legitimate to question the merits of the classification currently used in INSEE's nomenclature for professions and socioprofessional categories; although it is regarded as authoritative, it is of no help in assessing the scale of the new forms of self-employment in France.

### New forms of "individual work"

The development of home-based entrepreneurs or the wave of "sohos"<sup>1</sup>: In France, the number of these new home-based entrepreneurs is estimated at between 700,000 and 1.2 million people,<sup>2</sup> the majority of whom are women. According to a 1997 poll on home-based entrepreneurs conducted by IFOP (the French public opinion institute), the majority (58%) of these "new entrepreneurs" are thought to be aged be-

tween 25 and 44, while a third are between 45 and 60 years old.

Their particular status may vary a great deal, but a good number of them have opted for the status of independent worker, in particular that of manager of an EURL or a SARL (10%), craftsman/tradesperson (18%), self-employed professional (20%), etc.

Although a majority of them have the status of independent worker, not all of them do. Some of these home-based entrepreneurs have opted for new forms of individual enterprise, which in fact amount to disguised forms of self-employment. This is the case where individuals sign employment contracts with:

- nominee companies (*sociétés de portage*);
- time-sharing associations (*associations à temps partagé*).

### Nominee companies

Nominee companies, which appeared in the mid-1980s, make it possible "to be one's own boss while at the same time enjoying the advantages of salaried employment". They have contributed to the creation of a new employment status, not yet recognised officially: that of the independent salaried worker.

The development of these companies (also called *sociétés d'hébergement* or *refacturation*) can be attributed to several causes:

- firstly, the rigidity of a worker's employment status. In France, it is necessary to choose a particular status (salaried worker or non-salaried worker) and stick to it. As matters stand at present, it is not possible to alternate situations; moreover, the transition from a salaried position to a non-salaried one entails many changes for anyone making this choice, notably in terms of social-security coverage;
- secondly, the French civil service and public policy in general have

<sup>1</sup> Soho is an acronym for "small office - home office".

<sup>2</sup> This is no more than an estimate that emerged from the 1997 IFOP survey.

not always encouraged the status of creator of an enterprise (excessive bureaucratic constraints, etc.);

- thirdly, the labour market situation, particularly difficult since the early 1990s, has encouraged this development, since many professional and management-level employees have been made redundant.

The salary-paying nominee companies enable these professional and managerial-level workers, usually unemployed, to carry out individual freelance assignments for companies, while at the same time keeping the status of salaried employees. The client company signs a service contract with a nominee company, which in turn gives the assignment to the person concerned under a fixed-term contract. The client pays the nominee company, which pays the person providing the service, after taking a commission (about 10% to 15% of the service provider's earnings).

The advantage of this scheme is that participants maintain their social security coverage and remain on file with the French unemployment bureau. Moreover, they enter into contact with enterprises, extend their networks of contacts, etc., and the nominee company facilitates their transition from salaried-employee status to independent status.

For the client company, this new arrangement is fully in line with the behaviour commonly adopted in times of economic difficulty, when outsourcing provides a means of reducing costs.

Unlike temporary work agencies, the nominee companies do not approach client companies: The professional workers subscribing to the scheme find their own assignments. The nominee companies deal only with the related accounting and taxation work, relieving the subscriber of all responsibility for administrative matters.

At present, this arrangement is expanding most rapidly in the field of information technology (assignments

to install Internet or Intranet servers); consulting services, training and communication are also well represented.

Actually, nominee companies are still few in number (around ten), operating at the limits of French labour law. However, APEC, the social partners agency that puts jobseeking professionals and managers in contact with employers, supports this type of experiment and encourages the former to subscribe to this arrangement while waiting to find regular staff positions or to create their own companies.

It seems clear that these companies are meeting a present need for a relaxation of French social security legislation (statutory mobility), while at the same time allowing salaried employees to move gradually towards the creation of their own businesses. This type of company, however, does not offer any technical help in this transition.

#### Time-sharing associations

The concept of the "multisalaried employee" (*multisalarier*) arose at the beginning of the 1990s in the Rhône-Alpes region. It was originally intended for long-term unemployed managers who were at least 50 years old. Since then, however, the scheme has been broadened to take in all managers and some persons below the managerial level.

Each subscriber to the association must work in the field, making companies aware of new ways of organising work (time-sharing), and helping them to determine their needs for certain skills and the length of time for which they require this expertise. Next, indexes are drawn up of the posts corresponding to the perceived requirements. Only after all these steps have been taken does the association propose interviews between the head of the company and the persons who may meet his/her needs. If the negotiations are successful, the person is employed part time by the company (not by the association) and may hold several jobs concurrently.

Generally, the maximum is two or three jobs.

To support this type of initiative, some regional authorities (*conseils régionaux*) give subsidies to companies that recruit a professional or managerial-level employee under the time-sharing arrangement.

#### Clandestine employment or "concealed" employment

Nominee companies and time-sharing associations are new forms of employment which have fully established themselves in the French legal context; there remains, however, another form which is not legal: clandestine employment. Each clandestine worker is an individual worker. The number of clandestine workers in France is estimated at 1.5 million. Over the past few years, there has, of course, been an increase in clandestine employment, particularly through the concealment of salaried employees. In 1995, this practice accounted for nearly half of all clandestine employment, whereas the use of foreigners without work permits, the best-known example of the clandestine worker, represented barely 10%. Traditionally, the construction business has been one of the sectors most likely to resort to concealed employment, but today other sectors are displaying the same tendency, particularly in services (60% of violations are in the hotel/café/restaurant, services and commercial sectors).

#### Temporary work: a new form of disguised independent work?

Going more deeply into the concept of individual work, the particularly strong expansion of temporary work agencies over the past two years raises certain questions. At the end of May 1998, more than 500,000 people were in temporary employment with an agency, an increase of more than 40% in one year. This steep rise is largely due to the general recovery of employment in France. According to the INSEE, "not only is temporary work on the

increase, it is establishing itself in the labour market". Here again, temporary work is another response to companies' demand for increasing flexibility. In view of the increasingly uncertain position of salaried employees in the job market, temporary work is a form of unstable employment which gives the worker a status that affords more protection than does a fixed-term contract. Today, more and more young people know that they have to go through the temporary work stage in order to get onto the job market, and they no longer think twice about resorting to it; some of them even come to like it (they are usually better paid than they would be as salaried employees). Although the exact figure is not known at present, the proportion of persons who stay in temporary employment because they want to is by no means negligible.

### Public policies aiming to promote "individual work"

Successive governments in France have pursued two broad types of policy:

- on the one hand, policies aiming to encourage the multisalary arrangement, particularly through the creation of employers' groups;
- on the other, policies aiming to encourage the creation of enterprises, including individual enterprises, which make up the majority of enterprises created in France today.

### Employers' groups

The law of 25 July 1985 entitled small and medium-sized enterprises to associate in order to recruit salaried workers whom they would have been unable to employ acting separately. These employees are placed at the disposal of the persons or legal entities affiliated to the group.

In the same way as time-sharing associations, which are more specifically concerned with managers, this law aims to encourage stable em-

ployment for salaried workers. But the position differs from that of the time-sharing arrangement in that there is only one employer, a single salary status and a single employment contract; it is therefore more attractive than arrangements (time-sharing) that bind the worker to several employers through numerous part-time or fixed-term contracts.

Owing to the limited initial success of this arrangement, certain provisions were relaxed by the five-year law of 20 December 1993. Whereas employers' groups had initially been open only to enterprises with fewer than 100 employees, this threshold was raised to 300; in addition, an enterprise can now belong to two groups.

Moreover, the five-year law broadened the relevant clauses by creating "local employers' groups" specific to clearly defined areas of the country (those eligible for the development subsidy or for programmes for concerted development of rural areas). These groups can be constituted only from within these zones, and conditions for membership are more flexible (no ceiling on staffing numbers, the right to be members of an unlimited number of local employers' groups, etc.).

According to a DARES study in 1996, the system of employers' groups is of undeniable value, even if it still has limitations in terms of the types of job concerned:

- Employers' groups permit the holding of several jobs, sharing of work among several employers, and greater flexibility in the management of enterprises; moreover, they facilitate the alternation of periods of training and of activity.
- This arrangement thus caters for changes in work and activity, which are required but which cannot be developed at present, notably because of French labour law.
- The advantage of such arrangements is that they make short-term employment more stable and provide better qualifications and training for persons in the process of integration.

- They encourage partnerships between local players as well as the networking of member enterprises.

### Public policies on business start-ups

Since the late 1980s, successive governments have taken various measures to encourage the development of individual enterprises, but these policies have often gone no further than the creation of an employment status, sometimes accompanied by measures to simplify administrative steps (in particular, the Madelin law of 1994). They have not, however, really encouraged the development of this status.

- The status of the "individual enterprise": Being relatively flexible, this status imposes few obligations on the person choosing it. To commence activity, one need only register with the appropriate office. Moreover, no minimum financial capital is demanded, and it is not necessary to draft statutes. This status, however, presents serious disadvantages: The entrepreneur cannot be treated like a salaried employee and, as such, cannot benefit from favourable social security coverage (health and retirement insurance) or unemployment insurance. Moreover, in case of bankruptcy, the liability of the entrepreneur extends to his/her personal property.
- The status of the EURL, or individual enterprise with limited liability, is more demanding: It is actually a limited company with a single partner. To obtain this status, one must have a minimum capital of FRF 50,000 and must draft statutes which must be published in a periodical of legal announcements.

The status of the "individual enterprise" has been by far the most successful over the past ten years, so much so that, according to the INSEE, seven out of ten new enterprises have adopted it. This trend is continuing: According to the APCE

(agency for the creation of enterprises), of the 167,000 enterprises created from scratch in 1997, 56% chose this status.

Public policies to encourage the development of enterprise creation in France have been mainly oriented towards several different objectives:

- struggling against unemployment, mainly through the ACCRE (aid to unemployed persons who create enterprises);
- participating in national and regional development (with some exemptions for companies in priority areas for development);
- supporting innovation through the ANVAR (national agency for the promotion of research), which incidentally is greatly appreciated;
- reducing the risk run by banks in the creation of enterprises, notably through SOFARIS (a body that manages various funds, serving in particular to provide security to institutions – banks, venture-capital companies – that finance enterprise creation).

An evaluation report about aid to the creation of enterprises<sup>3</sup>, published in 1997, concluded by emphasising that “there is, practically speaking, no assistance whose direct objective is enterprise creation. Enterprise creation is aided only where various other economic and social objectives are being pursued”. The study concludes, exaggerating matters slightly, by stressing that “an entrepreneur who is neither unemployed, nor located in a regional development area, nor very innovative, will receive no help”.

The report also stresses that “a large number of actors are involved

at all levels but that their actions are not coordinated”. In its conclusions, the *Commissariat Général au Plan* (French Planning Commission) puts forward various solutions (in particular, start-up aid to any creator of an enterprise, unemployed or not, of around FRF 50,000, to be repaid after three years if the enterprise survives). However, the recommendations as a whole presuppose better coordination on the part of the actors involved in these arrangements. In any event, the results of this assessment have not been reflected in policy-making.

It seems, however, that the present government has partly taken stock of France’s situation in this area, particularly its deficiencies and the delay in supporting enterprise creation. Under the impetus given by business organisations, in particular “Croissance Plus”,<sup>4</sup> the government has worked over the past few months on a redefinition of French policy on innovation.

Under the cover of innovation, there seems to be a desire to rehabilitate the image of the entrepreneur, to create an environment favourable to enterprise creation (which would concern mainly individual entrepreneurs), while at the same time encouraging the development of enterprises in the field of new technologies (start-ups). In France today, such a rehabilitation is essential to encouraging the gradual development of new forms of employment based on individual work and the adaptation of the corresponding legal framework.

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<sup>3</sup> Published by the *Commissariat Général au Plan* under the “evaluation” section of the five-year law.

<sup>4</sup> The association “Croissance Plus” was formed in June 1997 on the initiative of managers who had founded very high-growth enterprises whose success was based on new technologies and innovation. These enterprises are new, well-known and successful; most of them are leaders in their fields, and they continue to create jobs.



## Legal and institutional background

Apart from specific taxation provisions (see below), there is no generalised legal category covering self-employment as such in Ireland. As long as laws and regulations relating to taxation, local planning and health regulations, employment, etc. are observed, one is free to set up and operate a business on a self-employed basis. Obviously, for some professional activities, such as medical doctors, pharmacists and accountants, there are statutory competence-setting bodies with which practitioners must be registered, but in these circumstances the registration requirements apply equally, whether one is self-employed or working as a paid employee.

Self-employed persons are, however, treated as a special category (Schedule D) for income-tax purposes. However, at some point in their operations, many self-employed persons reconstitute their business as a "limited liability company", and thereafter, for tax purposes, they cease to be regarded as self-employed and are treated as employees of the company in question. This generally makes little difference to the commercial operation of the business, and the individuals in question may continue to view their status as "self-employed", even though in a taxation context their status may be different. In censuses and Labour Force Surveys, information on the official distinction as just explained is sought, but it must be recognised that the replies obtained would be heavily dependent on the subjective views of the respondent concerning his or her circumstances. These data sources, which form the basis of the analyses in the next section, provide the only comprehensive source of information on self-employment in Ireland.

## The overall pattern of self-employment

Table 1 provides a brief résumé of the overall position regarding self-employment and paid employment in Ireland; it includes not only relevant data for 1997, but also corresponding figures for 1983, thus allowing trends to be analysed over a relatively long period.

In 1997, some 267,000 persons, or over 19% of the total 1.38 million persons at work in the Irish economy, were engaged in a self-employed capacity. Most of these (193,000) were sole operators (i.e. without employees), the remainder, numbering 74,000, had at least one paid employee. However, when viewed in this overall sense, the scene is dominated by the agricultural sector, as a significant proportion of the self-employed are farmers. If agriculture is excluded, the position is somewhat different; the figures show that the incidence of self-employment in the non-agricultural sector of the economy is just under 13%.

The observed trend in the overall pattern of self-employment is partic-

ularly influenced by events in agriculture which, in employment terms, has been in long-term secular decline for reasons which are as much demographic as economic.<sup>1</sup> In this context, it is best to exclude agriculture from the analysis, as is done in the lower half of Table 1.

These figures show that the number of self-employed persons outside of agriculture increased by some 57% (from 101,000 to 159,000) over the period 1983 to 1997. This represents a rate of increase of more than twice that evident for paid employees, for which the corresponding rise was about 28%. When viewed in distributional terms, these figures indicate that the

<sup>1</sup> Research by Kearney (1992) has shown that the fall in the size of the agricultural workforce is not caused primarily – or even significantly – by farmers becoming unemployed or leaving to take up positions elsewhere. Instead, the decline is due principally to the combined forces of increased productivity, retirement and deaths, and a reduced rate of entry. Current expectations are that the level of employment in agriculture will continue to decline, but the pace of this reduction is likely to be modulated by the ebbs and flows in the relative fortunes of the farming and non-farming communities.

**Table 1: Total at work by employment status, 1983 and 1997**

| Employment status  | 1983<br>(in 1,000s) | 1997<br>(in 1,000s) | Change 1983/<br>1997 (in %) |
|--|---------------------|---------------------|-----------------------------|
| All sectors  |                     |                     |                             |
| Self-employed  |                     |                     |                             |
| Employers  | 49                  | 74                  | 51.1                        |
| Others   | 189                 | 193                 | 2.1                         |
| Employees  | 862                 | 1,094               | 26.9                        |
| Family workers   | 46                  | 17                  | -63.0                       |
| Total  | 1,145               | 1,379               | 20.4                        |
| All sectors (excl. agriculture)  |                     |                     |                             |
| Self-employed  |                     |                     |                             |
| Employers  | 39                  | 63                  | 61.5                        |
| Others   | 62                  | 96                  | 54.8                        |
| Employees  | 840                 | 1,073               | 27.7                        |
| Family workers   | 10                  | 5                   | -50.0                       |
| Total  | 950                 | 1,237               | 30.2                        |
| <i>Note:</i> Employment is defined according to ILO concepts.                          |                     |                     |                             |
| <i>Source:</i> Central Statistics Office: <i>Labour Force Surveys</i> , 1983 and 1997. |                     |                     |                             |

proportion of self-employed persons at work in the non-agricultural sector of the economy increased from 10.5% to just under 13% during the period in question.

Within the self-employed group, employers (i.e. those with at least one paid employee) rose at a marginally faster pace than the general body of self-employed persons. However, by 1997, own-account workers without any employees still constituted a significant majority (60%) among the non-agricultural self-employed as a whole.

The great majority of non-agricultural self-employed persons are men (78.6% in 1997). However, this proportion has been falling; the corresponding male share in 1983 was 82.5%.

## Sectoral distribution

Table 2, which contains a sectoral subdivision of the employed workforce outside of agriculture classified by employment status, reveals that in 1997 one-third of self-employed persons were working in the distribution and hotels, etc. sector, about 17% in building and construction and a somewhat smaller proportion in finance, business and professional services. In total, these sub-sectors account for two-thirds of all non-agricultural self-employed workers.

Table 2 also shows sectoral data for 1983, along with relative changes for the 1983/97 period. The fastest rates of growth in self-employment relate to some of the smaller service sub-sectors, such as transport, finan-

cial, business and professional services, and personal services, for each of which the numbers involved more than doubled over the fourteen-year period in question.

Increases were also recorded in the distribution and hotels, etc. sector and in building and construction, as well as in manufacturing, but these were of a smaller order of magnitude. In fact, the rise in self-employment for distribution and hotels, etc. (17% over the period involved) is the smallest recorded and is unique in that it is the only sector for which the proportionate increase in the numbers of own-account workers is smaller than that for paid employees. This primarily reflects the elimination of many small retail food establishments in recent decades. Within this group, however, self-employment in the catering and restaurant trades did show a significant increase.

## Cyclical influences

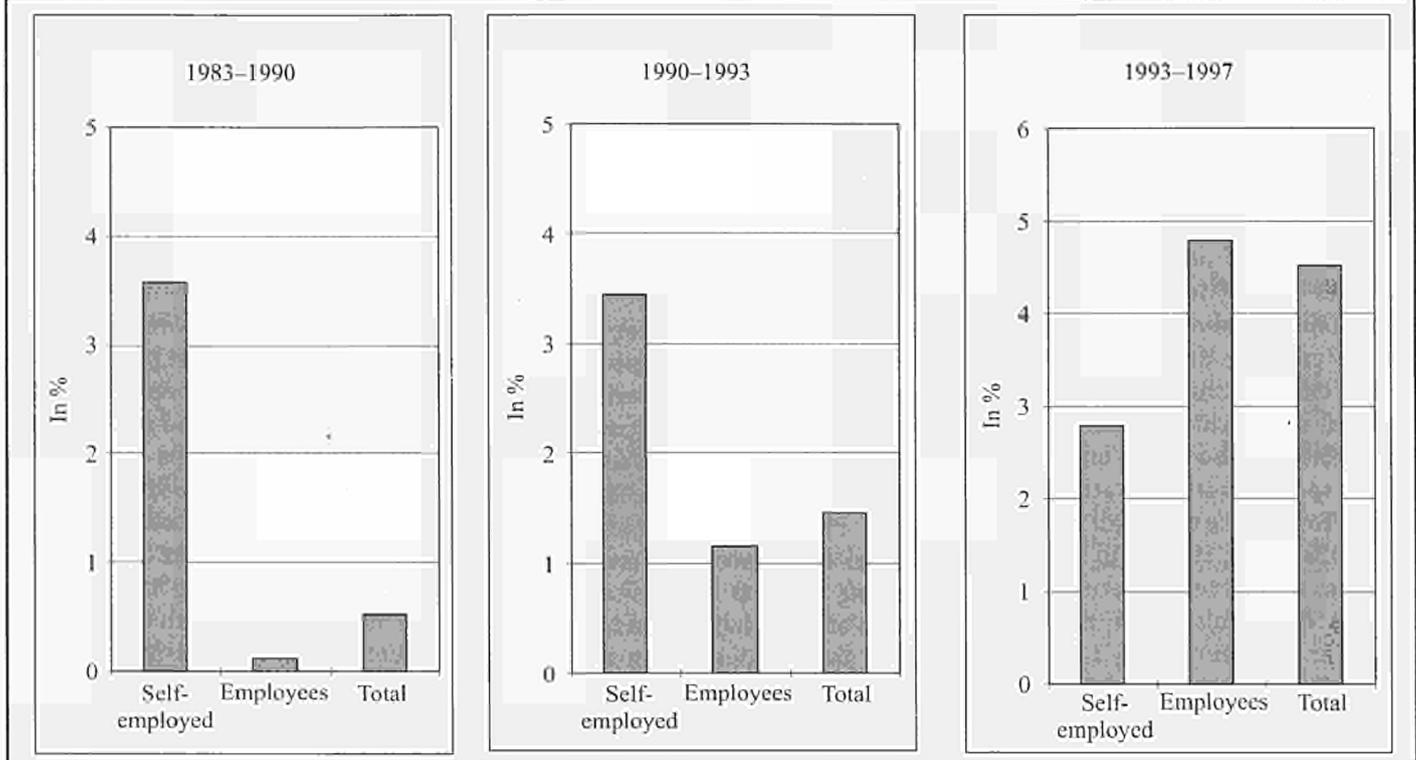
Even though there has clearly been a long-term sustained increase in non-agricultural self-employment, the phenomenon is also subject to cyclical influences. Figure 1 shows annual average rates of change for the numbers of self-employed and paid employees outside of agriculture for three selected time intervals over the period 1983 to 1997. The first two sub-periods, 1983–1990 and 1990–1993, involved at best sluggish economic growth; in fact, the first was characterised by recession for most of the period involved. However, the period from 1993–1997 was one of relative economic boom in the Irish economy, involving rapid output and employment growth.

The graphs indicate considerable variation in the trend in self-employment for the different periods. Between 1983 and 1990, self-employment rose rapidly (by 3.6% on an annual average basis), while there was virtually no expansion in the number of paid employees, i.e. virtually all of the net employment growth which occurred during this period was at-

| Sector                          | Employment<br>(in 1,000s) |       | Self-employment<br>share (in %) |      | Change<br>1983/<br>1997<br>(in %) |
|---------------------------------|---------------------------|-------|---------------------------------|------|-----------------------------------|
|                                 | 1983                      | 1997  | 1983                            | 1997 |                                   |
| Manufacturing                   |                           |       |                                 |      |                                   |
| Self-employed                   | 12                        | 19    | 4.8                             | 6.7  | 65.6                              |
| Employees                       | 234                       | 273   |                                 |      | 16.9                              |
| Total                           | 246                       | 293   |                                 |      | 19.2                              |
| Construction                    |                           |       |                                 |      |                                   |
| Self-employed                   | 17                        | 27    | 19.9                            | 27.8 | 57.7                              |
| Employees                       | 69                        | 70    |                                 |      | 2.3                               |
| Total                           | 86                        | 98    |                                 |      | 13.1                              |
| Distribution, hotels, etc.      |                           |       |                                 |      |                                   |
| Self-employed                   | 45                        | 53    | 22.3                            | 19.6 | 17.4                              |
| Employees                       | 156                       | 215   |                                 |      | 37.8                              |
| Total                           | 200                       | 268   |                                 |      | 33.8                              |
| Transport, etc.                 |                           |       |                                 |      |                                   |
| Self-employed                   | 7                         | 15    | 9.4                             | 17.6 | 125.4                             |
| Employees                       | 64                        | 69    |                                 |      | 9.1                               |
| Total                           | 70                        | 85    |                                 |      | 20.4                              |
| Finance, etc.                   |                           |       |                                 |      |                                   |
| Self-employed                   | 10                        | 24    | 11.8                            | 16.8 | 131.2                             |
| Employees                       | 77                        | 118   |                                 |      | 53.3                              |
| Total                           | 88                        | 143   |                                 |      | 62.3                              |
| Non-market services             |                           |       |                                 |      |                                   |
| Self-employed                   | 5                         | 10    | 2.1                             | 3.4  | 115.0                             |
| Employees                       | 220                       | 288   |                                 |      | 30.5                              |
| Total                           | 225                       | 298   |                                 |      | 32.3                              |
| Personal services               |                           |       |                                 |      |                                   |
| Self-employed                   | 5                         | 11    | 15.7                            | 20.9 | 107.6                             |
| Employees                       | 29                        | 42    |                                 |      | 47.2                              |
| Total                           | 34                        | 53    |                                 |      | 56.3                              |
| All sectors (excl. agriculture) |                           |       |                                 |      |                                   |
| Self-employed                   | 101                       | 159   | 10.6                            | 12.9 | 58.0                              |
| Employees                       | 850                       | 1,078 |                                 |      | 26.8                              |
| Total                           | 950                       | 1,237 |                                 |      | 30.2                              |

Note: The figures for employees contain a small number of family workers.

**Figure 1: Annual average rates of employment change by employment status (for all sectors excluding agriculture) for selected periods between 1983 and 1997**



tributable to self-employment. In fact, even though the figures are not presented here, the number of male paid employees actually declined during this time span, reflecting in part the elimination of many full-time jobs in traditional areas of industry which occurred during these years. In the period 1990-1993, the growth in self-employment continued (at much the same pace as in the preceding period), but the figures now also indicate a modest recovery in paid employment (even though a significant part of this related to part-time work). With the advent of rapid economic growth after 1993, the scene changed dramatically. The rate of increase in self-employment slowed and the numbers in paid employment began to rise rapidly, increasing by nearly 5% in the four years to 1997.

These figures suggest that in periods of recession, when significant numbers in paid employment are faced with the prospect of unemployment, there is a tendency to turn to self-employment as an alternative. The more recent figures also indi-

cate, however, that in periods of economic recovery (especially if this is strong and sustained), the pattern tends to change again, with paid employment expanding and, at the same time, somewhat reduced numbers entering self-employment.

### Factors influencing self-employment: policy initiatives

Looking at the issue in a broad economic or social context, one can suggest a number of different reasons for the long-term rise in the incidence of non-agricultural self-employment. Working on one's own account obviously conveys greater flexibility and personal choice. It also holds out the prospect of greater rewards. There are also, of course, greater financial risks, but against this it must be said that all employment, including paid employment, has become more precarious over the years. There has also been an increasing tendency for larger enterprises to outsource the purchase of services, thus promoting the

expansion of other (usually smaller) businesses.<sup>2</sup> Another contributing factor would be a more benign tax regime when compared with the rigid withholding system as applied to paid employees.

Pressure from unemployment is likely to have been another factor, even though, as indicated above, there is a strong cyclical influence involved here. Nevertheless, the prolonged recession of the 1980s prompted many to enter self-employment as an alternative to unemployment, and some of these (presumably the more successful) would have opted to remain in that position even when the economy improved. Self-employment is not, of course, an option for everyone; such a choice would depend very much on the occupation followed by the person at risk of unemployment and on the degree of skill or experience acquired.

<sup>2</sup> In some instances, this takes the form of former employees being re-engaged as "subcontractors" on a self-employed basis. This type of development tends to make the borderline between paid employment and self-employment more obscure.

The opportunities for working on one's own account are better in certain sectors, such as building and construction, which saw a large increase in the incidence of self-employment during the 1980s, a time when paid employment in the sector declined substantially.

Because Ireland is essentially a nation of small businesses (it is estimated that 90% of non-agricultural enterprises employ fewer than ten people), policy involves a strong emphasis on creating an environment in which existing small businesses can expand and which facilitates the emergence of new small enterprises. As for specific initiatives, the Report of the Task Force on Small Businesses, published in 1994, and the Small Business and Services Forum, which advises the Minister for Enterprise Trade and Employment, have been especially influential. In this context, a small business is defined as having less than 50 persons employed. Clearly, not all of these are operated on a self-employed basis as previously described, but the policy measures that have emerged from these initiatives have provided significant support to self-employed persons in expanding their businesses and in facilitating self-employment start-ups.

Policy aspects which have received particular attention involve:

- access to finance, including the introduction of new sources or instruments to support business start-ups;
- development of a national strategy to ease the administrative burdens placed on small businesses by public agencies;
- strengthening the entrepreneurial, technical and vocational dimensions of curricula within second-level schools and enhancing the

capacity of third-level colleges to support business and industry.

There are also specific policy instruments under the umbrella of the EU Community Support Framework (CSF) that promote self-employment. The Operational Programme for Local Development has facilitated the establishment of County Enterprise Boards (35 throughout the country) with a view to promoting the development of micro-businesses at local level.<sup>3</sup> The Boards provide a flexible range of financial assistance involving a mix of capital, employment and feasibility study grants. Recipients are, however, required to carry a share of the risk. This Operational Programme also provides financial assistance under a separate heading for the expansion of economic activity in specified disadvantaged areas (called Partnership Areas, as the support mechanisms involve the social partners and community groups). A significant part of this support takes the form of assisting previously unemployed persons to set up their own businesses.

In addition to these initiatives, efforts to promote self-employment among the unemployed also include FAS (Training Agency) Enterprise Training programmes and in-work support such as the Back-to-Work Allowance Scheme (BTWAS). Under the latter measure, which is run by the Department of Social, Family and Community Affairs, persons can retain their welfare payments on a sliding scale for up to three to four years. This scheme has been expanded substantially in recent years; it is not based solely on assisting self-employment start-ups, but a majority of the participants enter self-employment.

There is also a Small Business Operational Programme (under the EU

SME initiatives) that aims to encourage small and medium-sized industrial or service enterprises to adapt to the Single Market and to ensure that they become internationally competitive. The various types of support covered under this operational programme relate to public purchasing, promoting service industries, dissemination of best practice and developing the skills of owners and managers.

In summary, the foregoing commentary illustrates that policy in Ireland has generally been supportive of entrepreneurship and self-employment. Significant steps have been taken, especially in recent years, to mitigate or remove obstacles. There does tend, however, to be an ongoing debate concerning the relationship between the Irish educational system and the world of commerce or business. Some hold the view (especially employers) that the educational system, while satisfactory in terms of academic standards, does not sufficiently promote an enterprising culture. Some of the changes and reforms of recent years (such as expansion of the vocational component of the senior cycle of second-level education) have included provisions designed to address this issue.

Jerry Sexton

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<sup>3</sup> A micro-business is defined as one with ten or less persons employed.



## Assessment of self-employment

### Types of self-employment

Self-employment represents a larger share of total employment in Italy than the European average, and its incidence has been quite stable since the early 1980s. In addition, Italy has the largest share of self-employed with no employees (own workers). The latest data from ISTAT Labour Force Surveys<sup>1</sup> indicate that in the first three quarters of 1998, there were 5.720 million self-employed workers, which was equivalent to 28.4% of total employment (compared to the EU average of 17% in 1995).

These data probably underestimate the magnitude of self-employment, because many dependent workers have second jobs as self-employed. ISTAT national accounts indicate that second and third jobs represented half of all the self-employed jobs in 1997, equivalent to 19% of full-time self-employed jobs. In addition, in Labour Force Surveys, the definitions of dependent and non-dependent employment are based upon the subjective perception of the respondent. Thus, it is possible that some new forms of self-employment, which are midway between dependent and independent labour, are under-represented.

The self-employed are heterogeneous, and their composition has been changing throughout the 1990s. Labour force data presented in Table 1 indicate that in recent years (1993–1997), the highest increase has occurred among entrepreneurs (+15.4%), freelance professionals (+22.6%) and cooperative partners (+70%), while the share of own workers and family workers has shown a decline from 80% of total self-employment in 1993 to 74% in 1997.

It is especially occupational positions midway between dependent and independent work (freelance work and collaborators) that have rapidly increased in recent years, especially in northern Italy and in the service sector. This category includes administrators and auditors, collaborators on newspapers and journals, members of examination commissions, and all other workers who collaborate regularly with specific companies or firms, such as door-to-door salespeople, technicians, etc. These new forms of self-employment are defined by sociologists as the second-generation self-employed and by jurists as para-dependent workers. Administrative data based on the social security positions of collaborators and freelance professionals (INPS, 1998) show an increase from 955,000 jobs in 1996 to 1.3 million in December 1997 (+38%), which is equivalent to 6.5% of total employment in Italy. Probably some of this growth is due simply to the “emer-

gence” of hidden forms of employment.

### Incidence and Evolution

National accounts data presented in Figure 1 show that the upward trend of self-employment began in 1977 and was sustained until 1984, during a period of intense restructuring in the Italian economy following the in-

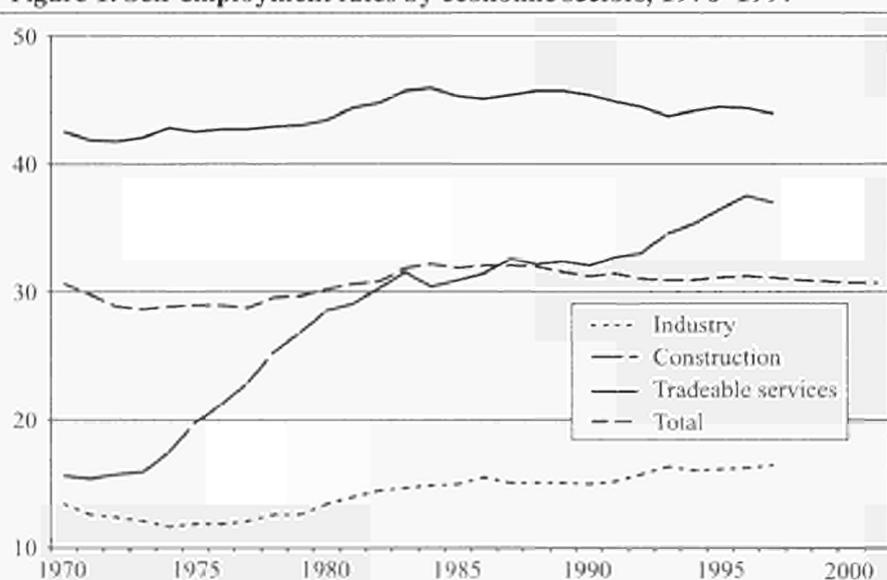
1 There are different sources of data on self-employment in Italy, but no complete information. The main sources are ISTAT national accounts and Labour Force Surveys. National accounts data are the only means to illustrate a long time series on employment, but are difficult to compare with other sources, their unit of measure being based on labour units, indicating labour input standardised per full-time employment. On the other hand, Labour Force Survey data, which measures “heads”, present comparable data only since 1993. Recently, the availability of administrative data from INPS and tax declarations have broadened the information available, especially as regards new forms of self-employment. These data are, however, very recent and have the usual shortcomings of administrative records.

Table 1: Self-employment by sex, age, education and position (in %)

|                                    | Men   |       | Women |       | Total |       |
|------------------------------------|-------|-------|-------|-------|-------|-------|
|                                    | 1993  | 1997  | 1993  | 1997  | 1993  | 1997  |
| By age                             |       |       |       |       |       |       |
| 15–29 years                        | 17.3  | 16.2  | 19.6  | 18.4  | 18.0  | 16.9  |
| 30–49 years                        | 49.2  | 52.7  | 50.0  | 53.0  | 49.5  | 52.8  |
| Over 50 years                      | 33.5  | 31.1  | 30.4  | 28.6  | 32.6  | 30.3  |
| Total                              | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| By professional position           |       |       |       |       |       |       |
| Entrepreneurs                      | 7.0   | 7.8   | 3.2   | 4.7   | 5.9   | 6.9   |
| Freelance professionals            | 12.6  | 15.1  | 7.3   | 10.7  | 11.1  | 13.8  |
| Own workers                        | 68.8  | 64.0  | 52.7  | 50.5  | 64.0  | 60.1  |
| Members of production cooperatives | 2.7   | 4.7   | 3.8   | 6.5   | 3.0   | 5.2   |
| Family workers                     | 8.9   | 8.5   | 33.0  | 27.5  | 16.0  | 14.0  |
| Total                              | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| By level of education              |       |       |       |       |       |       |
| PhD or Masters                     | 0.6   | 0.8   | 0.5   | 0.6   | 0.6   | 0.7   |
| University education               | 8.6   | 10.0  | 5.8   | 8.8   | 7.8   | 9.7   |
| Upper secondary education          | 18.8  | 24.0  | 16.5  | 21.5  | 18.1  | 23.3  |
| Vocational training                | 3.5   | 4.7   | 5.0   | 6.8   | 4.0   | 5.3   |
| Lower secondary education          | 36.8  | 38.1  | 35.1  | 35.6  | 36.3  | 37.3  |
| Primary education                  | 31.7  | 22.5  | 37.0  | 26.7  | 33.3  | 23.7  |
| Total                              | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

Source: Labour Force Surveys.

Figure 1: Self-employment rates by economic sectors, 1970-1997



Source: ISTAT, National accounts data.

ternational crisis that led to increasing unemployment and the decentralisation of firms' economic activities. In the 1990s, self-employment declined together with overall employment.

Labour force and INPS data presented in Tables 1 and 2 allow us to analyse the gender, age and educational composition of self-employment in Italy, as well as its distribution across sectors and territorial areas. The latest structural data (relating to 1997) show that:

- Self-employment is more widespread among adult men with previous labour experience in dependent labour; this category accounts for 59.5% of total self-employment in 1997.
- In the 1990s, however, the propensity of young people to start an autonomous activity has been growing rapidly because of increasing difficulties in finding stable, dependent jobs and because of public incentives generally aimed at the young. Recent re-

search, based on flow data from administrative sources (Rapiti, 1997; Ricci, 1997), show that in recent years, inflows into self-employment are mainly represented by young people entering the labour market for the first time. Young people, in particular young women<sup>2</sup>, represent a fifth of collaborators registered in the INPS files, while prime age men are largely represented as entrepreneurs in productive modern activities (especially in northern Italy) and in professional categories, areas which are difficult to access without sufficient capital and experience. The increasing share of young people finding their first access to the labour market through collaboration is largely due to the lower costs for firms and the greater flexibility in the use of this form of employment relative to dependent employment: Social security contributions are much lower (10% versus 33%), there are no employment protection regulations (especially in the field of hiring and firing) and workers have no union rights. A recent Censis survey (1997) among the self-employed of second generation, on the other hand, shows that if one-third had to accept these forms of employment out of need, another third preferred this form of employment to dependent labour.

- Women are under-represented among the self-employed (29% in 1997). They also have traditionally occupied the weakest positions: homeworkers, family workers and collaborators. This pattern is rapidly changing in the 1990s, however: As shown in Table 1, in the case of women, the increase in the incidence of entrepreneurs and freelance professionals is higher than for men; likewise, the decline among home and family workers is greater. The increase in the incidence of entrepreneurs is evident in all economic sectors, while free-

Table 2: Distribution of collaborators and freelance professionals, December 1997 (in %)

|                                    | Men   | Women | Total |
|------------------------------------|-------|-------|-------|
| <b>By position</b>                 |       |       |       |
| Professionals                      | 13.4  | 8.3   | 11.3  |
| Collaborators                      | 84.5  | 90.0  | 86.8  |
| Mixed figures                      | 2.1   | 1.6   | 1.9   |
| Total                              | 100.0 | 100.0 | 100.0 |
| <b>By territorial distribution</b> |       |       |       |
| North-West                         | 35.6  | 34.4  | 35.1  |
| North-East                         | 28.1  | 22.7  | 25.9  |
| Centre                             | 22.1  | 22.1  | 22.1  |
| South                              | 14.2  | 20.9  | 16.9  |
| Total                              | 100.0 | 100.0 | 100.0 |
| <b>By age</b>                      |       |       |       |
| < 18 years                         | 0.1   | 0.7   | 0.3   |
| 19-30 years                        | 18.1  | 34.6  | 24.9  |
| 31-50 years                        | 50.5  | 49.5  | 50.1  |
| 51-60 years                        | 21.0  | 11.7  | 17.1  |
| > 60 years                         | 10.3  | 3.6   | 7.5   |
| Total                              | 100.0 | 100.0 | 100.0 |

Source: INPS, 10% fund, 1998.

<sup>2</sup> The INPS data presented in Table 2 show that only 18% of men are under 30 years old, compared to 35% of women.

lance professionals are growing particularly in the industrial and service sectors (especially health and educational services).

- The increasing presence of young people and of highly skilled professionals among the self-employed can be explained by the high rise in educational levels among the self-employed. The incidence of self-employed workers with at least an upper secondary education rose from 26.4% in 1993 to 33.7% in 1997, although educational levels are still lower on average than in dependent employment.
- The regional distribution of self-employment reflects the differing roles of this form of employment in the labour market. In southern Italy, self-employment is mainly a way to absorb excess labour supply and to circumvent fiscal and employment regulations: It is concentrated in trade services (61% of employment in this sector) and in agriculture, and displays a marked cyclical trend. In northern Italy, it is a result of a tradition of craft work and small family firms, of exemption from heavy employment regulation, and of the expansion of professional groups in business and personal services. It is in fact concentrated in the industrial and service sectors and follows a much more stable pattern than in central and southern Italy. The new forms of self-employment are concentrated in northern Italy (61% of total positions registered up to December 1997), and particularly in the four most developed regions. The self-employed in southern Italy are, by contrast, predominantly traditional professional workers (lawyers, doctors, jurists, etc.). The different distribution of self-employment in northern and southern Italy may also be inferred from the disaggregations for sex and age of the collaborative jobs registered by the INPS in the two territorial areas: While in northern Italy most positions relate to men who are mid-

dle-aged or older (28% are over 51 years old<sup>3</sup>), in southern Italy they are mainly young people (32% are under 30 years old) who probably had no other entry point to the labour market.

- Self-employment is especially present in the service sector, where it represented 44% of total employment in 1997, and in agriculture (67.7% in 1997), but these two sectors have reduced their share of self-employment during the last decade, while self-employment has been increasing its incidence in the industrial (reaching 15.5% of total labour inputs in 1997) and construction sectors (37% in 1997) due to subcontracting and flexibilisation practices (Figure 1)<sup>4</sup>. In the private services sector, it is traditionally commercial, business, insurance and personal services that employ a large share of self-employed. In recent years, however, self-employment in the commercial sector has declined dramatically (-7.1% between 1993 and 1997) due to restructuring and increasing competitive and fiscal pressure. The traditional self-employed shopkeeper has been gradually substituted by large commercial companies, employing dependent workers and/or franchising commercial activities to a new type of shopkeeper who, even if considered self-employed, has less autonomy than in traditional retail business. Another pattern of contracting out widely used in Italy is through work cooperatives, where partners are often non-dependent workers. Service cooperatives operate mainly in the cleaning, personal services and maintenance sectors and have been increasingly used by the public sector for contracting out some services.
- Self-employed workers usually work longer hours than dependent workers, but working time is flexible and self-organised, which probably explains why women sometimes tend to prefer self-employment to dependent work. On the other hand, recent surveys on

second-generation self-employment show that working times are particularly erratic and unforeseeable for these workers, being entirely determined by the employers (Censis, 1997; Semenza, 1998; Bologna et al., 1997).

- It is difficult to compare earnings between dependent and non-dependent workers in Italy due to the frequency among non-dependent workers of fiscal evasion. Fiscal data show that the earnings of the second-generation self-employed are usually lower on average than earnings from dependent work. There are, moreover, wide differences across regions and typologies of the self-employed, with Lombardy presenting the highest earnings and young people in southern Italy the lowest. According to a Censis survey, 52% of young independent southerners earn less than Euro 500 per month, while northern adult professionals earn, on average, more than three times that sum.

## Analysis and evaluation

The large share of self-employment in Italy is the result of economic, social and cultural factors (De Luca & Bruni, 1993; Reyneri, 1996; Bologna et al., 1997). Some of these are common to other western countries, too, such as the increasing role of the private service sector and the quest for more flexible organisational patterns in the industrial sector through the outsourcing of services and activities, which is facilitated by modern technology. Other factors are, however, peculiar to the Italian situation and help to explain why in Italy the incidence of independent labour is higher than in other western countries:

<sup>3</sup> Probably in large part pensioners, who work occasionally in professional practises.

<sup>4</sup> During the 1970s and 1980s, self-employment increased especially in the service and construction sectors, contributing to 26% of total employment growth. In the 1990s, its incidence has increased in the industrial and construction sectors, where dependent employment was drastically reduced (-14% and -11%, respectively), while it has declined slightly in the private service sector.

- the strictness and rigidity in the regulation of dependent work, especially in the field of hiring and firing. Self-employment, the small firms sector and non-regular work constitute large areas of flexibility in the labour market with numerous overlaps and no clear-cut boundaries. 38% of the non-regular labour units estimated by the ISTAT national accounts data were represented in 1995 by independent positions. Non-regular work in Italy is mainly connected with tax evasion, non-respect of labour legislation (minimum wages, health and safety measures, hiring and firing legislation, working time, working conditions, etc.) and evasion of social security contributions. Non-regular work is more widespread in southern Italy, where it represents 34% of total labour as compared with 18% in the central-northern region, and it generates fiscal and social distortions, a proliferation of precarious jobs with poor working conditions, and economic activities that could not survive in the "regular" economy;
- the high incidence of the tax wedge (taxes and social contributions) on dependent labour, which amounts to almost 50% of labour costs, as a strong incentive for firms to use collaborators with an independent position whenever possible or to outsource activities to small firms or cooperatives based on self-employed collaborators. The contributive wedge over labour costs (i.e. employers' and workers' social security contributions) is still among the highest in the OECD, and it has increased in the 1990s;
- the tradition of artisan work and small family firms and the presence of various social networks, such as industrial zones, which favour self-employment in handicrafts and small firms. The Italian economic and sociological literature on industrial zones analyses this link in detail (Bagnasco, 1977; Beccattini, 1998; Brusco, 1989);

- the tolerance for fiscal evasion, which is easier with independent earnings, as another factor that contributes to explaining the high incidence of self-employment in Italy;
- the system of income support during unemployment, which is extremely differentiated and not generous for the majority of the unemployed<sup>5</sup>, may explain the cyclical pattern of self-employment. In this case, self-employment functions as a social shock absorber: a way in which labour supply reacts to the deterioration in employment and earnings conditions in periods of recession.

## Policy

### Policy issues

The main barriers against self-employment stem from the procedures one must go through to start up a business, the uncertainty of the business world and the difficulty in gaining access to low-interest credit. This last issue is particularly problematic, as shown by recent investigations on the diffusion of usury victims among craftspeople and shopkeepers.

On the other hand, many national and regional measures have been implemented in Italy to promote self-employment and business start-ups. The most important national measures are listed in Table 3.

There are also various regional measures supporting new business and self-employment. Most measures are relatively recent, indicating a new approach toward employment creation, which has gradually shifted toward self-employment and employment subsidies in the private sector. The policy evaluation literature suggests that enterprise creation usually results in high "deadweight" effects, subsidising the strongest segments of labour supply who would most probably have found jobs even without incentives (OECD, 1993; Meager, 1996). The most disadvantaged groups are usually under-represented in these programmes, and

activities started up by the weakest segments of labour supply usually have lower survival rates and a lower overall employment impact or require public support for a long time (if not forever). On the other hand, when these measures are aimed at the industrial development of underdeveloped areas and at the diffusion of an "entrepreneurship" culture amongst the younger generation, they may then be considered worthwhile. Recent policies in Italy are clearly adopting this second approach: Most measures are aimed at young people (18-35 years) and try to integrate financial incentives with technical assistance and training for young people who wish to start their own business. The precursor was Act 44, which was enacted in 1986 to support young entrepreneurship in southern Italy. Monitoring of this measure shows modest results, with 11% of applications becoming enterprises which are still surviving after four years from start-up, even if, according to recent evaluations (Battistin et al., 1998), their survival rate is highly dependent on subsidies, and the public cost per employed person is relatively high (about ECU 45,000). This policy has been extended to other crisis areas in central and northern Italy and to recent measures which are managed by the same (now privatised) body (*Imprenditorialità Giovanile S.p.a.*).

Another approach adopted more recently in Italy is to support the creation of cooperatives. In this case, experienced workers may help to integrate the skills of less experienced workers who are subsidised by public funds. An example of this approach is the reform of Socially Useful Jobs included in the so-called Treu Package.

### The public debate

Debate over self-employment in Italy currently relates to two main issues:

<sup>5</sup> The Italian unemployment benefits system is presented in Dell'Aringa & Samek Lodovici (1997) and in Geroldi (1997).

**Table 3: Main national measures supporting self-employment**

| Measure  | Characteristics  | Target group   | Results as of Sept. 1998  | Notes   |
|--|--|--|---|---|
| Act.44/86  | Young people in areas classified as eligible for support from the European Structural Funds are entitled to subsidies of up to 90% of investment and operating costs in southern Italy and up to 60% in other areas through non-refundable grants and low-interest loans. Business plans are evaluated and selected projects receive monetary subsidies and technical assistance during the initial years of activity.   | Young people aged under 36 in crisis areas wishing to start up a business in the agricultural, crafts or manufacturing sectors.  | Approved projects: 1,302<br>Investments: ITL 3,758 billion<br>Partners: 8,359<br>Estimated employees: 24,969<br>New firms supported: 930<br>Public financing: ITL 2,247 billion   | First innovative measure integrating financial support with technical assistance. Recent evaluations stress the high dependence of new business on incentives.  |
| Act 608/96<br>Honorary loan schemes  | Individual business started up in crisis areas are supported by public funds of up to a maximum of ECU 30,000: 60% with non-refundable grants and 40% with low-interest loans for capital and operating costs. Investment projects are evaluated and selected according to their economic viability. Selected project applicants are "tutored" by specialised consultants and must undergo special training lasting eight weeks. Training courses consist of a component aimed at vocational guidance and analysis of entrepreneurial abilities and a second component aimed at training and technical assistance. 30% of the aid is advanced once the business plan defined during the training course has been approved. | Unemployed in crisis areas wishing to enter self-employment in the craft or manufacturing sectors. Persons who are entitled to redundancy compensation are also eligible.  | Applications submitted: 43,940<br>Applicants admitted to training: 14,852<br>Training courses activated: 105<br>People admitted to training: 4,805<br>Participants in training: 2,798<br>Tutorships activated: 1,548<br>Projects selected for financing: 1,531<br>Loans approved: 398 | According to recent estimates, after a long starting phase, another 4,000 young people will become eligible for financing in 1998. Moreover, it is estimated that for every four loans approved, one new job is created.                            |
| Act 236/1993<br>Development Fund<br>Act 266/1997   | Cofinancing development and reindustrialisation initiatives with the European Structural Funds supporting the start-up of new firms or cooperatives providing services. "Monetary incentives and technical assistance. Non-refundable grants and low-interest loans are available to cover up to 60-90% of the investment (90% for southern Italy) and grants are also available for operating costs incurred in the first three years of operation. Tutorship is available from a firm leader in the sector or consulting companies.  | Young unemployed people (up to 35 years old) in southern Italy, in the environmental, tourism, cultural and agricultural sectors. Since 1997, these incentives have been extended to crisis areas in northern and central Italy.   | Approved projects: 45<br>Partners: 166<br>Employees: 409<br>Average investment per project: ECU 15,300,000<br>Average investment per employee: ECU 37,500   | According to recent estimates, the potential job creation of this measure in southern Italy may amount to 13,500 employed.  |
| Act 215/1992<br>Positive actions for female entrepreneurship   | Capital grants of up to 50% of capital needed to create or modernise a business; grants of up to 30% of operating costs. In disadvantaged regions, grants may amount to up to 60% and 40%, respectively. Support for access to reduced-rate financing by banks.  | Cooperatives and firms with at least 60% female employees, joint-stock companies of which at least 2/3 of the shares belong to women and individual companies run by women; companies, associations, institutions, training centres and professional orders promoting training courses in business management and in technical assistance which employ at least 70% women. | Applications submitted: 4,109 in 1997 (5,000 in 1998)<br>Applications selected: 2,679<br>Applications funded: 518 (due to lack of funds)<br>Estimated employment: 3,388<br>Public subsidies: ITL 43.6 billion   | Implemented only since 1997 due to delays in regulatory framework and lack of funds. In 1998, available funds were doubled (ITL 80 billion). ITL 300 billion will be made available for the next three years when regulatory issues are simplified. |
| Sources: Ministry of Labour, MISEP Basic Information Report, Italy, 1997; Employment Observatory, MISEP "Policies", various issues; Il Sole 24 ore, Guida ai nuovi strumenti per il lavoro, 28 Sept. 1998. |  |  |   |   |

- the extent and diffusion of second-generation self-employment and the need for some regulation of working conditions for these independent workers;
- the necessity to revise the social security system for the self-employed in order to reduce inequalities within this category and between it and dependent employment.

As regards the first issue, it has been recognised that different working conditions prevail among the self-employed: The position of some is reasonably strong and protected by corporative rules, while others (rapidly increasing in recent years) are vulnerable and weak (e.g. workers who are classified as independent collaborators, but who in fact work regularly for only one or a few firms). There is a debate on these last positions, and proposals for revision of the Workers Statute with the aim of recognising some forms of social and employment protection for this type of contract are being discussed in the Italian parliament.

The actual debate sees trade unions wanting to extend some forms of coverage to such workers and to represent them in collective bargaining and collective contracts<sup>6</sup> and employers' organisations asking for the definition of a special legal position which would reduce the conflict over social security contributions.

A Labour Ministry proposal, presented in April 1998 to the social partners, is to introduce minimum protection rules (maternity, health, pension, security, union rights) through a system of certification of employment contracts, which should reduce the increasing dispute over pensions and social security contributions. In addition, the government is to signal best practices to help certification of working times, qualifications, hiring and firing rules, security norms and unions rights. The proposal also includes special norms for co-operative working partners.

A parliamentary proposal currently under discussion is more centred on second-generation self-employment and asks for written employ-

ment contracts that should specify employment conditions, dismissal on economic grounds and the introduction of compensation on termination of the contract, which would be equivalent to 10% of earnings. In addition, the proposal requests that the pension fund currently managed by the INPS become independent with a special managing board, which should include representatives elected by workers. Special grants and subsidies to support the emergence of irregular self-employment are also considered, together with incentives for the transformation of self-employment into dependent employment and sanctions for disguised dependent employment.

Relating to the social security issue, in Italy pension and health insurance has been gradually extended to the self-employed since 1957, however, negligible contributions were required from these groups until the early 1980s. Pension entitlements for the self-employed remain substantially higher than contributions, especially in the case of self-employed farmers. Pensions and health insurance have been used as a welfare rather than a social security scheme, in order to redistribute income and secure social consensus. In addition, pension schemes are different across different categories of self-employed workers. Currently, pension entitlements for some categories of the self-employed (especially the so-called tenure pensions, based on years of contributions rather than retirement age) are rapidly increasing, so that expenditure on "tenure" pensions (after 35 years of contributions) represents 48% of total pension expenditure for autonomous workers (peaking at 63% for craftspeople), compared to 38% for dependent workers.

The need to reduce public spending and the crisis of the welfare system have changed the approach since the early 1980s: Subsidies have been reduced, and the fiscal and contributive pressure on self-employment have been increasing alongside social conflict. In 1996, the reform of the pension system obliged collaborators

and freelance professionals working regularly with firms or organisations to pay a contribution of 10% of gross earnings to a special fund in the INPS to cover their pensions. In 1998, this contribution was increased to 11.5%, and another contribution of 0.5% was added to finance a new fund for maternity leave and family allowances. Contribution rates will be increased by a further 0.5% every two years up to a maximum of 19%. Recent reform proposals request a continuation of this approach, with increasing contributions and/or lower pension entitlements for the self-employed. However, the heterogeneous nature of self-employment in Italy and the coexistence of strong and weak categories requires a flexible approach which should include different forms of assistance and contributions for different types of workers (Ferrara, 1998).

Another important issue to be considered in the analysis of self-employment relates to educational and training investment. In the case of independent work, it is usually the workers who bear the cost of training, and this is particularly true in collaboration positions, which are usually carried out by young, highly educated people. There is, however, a risk involved if individual firms adopt this employment pattern to a large extent, because highly educated self-employed workers may be easily lost to other, better paying employers. The case of the editorial sector is an interesting example in this context: It shows a process of re-internalisation of some skills and functions before work is outsourced to self-employed collaborators, due to the need to secure the returns on on-the-job training (Semenza, 1998).

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## Luxembourg

### Introduction

Information on self-employment in Luxembourg, and especially quantitative data, is not readily available. Moreover, the definition of self-employment used by the various public bodies varies, making it difficult to compare data. In compiling this report, the following sources of data were used:

- STATEC (Central Office for Statistics and Economics);
- IGSS (General Inspectorate of Social Security);
- Ministry for SMEs and Tourism;
- Ministry of Labour;
- Chamber of Commerce; and
- EDEL (Dynamic Study of Luxembourg Enterprises).

Scarcely any use has been made of self-employment as a weapon in the battle against unemployment, and the statistical sources provide little information on the self-employed. Various

professional chambers and associations were contacted, but this did not generate statistics permitting an exhaustive analysis of self-employment in Luxembourg. The Chamber of Commerce, for example, was unable to gather the information necessary for an evaluation of the situation of the self-employed within the framework of its research into this topic. Given the lack of data on this aspect of the labour market, we have presented recent self-employment trends in two parts:

1. a secondary analysis of Labour Force Survey data sheds light on broad development trends within self-employment;
2. the National Action Plan for employment and the debate between the social partners and governments has enabled the discussion on developing entrepreneurial spirit and determining the measures needed to achieve this goal to be reinitiated.

### The various definitions of self-employment

Employment data in Luxembourg, particularly those covering self-employment, are derived from various sources, and, as STATEC has noted, there are inconsistencies between the different figures. In order to explain these discrepancies, it is important to realise that the available sources of information each base their work on different definitions of self-employment (see below).

- The first definition distinguishes merely between dependent employment and non-dependent employment.
- The second definition distinguishes a specific category of independent workers, according to which the self-employed work in their own business, with or without dependent employees. Thus, according to this definition, employers belong to the self-employed.

- Finally, a third definition defines the self-employed as those working in their own company but not employing other persons.

In order to utilise the available data on self-employment in as precise a way as possible, it appears indispensable to examine these three sources of information separately and successively.

## Quantitative data on self-employment: indicators and evaluation

### Total employment and non-dependent employment

Analysis of the distribution of total employment in Luxembourg can start with the distinction between the dependent and non-dependent workforce. As simple as this differentiation might be, it enables us to sketch overall self-employment trends (Table 1).

Although the number of non-dependent persons in employment remained virtually constant between 1985 and 1997 at slightly more than 16,000, this figure represents a steadily declining proportion of the overall working population: The share of self-employed declined by 1.6% between 1985 and 1997.

The changes in dependent and non-dependent employment vary between sectors. The sectoral distribution of non-dependent employment is characterised by a steady decline in the agricultural sector, offset by an increase in non-dependent employment in the tertiary sector. This growth was particularly strong between 1980 and 1990 (+10%), but has since fallen to a sixth of this figure (+1.5% between 1990 and 1996).

### The self-employed by occupational status

The census is an important source of information on self-employment. The following data are based on the last census conducted in Luxembourg in 1991.

**Table 1: Distribution of employment and non-dependent employment by sector (in 1,000s)**

|  | 1985  | 1990  | 1991  | 1992  | 1993  | 1994  | 1995  | 1996  | 1997  |
|--|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Domestic employment  | 160.2 | 187.1 | 194.8 | 199.7 | 203.2 | 208.3 | 213.8 | 219.6 | 226.5 |
| Dependent employment   | 142.0 | 170.4 | 178.4 | 183.4 | 187.0 | 192.2 | 197.5 | 203.1 | 209.9 |
| Non-dependent employment   | 18.2  | 16.7  | 16.4  | 16.3  | 16.2  | 16.1  | 16.3  | 16.4  | 16.6  |
| Non-dependent employment as a % of total employment in the sectors |       |       |       |       |       |       |       |       |       |
| Agriculture  |       | 28.1  | 28.0  | 27.6  | 27.2  | 26.7  | 26.2* | 26.2* |       |
| Goods-producing sector   |       | 10.8  | 11.5  | 11.0  | 11.1  | 11.2  | 11.2* | 11.2* |       |
| Services   |       | 61.1  | 61.5  | 61.4  | 61.1  | 62.1  | 62.6* | 62.6* |       |

\* Estimations (February 1998).  
Sources: IGSS, CISS, STATEC.

**Table 2: Distribution of the working population by occupational category**

|                             | Total    |     | Men      |     | Women    |     |
|-----------------------------|----------|-----|----------|-----|----------|-----|
|                             | Absolute | %   | Absolute | %   | Absolute | %   |
| Total                       | 163,928  | 100 | 104,314  | 100 | 59,614   | 100 |
| Family workers              | 1,582    | 1.0 | 159      | 0.2 | 1,423    | 2.4 |
| Farmers                     | 3,542    | 2.2 | 2,736    | 2.6 | 806      | 1.4 |
| Self-employed professionals | 2,730    | 1.7 | 2,036    | 2.0 | 694      | 1.2 |
| Other self-employed         | 8,654    | 5.3 | 5,904    | 5.7 | 2,750    | 4.6 |

Source: STATEC.

As can be seen from Table 2, the proportion of men is higher than that of women in two areas of self-employment, namely, among self-employed professionals and other self-employed; most women worked in the private sector (almost 45%). This sector accounts for less than one quarter of men in gainful employment. Overall, 7% of Luxembourg workers are self-employed, of which one quarter are in the category of self-employed professionals. This group continues to grow year by year. Between 1965 and 1996, the number of self-employed persons performing intellectual activities virtually quintupled.

As can be seen from Table 3, although the number of self-employed persons rose during this period, growth trends have varied between the various occupations. In particular, notaries, bailiffs and especially doctors, chemists and dentists have experienced a decline in numbers. By contrast, there has been an in-

crease in the shares accounted for by medical auxiliaries and those in the category "other self-employed".

### Working population and self-employment

This section is based on the definition of the self-employed used in Labour Force Surveys, under which a person is considered self-employed if he or she works for him or herself in a profit-oriented business (practice, office or agricultural enterprise) without employing staff. Under this definition, employers (self-employed persons employing staff), dependent employees and family workers (family members performing support work without pay) are not included in the self-employed category. It should be noted that the figures relate to the self-employed performing their occupational activity and at the same time resident within Luxembourg territory.

The working population of Luxembourg can be divided into the following categories (Table 4), using the definitions given in the introduction to this chapter.

On these definitions, the total number of self-employed in Luxembourg amounts to around 5,000, representing 3% of the total working population. Changes in this distribution have been observed in recent years. There has been a relative decline in self-employment, whereas employers and dependent employees have maintained their shares at a relatively constant level.

### Self-employment by branch and occupation

The distribution of self-employment across branches is a variable that cannot be overlooked by any analysis of this type of employment (Table 5).

Almost 40% of self-employed men are active in the agricultural sector, whereas more than 90% of self-employed women work in the service sector. The service sector accounts for more than two-thirds of all self-employed. The prevalence of self-employed women in the service sector is particularly striking among activities in health and social services. This may be partly due to the government policy of promoting the employment of family workers.

More than one-third of self-employed women performed intellectual or scientific activities (doctors, dentists, chemists and architects), whereas just one-quarter of male self-employed persons came under this category. The "other" self-employed professions include cooks, hairdressers, physiotherapists, dieticians and insurance representatives, a group in which women are particularly well represented.

### Educational level and self-employment

Apart from family workers, almost 50% of whom have a very low educational level, in all the other status groups lower secondary level is the most common educational level.

**Table 3: Distribution of self-employed professionals by occupation (in %)**

|                         | 1980  | 1990  | 1993  | 1994  | 1995  | 1996  |
|-------------------------|-------|-------|-------|-------|-------|-------|
| Lawyers/solicitors      | 15.6  | 13.3  | 13.6  | 14.3  | 15.3  | 15.3  |
| Notaries                | 1.2   | 0.8   | 0.7   | 0.6   | 0.6   | 0.5   |
| Bailiffs                | 0.9   | 0.7   | 0.6   | 0.5   | 0.5   | 0.5   |
| Legal representatives   | 0     | 0.2   | 0.2   | 0.2   | 0.1   | 0.1   |
| Doctors                 | 27.4  | 24.8  | 22.5  | 21.4  | 20.7  | 20.5  |
| Dentists                | 6.1   | 7.6   | 6.6   | 6.4   | 6.2   | 6.0   |
| Chemists                | 4.2   | 2.9   | 2.6   | 2.5   | 2.4   | 2.3   |
| Vets                    | 1.9   | 2.6   | 2.1   | 2.0   | 2.0   | 1.9   |
| Medical auxiliaries     | 4.0   | 5.5   | 5.7   | 5.4   | 5.6   | 5.7   |
| Architects              | 8.2   | 8.3   | 7.5   | 7.1   | 7.0   | 7.1   |
| Engineering consultants | 2.5   | 2.5   | 2.4   | 2.7   | 2.6   | 2.5   |
| Surveyors               | 0.1   | 0     | 0.1   | 0.1   | 0.1   | 0.1   |
| Controllers             | 0     | 0.1   | 0     | 0     | 0     | 0     |
| Technicians             | 0.4   | 0.4   | 0.3   | 0.2   | 0.2   | 0.2   |
| Experts                 | 1.3   | 1.3   | 1.2   | 0.7   | 0.6   | 0.6   |
| Auditors                | 6.7   | 6.8   | 5.4   | 4.9   | 4.7   | 4.5   |
| Insurance brokers       | 0.3   | 0.2   | 0.4   | 0.3   | 0.3   | 0.3   |
| Insurance agents        | 3.0   | 5.0   | 5.1   | 4.5   | 4.4   | 4.1   |
| Teachers                | 8.0   | 1.4   | 0.9   | 0.9   | 0.9   | 1.2   |
| Writers                 | 0     | 1.4   | 0.9   | 0.8   | 0.7   | 0.6   |
| Musicians               | 0.9   | 0.2   | 0.3   | 0.3   | 0.4   | 0.3   |
| Artists                 | 1.4   | 2.8   | 2.5   | 2.4   | 2.3   | 2.4   |
| Others                  | 5.8   | 11.2  | 18.7  | 21.7  | 22.4  | 23.5  |
| Total                   | 1,284 | 2,278 | 3,001 | 3,234 | 3,363 | 3,573 |

Source: STATEC.

**Table 4: Distribution of the working population by occupational status and gender, 1997 (in %)**

| Occupational status  | Men  | Women | Total |
|----------------------|------|-------|-------|
| Employer             | 6.9  | 3.4   | 5.6   |
| Self-employed        | 2.8  | 3.1   | 2.9   |
| Dependent employment | 90.1 | 92.0  | 90.8  |
| Family workers       | 0.2  | 1.5   | 0.7   |
| Total                | 100  | 100   | 100   |

Source: STATEC: Labour Force Survey.

**Table 5: Self-employment by branch and occupation, 1997 (in %)**

| Branch                                     | Men  | Women | Total |
|--|------|-------|-------|
| Agriculture                                | 38.3 | 5.2   | 25.1  |
| Goods-producing sector                     | 3.5  | 4.6   | 3.9   |
| Services                                   | 58.2 | 90.2  | 71.0  |
| Trade/repairs                              | 11.5 | 18.1  | 14.1  |
| Real estate and housing, business services | 15.8 | 19.0  | 17.1  |
| Health and social welfare                  | 14.4 | 23.8  | 18.1  |
| Total                                      | 100  | 100   | 100   |
| Occupations                                |      |       |       |
| Managers and directors                     | 21.6 | 25.9  | 23.3  |
| Professionals                              | 25.3 | 36.1  | 29.6  |
| Farmers/agricultural workers               | 37.2 | 5.2   | 24.5  |
| Other occupations                          | 15.9 | 32.8  | 22.6  |
| Total                                      | 100  | 100   | 100   |

Source: STATEC: Labour Force Survey.

However, in line with the activities performed by the self-employed, an almost equal proportion of the self-employed have a high educational level, with 31% having graduated from a college or university.

**Table 6: Educational level of the population, 1997 (in %)**

| Educational level          | Employers | Self-employed | Dependent employees | Family workers | Total |
|----------------------------|-----------|---------------|---------------------|----------------|-------|
| Primary                    | 15.5      | 18.1          | 29.2                | 49.4           | 28.1  |
| Lower secondary            | 35.0      | 31.7          | 32.9                | 25.4           | 33.0  |
| Upper secondary            | 21.8      | 14.2          | 20.5                | 15.5           | 20.4  |
| Advanced further education | 25.1      | 30.8          | 16.0                | 4.5            | 16.9  |
| Other forms of education   | 2.6       | 5.2           | 1.4                 | 5.2            | 1.6   |
| Total                      | 100       | 100           | 100                 | 100            | 100   |

Source: STATEC: Labour Force Survey.

### Working time and self-employment

The working hours of the self-employed are slightly longer than those of dependent employees, but shorter than for employers. This ranking applies to both men and women.

### A new perspective for self-employment: Telework

Telework remains underdeveloped and has so far not been the subject of lively public debate in Luxembourg. The question as to an appropriate legal framework for this new form of employment is on the agenda, however. An expert committee has been set up by the Ministry of Labour and Employment to draw up proposals for various conceivable legal forms. Under current legal provisions – that is, given the lack of specific regulations – teleworkers may have either self-employed or dependent employee status.

The lack of precision regarding the status of teleworkers is one factor that serves as a barrier to the development of this form of employment.

However, the simplification of administrative procedures that is to be introduced within the framework of the National Action Plan for Enterprise Creation and Development is expected to have a positive effect on the development of telework.

Despite the lack of legal provisions on telework, some people undertaking this form of employment can be considered to be self-employed. Several new conceptions for work organisation can be envisaged, but some fairly recent concepts that accord a significant role to the use of new technologies have already been implemented by certain firms. This novel form of professional activity is telework. According to the ILO, it is simply defined as work performed at a location at a distance from the central offices or production plant of the employer, where the employee is not in personal contact with his or her colleagues, but can communicate with them with the help of new technologies. The location in which the work is performed can be the teleworkers' homes, or a location set up especially for them which is closer to their place of residence than the employer firm, or a centre for the provision of tele-services, a so-called tele-centre.

The use of telework remains a marginal phenomenon in Luxembourg, however. Telework is currently performed exclusively in the home. There is not a single case of a company using a tele-centre for the performance of telework.

In sectoral terms, it is information technology firms and those providing business services that so far have made the most use of telework, a fact presumably related to the dependence of this form of working on the ability to use new technologies.

The activities most frequently performed using this form of employment are management, secretarial services and support in the area of information technology. Other activities account for only a marginal share of telework, largely performed by manufacturing enterprises. As far as the future is concerned, it seems that it is companies in the services sector that are most likely to embark on forms of telework; this is particularly true for large trading companies, banking and insurance companies, where the results of our analysis suggest that the number of firms utilising telework could increase dramatically.

### Measures

The policy of promoting self-employment, initiated at the start of the 1990s, has received a new impulse with the passing of the National Action Plan. Many of the measures announced will have been introduced by the end of 1998.

Thanks to the efforts towards simplifying administrative procedures started some years ago, which will be continued within the framework of the National Action Plan, the fetters imposed on the self-employed by the public administration will quickly be loosened.

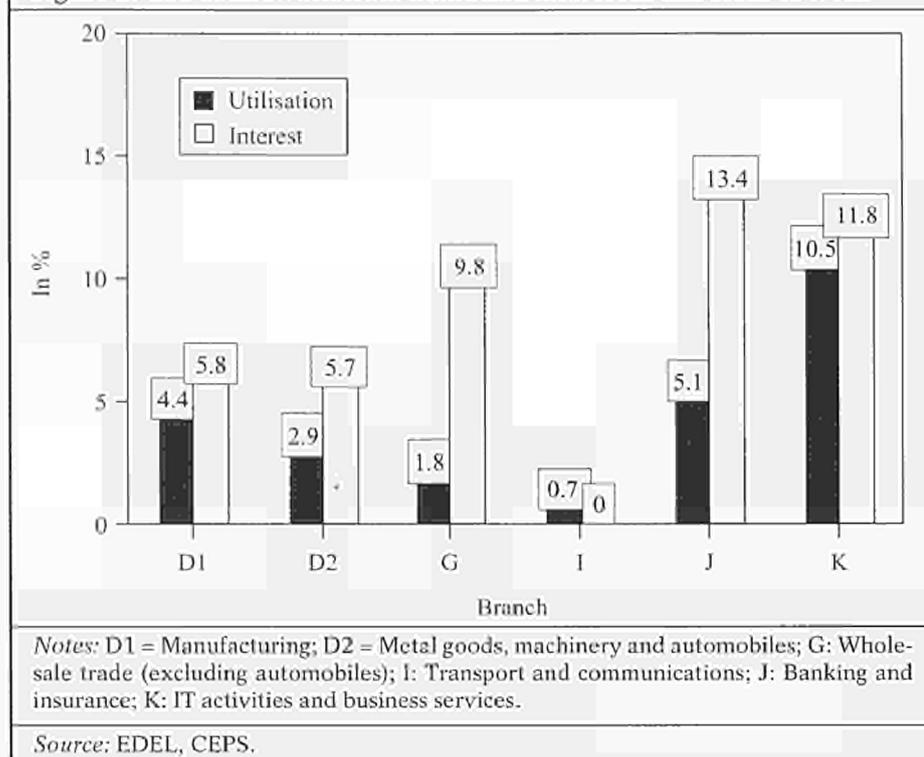
One of the barriers which will take longer to overcome results from the legislative differences prevailing at the European level. Because of Luxembourg's geographical position, many self-employed quickly choose to perform their professional activi-

**Table 7: Average weekly working time by labour market status and gender (in hours)**

| Labour market status | Men | Women |
|----------------------|-----|-------|
| Employers            | 53  | 49    |
| Self-employed        | 49  | 41    |
| Dependent employees  | 41  | 34    |
| Family workers       | 39  | 45    |
| Total                | 42  | 35    |

Source: STATEC: Labour Force Survey.

Figure 1: Use of telework from home and interest in this form of work



ties in neighbouring countries. In this context, the difficulties they face due to the differences in labour and social security legislation constitute administrative barriers that are just as serious as those at national level. Of course, the simplification measures introduced by the Member States, following the Guidelines set out in their action plans, constitute an important element towards simplification at the European level and will promote the free exchange of services. On this basis, an expansion of self-employment in Luxembourg can certainly be expected.

Although the policies and measures to promote employment have not yet led to a decisive fall in unemployment, a clear orientation towards self-employment as a longer-term option for many unemployed persons can be seen. The intention of supporting self-employment has been underlined by the National Action Plan for employment and by the reductions in taxes and contributions recently introduced. In addition, a tele-centre is to be set up in Luxembourg in order to enable self-employed persons lacking an adequate infrastructure (computer, new com-

munication technologies, etc.) the opportunity of performing telework on fully equipped premises. This initiative, which has already created considerable interest, enables jobs that are to all intents and purposes a form of self-employment to be created by sharing resources.

### Impact of policy measures in the area of self-employment

Since 17 June 1994, the Ministry of Labour and Employment has offered support grants for business start-ups and takeovers of legally established companies performing their economic activity in Luxembourg. The following groups are entitled to this measure: jobseekers drawing wage-compensation benefits for at least six months; jobseekers aged over forty drawing wage-compensation benefits for at least three months; and persons registered as unemployed with the public employment service for at least eight months who had previously worked for at least six years for a company registered in Luxembourg. The grant can be given for a business start-up or takeover to persons possessing the certificates

necessary to perform the occupation in question, provided they have not declared themselves insolvent in the past. The maximum value of the support is equal to the capitalised sum of the wage-compensation benefits (minus social insurance contributions and taxes), which would have been accumulated by the applicants in the following six months if they have not entered employment. The grant is paid as a lump sum; it must be repaid in cases of fraud, if the company fails within a year of the grant being made, or if the beneficiary leaves the firm within a year.

Only relatively few applications have been submitted to the Ministry for Labour and Employment since the measure was introduced: namely, 14 between 1994 and 1996, and 13 in 1997. The lack of interest in this measure to support entrepreneurial initiative is due to the fact that jobseekers' projects are often inappropriate and their educational level inadequate, and also to the fact that the grant is relatively small compared to the capital needed to invest in a new business. Moreover, a number of persons interested in the measures failed to meet the conditions of entitlement, and most new businesspersons preferred to enter self-employment without waiting for the completion of the period of registered unemployment with the public employment service, which is required for entitlement.

The data available for 1998 suggest that the number of applications will be lower than in previous years.

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## Netherlands

### Introduction

Entrepreneurship has experienced a revival in the Netherlands. This revival is visible in public policy, the number of publications in this field and the number of new businesses created.

In 1987, some 25,000 new businesses were established. Between 1992 and 1995, this number increased from 33,000 to over 41,000. In 1996, the number decreased somewhat to almost 40,000. Compared to the number of existing companies, relatively many starters are found in wholesale and the category "other commercial services" – both sectors with low entry barriers – and in business services (EIM, 1997b).

New businesses are important for job creation in the Netherlands. From 1990 to 1994, about 1 million jobs were created, while some 800,000 disappeared. Young companies – i.e. companies established during that period – were responsible for 56% of the jobs created and for only 15% of the jobs lost (Bais et al., 1997). From 1992 to 1996, starters created employment for on average 54,000 persons per year in the Netherlands. Business services, followed by wholesale and retail, made the main contribution to this employment creation (EIM, 1997a).

In spite of these developments, the Netherlands is still by no means a country that leads the field when it comes to self-employment, entrepreneurship or nascent entrepreneurship. The number of self-employed used to be relatively low, but started to increase in the mid-1980s. Nonetheless, it took until 1994 before the share of self-employed in the labour force regained the 1972 level (Baljé en Verdonkschot, 1998).

In the Labour Accounts of Statistics Netherlands, self-employed are defined as people who do not receive

a wage or salary, but who are engaged in a professional activity (occupation or business) on their own account and/or at their own risk. According to this definition, the number of self-employed persons rose by 22% from 599,000 in 1987 to 731,000 in 1996<sup>1</sup>. The volume – i.e. number of years – of work carried out in a self-employed capacity rose by almost 25%.

The number of "self-employed jobs" is constantly higher than the number of self-employed persons, but shows a similar development over time. People may have more than one job, and self-employment and working as an employee can be combined. According, for example, to a survey carried out this year amongst businesses that were established between 1995 and 1997, some 30% of the employees that start their own company are hybrid starters, i.e. become self-employed

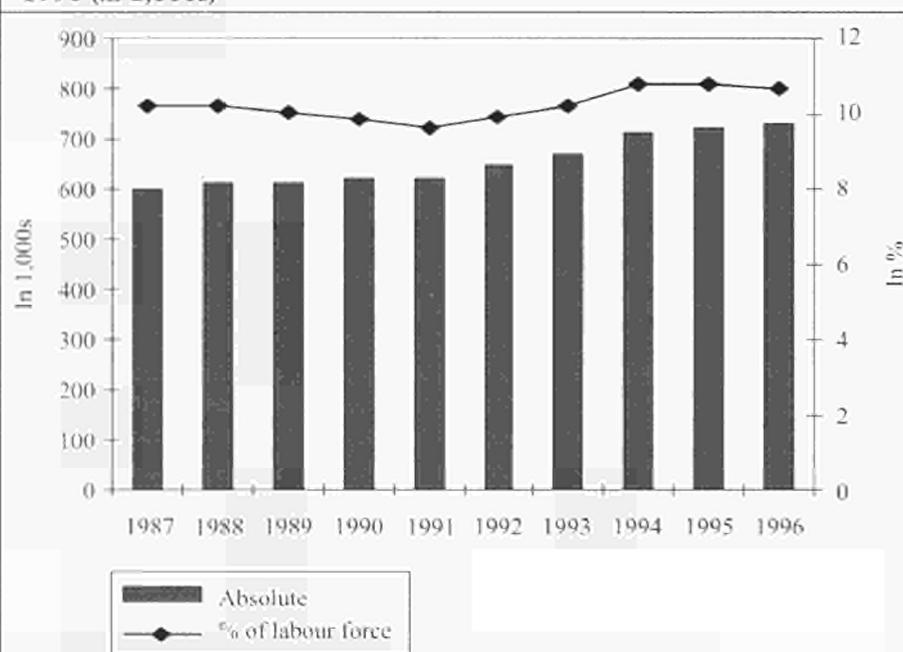
while remaining otherwise employed for at least some time (Bosch et al., 1998).

As can be seen from Figures 1 to 3, the change in the share of self-employed in the labour force is less pronounced than the change in absolute figures. The increase in dependent employment has clearly been stronger in recent years. The increase in the share of self-employment in terms of volume between 1987 and 1996 was more than twice as high than in terms of number of people or jobs. This is probably due to the increasing popularity of part-time jobs and working-time reduction for employees in recent years.

The data above refer to the entire working population, i.e. people working at least one hour per week. If

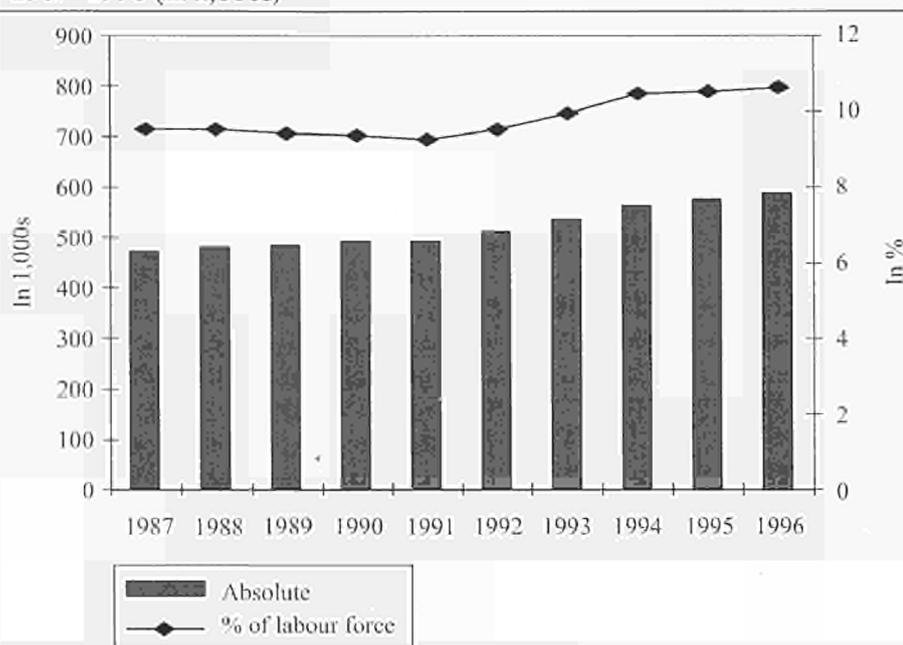
<sup>1</sup> For the period before 1987, data are only available on self-employed workers and family workers together.

**Figure 1: Development of self-employment: number of people, 1987–1996 (in 1,000s)**



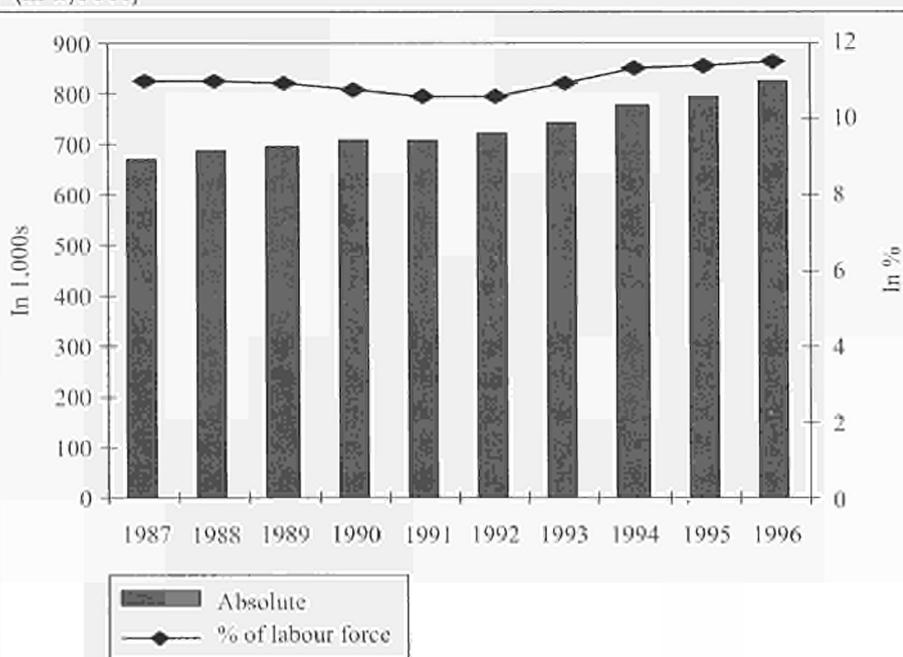
Source: CBS: Statline (Time series Labour Accounts).

**Figure 2: Development of self-employment: volume in number of years, 1987–1996 (in 1,000s)**



Source: CBS: Statline (Time series Labour Accounts).

**Figure 3: Development of self-employment: number of jobs, 1987–1996 (in 1,000s)**



Source: CBS: Statline (Time series Labour Accounts).

the official Dutch definition of the labour force is used, only people working at least 12 hours or more per week during the reference period are included in the labour force. As a result, the number of self-employed is lower than in the Labour Accounts. The Dutch Labour Force Survey

distinguishes self-employed who work in their own company or business and other self-employed, i.e. people who do not belong to the former category, are not family workers or employees; freelancers are one of the categories that are classified under this heading.

The number of freelancers, etc., is small in comparison to self-employed working in their own business (Table 1). Among the former, however, the share of women is much higher.

Self-employment is most common in agriculture and fisheries, culture and other services, hotels and restaurants and in business services. Of course, the figures in Table 2 reflect the differences in firm size between sectors.

The statistical definition of self-employment is somewhat problematic; however, the situation is far more complicated in real life. Tax authorities have specific criteria for recognition as an entrepreneur, and these differ again depending on the type of tax levied. Social security bodies have their own criteria for determining whether someone is a dependent employee and therefore compulsorily insured under the employee schemes. A self-employed person may find him or herself not recognised as an entrepreneur by the tax authorities, but neither as an employee for social security. This applies in particular to the so-called "other self-employed". Freelancers, on the one hand, but also employees working without a contract of employment, for example, may find themselves in a position where they can neither claim the fiscal benefits for entrepreneurs nor enjoy the social protection reserved for employees<sup>2</sup> (Bosch et al., 1998). In a number of sectors, experiments are being carried out with a so-called declaration of self-employment. Social security bodies supply this declaration to the self-employed and it safeguards their clients against the risk of additional claims for the employer's share of social security contributions (Bosch et al., 1997).

On the basis of a very recent survey amongst starters from 1995 to 1997, it was estimated that no less than 70% of them are not what is called "general self-employed": 16% belong to the free professions

<sup>2</sup> Recently, a new social security scheme was introduced for self-employed with regard to incapacity for work which again has its own criteria.

**Table 1: Self-employed in the Labour Force Survey\* by type and sex, 1993–1997 (in 1,000s)**

|      | Total labour force (15-64 years) | Self-employed, own business |                   |         | Other self-employed |                   |         | Total        |                   |         |
|------|----------------------------------|-----------------------------|-------------------|---------|---------------------|-------------------|---------|--------------|-------------------|---------|
|      |                                  | Ab- so- lute                | % of labour force | % women | Ab- so- lute        | % of labour force | % women | Ab- so- lute | % of labour force | % women |
| 1993 | 5,925                            | 558                         | 9.4               | 21.3    | 47                  | 0.8               | 40.4    | 605          | 10.2              | 22.8    |
| 1994 | 5,920                            | 596                         | 10.1              | 23.0    | 31                  | 0.5               | 51.6    | 627          | 10.6              | 24.4    |
| 1995 | 6,063                            | 603                         | 9.9               | 23.4    | 33                  | 0.5               | 48.5    | 636          | 10.5              | 24.7    |
| 1996 | 6,187                            | 629                         | 10.2              | 24.8    | 32                  | 0.5               | 50.0    | 661          | 10.7              | 26.0    |
| 1997 | 6,400                            | 652                         | 10.2              | 25.0    | 41                  | 0.6               | 43.9    | 693          | 10.8              | 26.1    |

\* 15-64 years of age, working 12 hours or more per week.

Source: CBS (several years).

**Table 2: Number of self-employed and self-employment rate per sector<sup>1</sup>, 1996**

| Sector                      | Labour force (in 1,000s) | Self-employed <sup>2</sup> |                       |
|-----------------------------|--------------------------|----------------------------|-----------------------|
|                             |                          | Absolute (in 1,000s)       | % of the labour force |
| Agriculture and fisheries   | 231                      | 118                        | 51                    |
| Industry                    | 1,022                    | 37                         | 4                     |
| Electricity, etc.           | 41                       | 0                          | 0                     |
| Construction                | 420                      | 50                         | 12                    |
| Trade                       | 986                      | 139                        | 14                    |
| Hotels and restaurants      | 168                      | 31                         | 18                    |
| Transport and communication | 396                      | 20                         | 5                     |
| Financial services          | 231                      | 9                          | 4                     |
| Business services           | 640                      | 99                         | 15                    |
| Education                   | 410                      | 11                         | 3                     |
| Health and welfare          | 812                      | 42                         | 5                     |
| Culture and other services  | 243                      | 56                         | 23                    |
| <b>Total</b>                | <b>5,608</b>             | <b>612</b>                 | <b>11</b>             |

1 Excluding minerals, public sector, international bodies, persons employed by households, not observed and unknown.

2 Both self-employed working in their own business and other self-employed.

Source: CBS (1997).

and the remaining 54% find themselves in a position in which the labour relation is not entirely clear, i.e. may be disputed by the tax or social security authorities. Four specific categories of self-employed are distinguished in this respect (Bosch et al., 1998):

- freelancers and other self-employed working for varying clients in short-term or long-term assignments (46%): two-thirds of them are without a so-called declaration of self-employment;
- people whose status is unclear, but who have been given equal status to employees under the law on employee insurance (1%);
- franchisers (2%);
- pseudo or supposed self-employed (5%), i.e. people who are still

more or less tied to their (former) employer when it comes to the choice of customers, clients or activities.

## Analysis and evaluation

Dutch starters in the 1990s come from various backgrounds, but the number of starters with higher education is growing. The new self-employed are increasingly starting their businesses on a part-time basis. It seems that the number of starters that have no growth aspirations is also increasing (EIM, 1997b).

This may be a reflection of the emergence of a new type of self-employed related to what has been called the externalisation of labour relations. Examples of this are free-

lance work in the media, chair rental in the hairdressing trade and private drivers in the transport sector. In a larger sense, this development is related to the individualisation of labour relations: the rise of framework, cafeteria and modular collective agreements, and the pervasiveness of notions such as flexibility and employability in public discussion and collective bargaining.

Van der Burgh et al. (1997) distinguish three movements within the general trend of individualisation of labour relations:

1. "the employee on the folding-chair": on-call employees, temporary contracts and homeworkers;
2. flexibilisation: in particular, work through temporary agencies and self-employment;
3. the strategy of having a small, fixed core of employees supplemented with a policy based on employability.

Self-employment can, hence, be seen as an alternative way to externalise labour relations. It has advantages and disadvantages, both for employers and employees or subcontractors. Research does not suggest that the self-employment of former employees is often a step taken under pressure by the employer. When 2,000 starters from 1994 were asked about their motivation to become self-employed, for some 25% negative motives applied: 5% mentioned pending unemployment and 5% a choice born out of necessity as their main motive. Higher earnings than an employee (6%) and job dissatisfaction (8%) were the other negative motives (Uxem and Bais, 1996). However, the first two groups seem somewhat more likely not to survive the first year (Uxem et al., 1996).

An indication for the emergence of this type of self-employment is the development of the number of enterprises without employees. From 1988–1996, this number increased by 27% for the entire private sector. The trend was strongest in construction (159%), particularly from 1994 to 1996. Craft and wholesale trade also saw an above-average increase

in the number of zero-employee companies. Retail was the only sector in which the number of this type of company decreased (van der Burgh et al., 1997).

Another indication that the nature of self-employment may be changing is the large number of hybrid starters. Of the 2,000 starters mentioned above, only half immediately started working full-time as self-employed. One year later, 38% of the entrepreneurs were still also carrying out other activities, usually as an employee. Since this was a panel study, the entrepreneurs were followed up over time. In 1997, almost 30% of the still-active entrepreneurs had sideline activities (Stigter, 1998). New forms of self-employment, as described above, are related to a number of other trends: the movement of companies "back to basics", whereby they refocus on core business – a trend which started in the mid-1970s in the Netherlands; the developments in information technology, which greatly facilitated cooperation between companies, sub-contractors and freelancers; changes in demand (mass individualisation, just-in-time production) requiring internal and external flexibility of labour; increasing competition as a result of globalisation, for example, which together with other developments have led employers to cut costs and minimise risks (Peters & Lever, 1996).

## Policy

The Dutch government has for some years now followed a policy of deregulation and simplification to stimulate entrepreneurship and create a more favourable business environment. The qualification requirements for establishing a business, for example, were substantially relaxed on 1 January 1996.

A new theme in the discussion around stimulating entrepreneurship is the promotion of "restarting". Yearly some 30,000 entrepreneurs stop their activities, of which some 4,000 go bankrupt. The previous

Secretary of State, Van Dok, made a number of suggestions as to how to encourage "stoppers" to start again: They ranged from a "stoppers" desk at the chamber of commerce to modification of the Law on Bankruptcy.

Another issue which is drawing attention is support for people on social welfare to start their own company. These people can already apply for assistance under the Granting Assistance to Self-employed Decree (Bbz). This decree allows for a loan for working capital, on the one hand, and/or temporary income support, on the other. There are several selection criteria before an application is honoured, for example regarding the viability of the business (plan).

The regulation has been criticised by organisations such as MKB-Nederland, the federation of SME employers' organisations, who argued that people who could not find employment in the current labour market situation should not be supported with public money to become self-employed.

The regulation was, however, quite positively evaluated in 1997 (Brander et al., 1998). Of those who had received assistance, over two-thirds were still operating at the time of the study (the assistance had been granted an average 3.5 years prior). The type of assistance received did not influence the company's chances of survival. Over four out of five survivors said that the business was sufficient to support them. However, almost 40% of the survivors had trouble meeting all their financial commitments. Also, one out of eight successful starters had other earnings, and almost one in four had a partner with income.

The evaluation yielded a number of key problems. In March 1998, the then Minister of Social Affairs and Employment, Mr Melkert, sent a letter to Parliament with several proposals for a revision of the regulations concerning the possibilities for people on social security benefits to become self-employed. They included:

- the introduction of a trial period for unemployed starters in which

they can examine their potential markets and develop a business plan;

- the introduction of an allowance which these starters can use for guidance and advice;
- a substantial increase in the amount of credit starters may receive;
- an extension of the period during which supplementary income support can be awarded;
- the taking into account of income from other sources (another job, partner's income) when deciding on the viability of the business (plan);
- specific provisions for people who are on welfare because of care obligations or a handicap.

In addition, new measures were proposed to support beneficiaries of unemployment and disability benefits in starting their own company, as well as changes with regard to the organisation and implementation of regulations (Tweede Kamer der Staten-Generaal, 1998). Since elections have been held in the Netherlands and the new government has only recently been formed, the future of these plans is uncertain for the moment.

In the meantime, the largest trade union of the Netherlands, FNV, has opened up the possibility for self-employed without employees to join the union. The development of services targeted to their needs, including an administration and insurance package, are well under way. Chauffeurs, hairdressers and journalists are among the first target group.

*Marjolein Peters*

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## Austria

### Assessment of self-employment

#### Types of self-employment

It is not always possible to make a clear distinction between dependent employment and self-employment because different definitions exist side by side in labour, social-security and taxation law. Within self-employment, we can distinguish between commercial enterprises and professionals. The following forms of self-employment emerge:

- trade and craft professions: their commercial activity is regulated by the Commercial Code;
- partners and executive partners;
- professionals: while mostly organised in professional organisations, professionals, such as doctors, patent lawyers, chemists and auditors, are not subject to the Commercial Code.

Changes in social insurance legislation introduced in 1998 aimed to take account of the phenomenon of the "new self-employed". This group includes all those drawing entrepreneurial income from a commercial activity or income from self-employment, but who until then were not incorporated under the statutory health, pension and accident insurance schemes. This group encompasses professionals (such as psychologists, psychotherapists and physiotherapists), the self-employed without a trading license and offering services for particular occasions (such as compiling reports or giving speeches), and partners. According to estimates by the responsible social security institution, this new group covered by social insurance amounts to up to 55,000 people. The new regulation also hopes to incorporate those people into the social insurance system who have so far worked on

the basis of *Werkverträge* (contracts concluded for the performance of specific tasks).

Another category in the grey area around self-employment are the so-called *freie Dienstnehmer*: They regularly render services to a company, but do not have an employment contract and thus not the status of a dependent employee, although under the EWR they are treated as such. This group of "covert employees" is now also subject to compulsory social insurance, whereby contributions are paid equally by the employing company and the service provider.

#### Quantitative trends

Statistical coverage of self-employment and business start-ups in Austria continues to suffer from significant deficiencies and inadequacies. Given the large number of forms

taken by self-employment, administrative statistics (fiscal statistics, social insurance statistics, statistics provided by chambers of commerce, etc.) are not always a reliable base from which to draw detailed conclusions. In particular, the "new self-employed" are not yet reflected in the data.

The time series published by the Austrian Institute for Economic Research (WIFO) is widely seen as a central source of quantitative data on self-employment. These data are based primarily on extrapolated census results and are then adjusted for current structural changes as revealed by administrative data.

A characteristic trend is the major decline in self-employment in the agricultural sector (1990–1997: –33.4%) and the relatively small increase in the number of self-employed in the trade, craft and service sectors (1990–1997: +7.5%). This trend has led to a significant decline in self-employment as a

share of total employment, i.e. by 1.7 percentage points between 1990 and 1997. If the analysis is restricted to self-employment in the non-farm sector, at just under 7%, self-employment has remained virtually constant as a proportion of the labour force since 1990. On standardised Eurostat definitions, the internationally comparable self-employment rate in Austria in 1997 was around 11%. This puts Austria below the EU average of 15%.

### Skill structures

Analysis of the structure of self-employment is based on the results of microcensuses. The high proportion of self-employed people, both men and women, with a higher education degree is a striking structural characteristic of the group. It consists largely of self-employed professionals (lawyers and solicitors, doctors and auditors). In terms of skill level, the largest group among the self-employed consists of those who have set

up a small business from a position as skilled blue-collar worker or master craftsman/woman.

Although a considerable proportion of the self-employed come from higher education, the reluctance of this educational group to start up businesses is a striking feature. Particularly in the 1980s and early 1990s, the public sector was the preferred destination for graduates from virtually the entire range of academic subjects. In the wake of enforced budgetary consolidation, however, this labour market segment has been squeezed significantly, pressuring those affected to seek alternative employment opportunities, with self-employment constituting one option.

Whereas the majority of male employees are found in the goods-producing sector, the occupational structure of self-employed men is more highly differentiated. Alongside industrial occupations, a broader range of service occupations are also important, encompassing both the professions (doctors, lawyers, psychologists, therapists) and personal service occupations. The activity spectrum of self-employed women is dominated by personal service occupations, trade occupations and educational, cultural and health professions. Clearly, gender-specific activity areas have developed not only among employees but also among the self-employed.

The number of self-employed persons in agriculture and forestry declined markedly between 1990 and 1995. The fastest growth rates, on the other hand, were recorded in technical occupations and health, educational and cultural professions. Slight growth in self-employment was recorded in trade and transport occupations and mandatories, lawyers, administrative and office occupations. In other service occupations, there was a slight decline. In the goods-producing sector, the 1990 level was more or less re-attained in 1995, following an initial decline (cf. AMS, 1998).

The results of the 1997 European Labour Force Survey show that

**Table 1: Self-employment and self-employment rate, 1990–1997**

|      | Agriculture | Self-employment rate (%) | Industry, crafts, services | Self-employment rate (%) | Total   | Self-employment rate (%) |
|------|-------------|--------------------------|----------------------------|--------------------------|---------|--------------------------|
| 1990 | 191,300     | 85.8                     | 224,600                    | 7.0                      | 415,900 | 11.8                     |
| 1991 | 182,400     | 85.1                     | 227,300                    | 6.9                      | 409,700 | 11.4                     |
| 1992 | 170,000     | 89.4                     | 231,200                    | 6.9                      | 401,200 | 11.0                     |
| 1993 | 158,800     | 83.5                     | 232,300                    | 6.7                      | 391,100 | 10.7                     |
| 1994 | 149,000     | 83.0                     | 232,100                    | 6.7                      | 381,100 | 10.4                     |
| 1995 | 139,700     | 82.3                     | 231,600                    | 6.7                      | 371,300 | 10.2                     |
| 1996 | 132,000     | 81.5                     | 236,400                    | 6.8                      | 368,400 | 10.1                     |
| 1997 | 127,500     | 80.9                     | 241,400                    | 6.9                      | 368,900 | 10.1                     |

Note: Self-employment rate = self-employed as a % of labour force.

Source: WIFO database.

**Table 2: Comparison of skill structures between (non-farm) self-employed and dependent employees, 1996 (in %)**

|                             | Self-employed |       | Dependent employees |       |
|-----------------------------|---------------|-------|---------------------|-------|
|                             | Men           | Women | Men                 | Women |
| Compulsory school education | 6.6           | 17.3  | 21.4                | 27.0  |
| Apprenticeship              | 41.6          | 32.1  | 50.4                | 31.5  |
| Vocational school           | 10.7          | 11.9  | 7.2                 | 16.2  |
| Upper secondary education   | 19.8          | 15.7  | 13.0                | 17.0  |
| University                  | 21.2          | 23.0  | 8.1                 | 8.2   |
| Total                       | 100           | 100   | 100                 | 100   |

Note: Self-employed excluding family workers.

Source: ÖSTAT (1998); own calculations.

**Table 3: Occupational structure of the (non-farm) self-employed and dependent employees, 1996 (in %)**

|   | Self-employed |       | Dependent employees |       |
|---|---------------|-------|---------------------|-------|
|   | Men           | Women | Men                 | Women |
| Production-related occupations in mining, industry and crafts | 21.6          | 3.8   | 46.0                | 11.0  |
| Trade and transport occupations                               | 22.9          | 26.7  | 15.2                | 15.8  |
| Service occupations   | 15.4          | 27.3  | 5.6                 | 21.1  |
| Technical occupations   | 9.4           | 1.8   | 7.3                 | 1.5   |
| Mandararies, lawyers, administrative and office occupations   | 15.4          | 18.7  | 17.4                | 30.3  |
| Health, educational and cultural occupations                  | 15.2          | 21.5  | 6.6                 | 19.9  |
| No clear occupation   | 0.2           | 0.3   | 0.3                 | 0.5   |
| Military  | -             | -     | 1.6                 | -     |

*Note:* Self-employed including family workers; dependent employees excluding agriculture and forestry occupations.

*Source:* ÖSTAT (1998); own calculations.

**Table 4: Average working time per week in hours, 1996**

|       | Self-employed | Dependent employees |
|-------|---------------|---------------------|
| Men   | 50.4          | 38.1                |
| Women | 43.6          | 32.8                |

*Source:* ÖSTAT (1998); labour-force concept.

among the self-employed and professionals, the proportion of persons with a second job – at 6% in the non-farm sector and 4.6% in the agricultural sector – is higher than the overall average of 3.8%. Traditionally, part-time farmers are included in the statistics, whereby in most cases agricultural activities are merely an additional source of income alongside dependent employment (cf. ÖSTAT, 1998).

A survey of entrepreneurs starting up a new business between 1990 and 1996 (cf. ibw/IBE, 1998) shows that just over 90% of those questioned had been in full-time dependent employment during the two years prior to entering self-employment. This indicates that an adequate stock of work experience and branch-specific knowledge is an important pre-condition for entering self-employment.

## Analysis and evaluation

### New business start-ups

Analysis of employment effects clearly shows that in many cases self-

employment has a job-creating effect. Although around 30% of the new entries embarked on self-employment alone, i.e. without employees, on average each new business start-up creates 4.7 jobs (including the entrepreneur him or herself). An analysis of entrepreneurial dynamics over time reveals that the number of employees increases substantially as the firm grows older. On average, it seems that within the space of five years, new businesses in Austria expanded employment from four to seven employees (cf. AMS, 1998). Another study (cf. Wanzenböck, 1996) concludes that the extrapolated figure of just under 13,000 new business start-ups in 1990 had created a total of 30,000 jobs by 1995 (including the entrepreneurs).

Calculations of survival rates among new businesses show that as many as 72% of entrepreneurs still owned the firms they had founded in 1990 five years later. Around 24% had been forced to terminate business operations. Particularly striking was the high survival rate in the craft sector (cf. Wanzenböck, 1996).

## Self-employed activity trends

Given the importance attached in the political discourse to supporting new business start-ups, it needs to be asked where the major fields of activity for the self-employed are likely to be located in the future. In Austria, the research and development area, as measured by spending levels, has so far been seriously neglected. In future, however, a considerable potential for self-employment could be opened up in this field, provided appropriate support policies are initiated.

An expanding employment potential is also expected for the self-employed as Austria moves towards the information society. According to one study (cf. Riesenfelder, 1998), expanding areas of activity are likely to be concentrated in the so-called TIME sector – telecommunications, information technology, media and entertainment; to some extent, this area will also offer opportunities for the self-employed as well as dependent employment.

Scenarios of future employment trends also suggest that the borderlines between dependent employment and self-employment are likely to become even less clear. Virtual teams and virtual companies are thought likely to become increasingly common forms of employment relations in future.

The outsourcing to external service providers of activities previously performed within the firm can be expected to continue to provide a growing impulse for an expansion of self-employment. Areas typically affected are consulting services answering to financial, information technology, technological and business needs. No information is yet available, however, on the likely extent and employment potential of outsourcing for the Austrian economy.

## Income trends

An overview of the income situation of the heterogeneous group constituting the self-employed is

**Table 5: Quartile cut-off points of self-employed incomes (in ATS) in 1994**

|                           |       | 1st quartile | Median  | 3rd quartile | 9th decile |
|---------------------------|-------|--------------|---------|--------------|------------|
| Self-employment           | Men   | 219,544      | 529,120 | 1,239,422    | 2,303,048  |
|                           | Women | 146,246      | 257,426 | 578,245      | 1,184,301  |
| Commercial small business | Men   | 159,886      | 282,147 | 546,086      | 1,097,578  |
|                           | Women | 134,873      | 210,590 | 378,673      | 757,320    |

*Note:* The figures exclude those taxpayers not required to pay income tax because their taxable income was too low. This accounts for between 22% of the "other self-employed" and 53% of women in small businesses.

*Source:* ÖSTAT (1998).

provided by the income tax statistics. As these statistics are based on a distinction between the main sources of income, they also differentiate between commercial small businesses (*Gewerbebetriebe*) and "other self-employed".

Given that the "other self-employed" category encompasses the professions, which are located in the upper range of the income pyramid, the quartile cut-off points are higher than for small business entrepreneurs. It is striking to note that self-employed women (other self-employed) earn only half as much as men. In this category, the highest incomes are found in the health sector, the lowest in the fields of arts, entertainment and sport and in teaching and research. In the case of small business entrepreneurs, the construction sector heads the rankings, whereas earnings are lowest in the hotel and catering sector.

Taking the 1994 wage-tax statistics for the purpose of a comparison with wage and salary incomes, it emerges that only 11.2% of all dependent employees have a gross annual earned income of more than ATS 504,000 (the income ceiling on the calculations base for social insurance contributions). Just 0.2% of the dependent employees paying wage tax earned more than ATS 2 million (cf. Bundesministerium für Arbeit, Gesundheit und Soziales, 1997).

### Taxes and social security

A compulsory insurance system exists in Austria for small business entrepreneurs and the self-employed.

Since the start of 1998, various new groups of the self-employed were also incorporated into the statutory system. In principle, the self-employed enjoy social insurance under pension, health and accident insurance schemes. Contribution rates vary between different occupational groups according to special regulations. Also heterogeneous is the system of allocating various groups of the self-employed to the different social insurance institutions.

Whereas between 1980 and 1996 the overall burden of taxes and contributions for dependent employees rose from 36 to 44%, the rates fell for the self-employed from 32 to 24%. The total burden of taxes and contributions on the self-employed amounted to 3.3% of GDP in 1996.

## Policy

### Policy issues

#### Barriers to self-employment

Various studies on the framework of institutional conditions for self-employment and the preconditions for entrepreneurs to set up new companies point clearly to a number of barriers to an expansion of self-employment.

#### Lack of start-up capital

Surveys of potential entrepreneurs and young business people show that difficulties in obtaining capital constitute a central barrier to entrepreneurial activity. Problems with capital endowment are particularly serious when the equity capital share of start-up capital is low, so that it is not

possible to put up collateral in order to obtain loan capital. Particularly given the fact that on registering a new enterprise, relatively high social insurance contributions are immediately due – even if receipts are initially very low – can impose serious cost pressure on new firms. In this context, survey respondents repeatedly draw attention to the lack of venture capital and the inadequate cooperation between banks and entrepreneurs (cf. AMS, 1998; Mitterauer et al., 1998).

### Legal and bureaucratic barriers

Complex and restrictive regulations governing firms' access to certain branches are also seen as an important barrier. The central instrument here is the Commercial Code (*Gewerbeordnung*), which governs access to certain trades and lays down conditions for training. Some of the barriers contained in the Commercial Code were removed when it was amended in 1997 (see below). However, a major problem is that the social partners have been unable to reach agreement on a number of simplifications, for example the amalgamation of certain trades.

In surveys, entrepreneurs also frequently mention the extremely time-consuming and costly procedures required to obtain permission to run a productive plant as a major barrier. The fact that seven different public authorities are involved and that the approval procedure can take up to two years was criticised as making it extremely difficult to acquire customers in the initial phase and to plan start-up operations. Often the procedure was perceived as a means of avoiding unwelcome competition for existing companies.

Discussions are currently under way on creating a new occupation entitled "self-employed bookkeeper". Under prevailing regulations, the activities of self-employed bookkeepers are limited to calculating balances. Only recognised accountants or auditors are allowed to draw up annual accounts or tax and social insurance declarations. Yet the reali-

ty is that around 15,000 bookkeepers, in addition to their dependent employment with a firm, work on a private, freelance basis for other firms. The introduction of statutory norms in this area could create additional employment opportunities on a freelance basis, particularly for women.

### **Bewildering array of support instruments and regulations**

Analysis of the various forms of support for new business start-ups has revealed that around 300 types of support currently exist in Austria, administered by various institutions and each with its different regulations. Studies (cf. Mitterauer et al., 1998) have also criticised the branch-specific nature of many of the forms of support. There is a general lack of support for services, and when support is available, it is confined largely to producer-oriented services such as software development or technological services. This has been shown not least by the fact that the ATS 1 billion that the federal government announced would be committed to research has flowed almost exclusively into technological projects.

### **Lack of social security**

Surveys of potential entrepreneurs show that the lack of social security in the event of the company failing is an important factor that is taken into account when deciding whether or not to enter self-employment. Under current regulations, self-employed persons becoming unemployed as a result of business failure are entitled to unemployment insurance benefits for a maximum of three years, provided they had previously been in dependent employment. Under a new budgetary regulation, the self-employed are to be given the opportunity of benefiting from supplementary social insurance, entitling them to claim benefits from the unemployment insurance fund beyond this three-year period by paying an insurance contribution of ATS 500 per month.

### **Policies to promote self-employment**

#### **Flexibilisation of the Commercial Code**

The Commercial Code is the central law regulating access to a number of branches. It has become evident that many of its provisions are no longer appropriate to changing occupational realities in these areas. Under the 1997 reform, the number of trades requiring certification of competence was reduced from 155 to 84. At the same time, sub-trades were created, for the performance of which a Master Craftsman/woman certificate is no longer a precondition. Examples include services such as altering clothes and repairing shoes. This is subject to the condition that the enterprise concerned does not employ more than five staff. Another new feature is the possibility of representation: Entrepreneurs lacking the necessary certification of competence may appoint a manager with the appropriate training.

In addition, the range of permissible activities has been extended in a number of occupations. Bakers, for example, may also produce confectionery and sell snacks and bottled beer. Linkages have been established between certain trades (e.g. welder, smith and agricultural machinery technician), enabling work to be performed across previous occupational borders.

The registration procedure has also been simplified by imposing time limits on the authorities to reach a decision and by removing the necessity for approval by the division of the chamber of trade, industry or commerce responsible. The aim is to prevent the approval procedure being abused in order to block unwelcome competition for existing firms.

However, no consensus has been reached between the various interest groups on further reform of the Commercial Code. The Commercial Code is seen as a guarantee of quality by some, while others perceive it as a protective shield against new competition.

Shop-opening hours have been liberalised as an additional step towards extending business opportunities for summary enterprises. Under the new regulations, family businesses can stay open on Sunday, provided employees are not required to attend.

### **Support for women entrepreneurs**

Women face particular difficulties in setting up a small business. In recognition of this, Austria's National Action Plan for Employment (NAP) has made provisions for the corresponding advisory and coaching services for women entrepreneurs to be extended. Some years ago, a Businesswomen Centre was set up to promote self-employment by women, targeted in particular at highly qualified women with innovative project ideas. As a first step towards providing venture capital for women, a Businesswomen Fund was set up, thanks to a commitment of ATS 20 million by a bank. This funding is sufficient to finance between 20 and 30 start-up projects.

### **Business start-ups by the unemployed**

Analysis of the occupational biography of entrepreneurs shows that it is usually highly skilled employees with considerable occupational and branch-specific experience that venture into self-employment. The unemployed are usually considered unlikely to be suitable due to their lack of qualifications and limited capital endowment. In response, the Labour Market Service decided to determine the scope for business start-ups by the unemployed by means of a three-year pilot programme. On the basis of the positive experiences gained by these pilots, at the start of 1998 the "Business Start-up Programme for the Unemployed" came into force throughout Austria, following several years of trials in a number of federal states. This programme initiated by the AMS is targeted at unemployed persons registered with the

public employment service for at least two months, who are keen to enter self-employment, and who already have a concrete project idea and appropriate occupational skills and policies.

At the same time, there should be no illusion about the fact that business start-ups by the unemployed constitute a realistic employment option for only a small proportion of this target group.

### The public debate

Recent opinion surveys have shown that around 23% of Austrians have already seriously considered venturing into self-employment. On the other hand, this figure shows that most of them are put off from attempting to realise this plan because of the risks involved, the lack of initial capital or inadequate skills. Even

so, the public discourse has shown that support for self-employment has now become a political target within the framework of employment policy. This is also shown by the fact that support for business start-ups constitutes a focal point of Austria's NAP, so that corresponding activities in this area are to be expected. In this context, discussions have concentrated primarily on improving the provision of advisory services and other forms of support for potential entrepreneurs and on making venture capital available. Another important factor is seen to be the need to promote an "entrepreneurial spirit" within school and vocational education and training. This involves integrating economic know-how into non-economic courses of study and school education and setting up corresponding courses at universities.

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## Portugal

### Assessment of self-employment

#### Types of self-employment

The definition of self-employment – or independent work, the term currently used in Portugal – poses no conceptual problems: A person is self-employed if he or she performs activities on his or her own account and does not usually employ staff. Even so, while our knowledge about and the statistical coverage of salaried employment is relatively complete, the situation regarding self-employment is extremely unclear.

In Portugal, the legal definitions of self-employment are vague and dis-

persed among a number of legislative sources. Self-employment is frequently defined as a residual concept, resulting from the exclusion of various forms of salaried employment – governed by an employment contract – and various types of employer – regulated by company law. National legislation in the areas of labour law, income taxation, value-added tax, commercial companies and the registration of organisations contributes to this confusion by referring to concepts such as the "quota company"<sup>1</sup> or the "individual establishment with limited liability", which may conceal situations that amount essentially to self-employment or to the employment of salaried staff, respectively.

Thus, in practice self-employment can come under various forms (Freire, 1995): Firstly, a person is considered self-employed if he or she resorts to the services of unpaid family members, apprentices or informal or occasional collaborators. Hence, the self-employed individual does not necessarily work alone and may even be responsible for a small working team.

Secondly, the self-employed person assumes responsibility for a microeconomic unit, whereby his or her income depends on the economic and financial results of this unit, a

<sup>1</sup> Two-thirds of such companies do not employ any salaried staff (INE, 1991).

Table 1: Indicators for the working population by labour market status

|   | Thousands |         |         |         |         |         |             | Annual changes (in %) |             |             |             |  |
|---|-----------|---------|---------|---------|---------|---------|-------------|-----------------------|-------------|-------------|-------------|--|
|   | 1992      | 1993    | 1994    | 1995    | 1996    | 1997    | 1993/<br>92 | 1994/<br>93           | 1995/<br>94 | 1996/<br>95 | 1997/<br>96 |  |
| Total employment                          | 4,340.7   | 4,255.2 | 4,251.4 | 4,225.2 | 4,250.5 | 4,331.9 | -2.0        | -0.1                  | -0.6        | 0.6         | 1.9         |  |
| Salaried employees                        | 3,223.3   | 3,131.5 | 3,070.3 | 3,040.1 | 3,027.5 | 3,070.2 | -2.8        | -2.0                  | -1.0        | -0.4        | 1.4         |  |
| Own-account workers                       | 1,036.9   | 1,041.1 | 1,083.4 | 1,099.4 | 1,149.3 | 1,190.8 | 0.4         | 4.1                   | 1.5         | 4.5         | 3.6         |  |
| With staff                                | 268.8     | 274.2   | 279.4   | 273.8   | 273.4   | 262.8   | 2.0         | 1.9                   | -2.0        | -0.1        | -3.9        |  |
| Men (in %)                                | 75.5      | 74.4    | 74.7    | 74.7    | 74.0    | 72.1    |             |                       |             |             |             |  |
| Without staff (single-person enterprises) | 768.2     | 766.9   | 804.0   | 825.6   | 875.9   | 928.1   | -0.2        | 4.8                   | 2.7         | 6.1         | 6.0         |  |
| Men (in %)                                | 53.5      | 52.9    | 53.2    | 54.7    | 53.9    | 53.4    |             |                       |             |             |             |  |
| Self-employment* rate, total              | 23.9      | 24.4    | 25.5    | 26.0    | 27.0    | 27.5    |             |                       |             |             |             |  |
| Self-employment rate with staff           | 6.2       | 6.4     | 6.6     | 6.5     | 6.4     | 6.1     |             |                       |             |             |             |  |
| Self-employment rate without staff        | 17.7      | 18.0    | 18.9    | 19.5    | 20.6    | 21.4    |             |                       |             |             |             |  |
| Family workers                            | 77.7      | 80.1    | 92.0    | 81.2    | 71.0    | 67.9    | 3.1         | 14.9                  | -11.7       | -12.6       | -4.5        |  |

\*The self-employment rate is equal to the number of own-account workers divided by total employment x 100.

Source: INE: Labour Force Survey.

characteristic similar to that of the entrepreneur.

In other cases, the integration of the self-employed worker in the labour market is extremely precarious, so that the notion of independence loses all significance, because the economic activity is little more than a form of economic survival. This is the case, for example, with itinerant salespeople as well as the "pseudo-self-employed", of which there are a particularly large number in Portugal, who in fact work under the aegis of an employer – possibly even in the public sector – although they are registered as self-employed. The physical and/or legal externalisation of tasks (outsourcing) here is extremely widespread.

Similar considerations apply to other forms of own-account establishments based on contracts for the exclusive sale of certain products; franchising is the best-known example, and seriously limits genuine decision-making independence.

Finally, another precarious labour market situation is that of clandestine "self-employment", examples of which include homework and certain forms of subsistence commercial activities.

### Quantitative trends

The concepts used by national statistical

sources are characterised by changing definitions of self-employment, which makes it difficult to arrive at a clear overall picture of the phenomenon. The National Institute of Statistics (INE) presents the following labour market categories: "own-account workers", which include the sub-category "own-account workers without staff" (also known as single-person enterprises); salaried employees; unpaid family workers and active members of cooperatives.

Consequently, self-employment in Portugal can only be quantified in an indirect way and subject to significant reservations. Statistical information on self-employment is available from two main sources: national censuses (whereby the most recent data are from 1991) and the employment surveys conducted by the INE.

Table 1 presents a number of indicators of the overall importance of "own-account workers"<sup>2</sup> in total employment. The table indicates that both the absolute number and the relative importance of one-person enterprises has increased continuously since 1992, reaching the rate of 21.4% in 1997; the figure increases further to 27.5% if own-account workers employing staff are included. Of the 81,400 jobs created in 1997, 52,200 were self-employed without staff.

However, the data available for the first half of 1998 indicates a turnaround in self-employment trends and a significant increase in salaried employment.

Taking a longer-term view, if the data from the 1981 and 1991 censuses are compared, we see a fall in both absolute and relative terms in the number of own-account workers, whereby this decline is due exclusively to the contraction of self-employment in the agricultural sector; self-employment expanded in the secondary and particularly in the tertiary sectors. Another trend emerging from this comparison is a significant shift in the activities performed

<sup>2</sup> This term will be used, for it represents the literal translation of the concept used by the INE.

by own-account workers in favour of the tertiary sector: In 1991, 42% of the self-employed without staff worked in the tertiary sector, compared with 29% in 1981.

Table 1 indicates that own-account workers employing staff – traditionally considered to be employers – amounted to almost 262,800 persons in 1997, a figure that conceals a significant gender gap: 72% were men. Between 1992 and 1994, the number of “employers” increased significantly, a trend that was reversed, however, in the past three years (although not for women), so that in 1997 the figure was below that for 1992.

The self-employed without staff are much more numerous than employers. In 1997, such one-person enterprises accounted for 928,000 gainfully employed persons, a figure that has risen consistently since 1993. In this category, the gender gap is much narrower, with men accounting for 53% of the total.

### Self-employment by sector

Sectoral trends, summarised in Table 2, show that in 1997 the majority of own-account workers employing staff were active in the retail-trade sector (48,200 persons, representing 18.4% of all “employers”), construction and public works, and hotels and restaurants.

By contrast, more than half of self-employed individuals without staff were found in the agricultural sector (458,000, representing 49.4% of all single-person enterprises<sup>3</sup>), followed, although at a considerable distance, by retail trade and construction and public works.

For this category of workers, and in contrast to the trends observed among “employers”, women are significantly over-represented in certain sectors, including agriculture and textiles.

### By contribution to employment change

Until 1991, all the labour market status categories contributed to overall

employment growth, with the exception of unpaid family workers. Since 1991, when salaried employment – and with it overall employment – began to decline, more highly differentiated patterns of development could be observed in the other categories. In 1995, while salaried employment continued to decline, the number of own-account workers grew rapidly, leading to overall employment growth, which would otherwise have been negative.

Figure 1 presents the contribution made by self-employment to overall employment growth between 1992 and 1997. Permanent salaried employment made a consistently negative contribution throughout the period under observation, in contrast to the positive contribution made by fixed-term salaried employment and self-employment (and within the latter group, essentially of single-person enterprises, as was shown in Tables 1 and 2).

These data suggest that it is self-employment that to a significant degree ensures the flexibility of the Portuguese labour market.

### Other characteristics

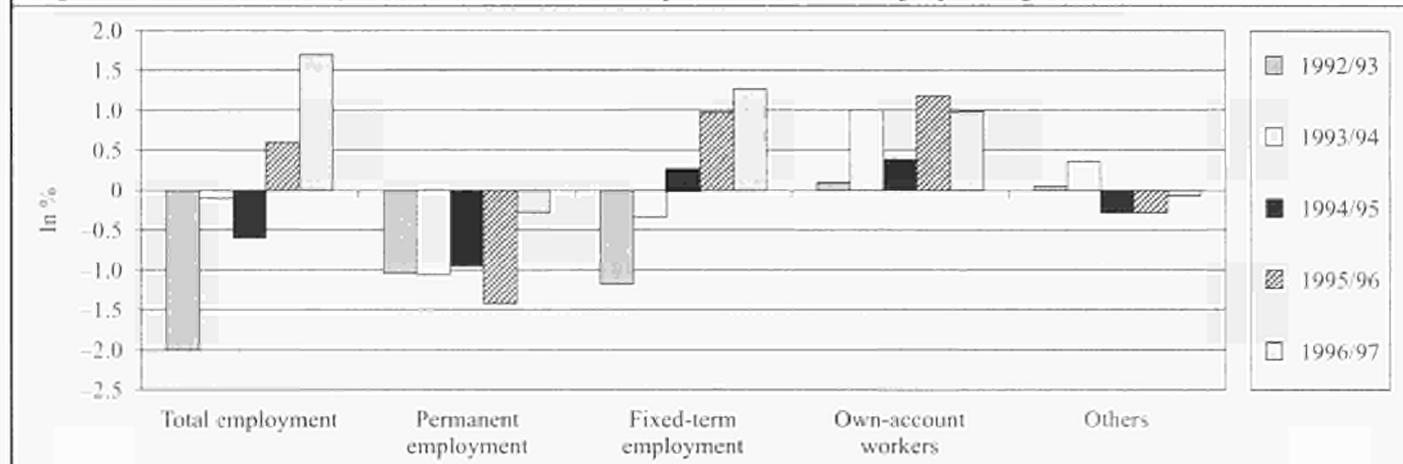
Analysis of census data indicates that the age structure of the self-employed is notably higher than the average for the working population as a whole. On the other hand, the average age of the self-employed fell markedly between 1981 and 1991, that is, during a period characterised by an ageing of the active population.

As far as the analysis of the occupational profile of self-

<sup>3</sup> Self-employed persons without salaried employees account for 80% of total employment in the agricultural sector.

|                                      | 1992      |         | 1993      |         | 1994      |         | 1995      |      | 1996      |      | 1997      |      |
|--------------------------------------|-----------|---------|-----------|---------|-----------|---------|-----------|------|-----------|------|-----------|------|
|                                      | in 1,000s | in %    | in 1,000s | in %    | in 1,000s | in %    | in 1,000s | in % | in 1,000s | in % | in 1,000s | in % |
| <b>With employed staff, total</b>    | 268.8     |         | 274.2     |         | 279.4     |         | 273.8     |      | 273.4     |      | 262.8     |      |
| Agriculture                          | 13.4      | 5.0     | 13.2      | 4.8     | 12.2      | 4.3     | 9.9       | 3.6  | 11.1      | 4.1  | 11.8      | 4.5  |
| Construction                         | 34.7      | 12.9    | 34.4      | 12.5    | 30.1      | 10.8    | 30.5      | 11.1 | 31.2      | 11.4 | 32.6      | 12.4 |
| Retail trade                         | 57.1      | 21.2    | 53.3      | 19.4    | 61.8      | 22.1    | 59.8      | 21.8 | 58.1      | 21.3 | 48.2      | 18.4 |
| Hotels and restaurants               | 28.1      | 10.4    | 30.5      | 11.1    | 31.6      | 11.3    | 31.6      | 11.5 | 33.7      | 12.3 | 30.9      | 11.8 |
| Research and development             | 14.8      | 5.5     | 15.6      | 5.7     | 14.6      | 5.2     | 16.0      | 5.8  | 19.2      | 7.0  | 21.8      | 8.3  |
| <b>Without employed staff, total</b> | 768.2     |         | 766.9     |         | 804.0     |         | 825.6     |      | 875.9     |      | 928.1     |      |
| Agriculture                          | 337.1     | 43.9    | 336.4     | 43.9    | 350.8     | 43.6    | 358.9     | 43.5 | 393.9     | 45.0 | 458.0     | 49.4 |
| Construction                         | 56.9      | 7.4     | 53.5      | 7.0     | 57.2      | 7.1     | 63.8      | 7.7  | 63.7      | 7.3  | 67.5      | 7.3  |
| Retail trade                         | 134.2     | 17.5    | 127.1     | 16.6    | 132.4     | 16.5    | 141.7     | 17.2 | 147.4     | 16.8 | 127.6     | 13.7 |
| Hotels and restaurants               | 32.5      | 4.2     | 36.5      | 4.8     | 34.7      | 4.3     | 36.0      | 4.4  | 40.6      | 4.6  | 40.9      | 4.4  |
| Research and development             | 23.4      | 3.0     | 28.7      | 3.7     | 39.0      | 4.9     | 45.7      | 5.5  | 43.3      | 4.9  | 46.4      | 5.0  |
| <b>Own-account workers, total</b>    | 1,037     | 1,041.1 | 1,083.4   | 1,099.4 | 1,149.3   | 1,190.3 |           |      |           |      |           |      |

Figure 1: Contributions by labour market status categories to overall employment growth



employment is concerned, conclusions based on existing legal registers drawn up for tax purposes are distorted by the fact that nowadays self-employment overlaps to a considerable extent with the traditional "free" professions. All the same, a comparison of the occupations of single-person enterprises between 1981 and 1991 reveals the following trends. There was a sharp fall in the number of self-employed farmers and in the number of retail traders and salespersons (whereby the latter group managed to retain its relative importance with respect to the overall population). Self-employment (without staff) increased in all other occupational groups, and particularly so among executives, administrative staff, social and domestic services, etc. It should be noted, however, that among the last-mentioned group the number of "pseudo-self-employed" is likely to be very high, as most of them are subject to instruction by an employer.

Finally, for more than half of the own-account workers, weekly working time between 1981 and 1991 amounted to more than 45 hours, whereas the average weekly working time for the active population as a whole declined substantially during this period.

## Analysis and evaluation

The quantitative importance of self-employment in Portugal has been as-

sociated with the socio-economic changes of recent years, the crisis in the Fordist mode of development and the forms of regulation associated with it. The employment crisis, the reduced attractiveness of dependent employment, the voluntarism of employment policies with their predominantly neo-liberal approach, and the expansion of informal or parallel economic sectors are among the principal reasons explaining the growth of self-employment.

A second group of factors involves contemporary employer strategies and their modes of personnel management: the attempts towards reducing the costs of concentration, achieving higher flexibility, the legal and physical externalisation of labour, the generalised recourse to outsourcing, etc.

A number of labour supply trends also serve to explain the increase in self-employment. In Portugal, where unemployment is a countercyclical phenomenon, self-employment, especially in agriculture, performs a buffer function, helping to regulate labour market disequilibria. The increase in female participation rates is another factor associated with the growth of self-employment.

The flexibilisation of labour, leading to more precarious employment relations, enables indirect labour costs to be reduced, in many cases by converting employment contracts into service contracts. The advantages for employers of deploying self-

employed labour are substantial: They no longer have to pay for indirect labour costs such as overtime, seniority allowances and social security contributions.

In some cases, these advantages are reinforced by the fact that they also exist on the side of the self-employed person; examples include lower taxation thanks to specific fiscal measures and creating a strong incentive for own-account employment.

The development of information technologies has also contributed to the growth of self-employment, for instance in the case of new forms of work such as telework, although their diffusion is only just beginning.

Finally, the emergence of new values and new cultural models may also explain the growth of self-employment: a greater degree of individualism and autonomy, the growth of "green values" to the detriment of "industrial values", the trend towards "self-determination" in running one's life, etc. All the same, in Portugal the trend towards self-employment seems to be linked more closely to strategies to create or conserve jobs than to affirmative social and professional strategies.

Thus, it seems that it is only the growth in the number of highly qualified people that allows one to believe that self-employment corresponds not to defensive strategies, but is rather an expression of a genuine increase in entrepreneurial capacity.

## Policy

### Policy issues

#### Barriers to self-employment

The very strong growth of self-employment in Portugal appears to indicate that there are no significant barriers to its development. However, the premature closure of many new businesses and the frequency of transfers between self-employment and salaried employment suggest the existence of certain factors that prevent people from making a success of self-employment and that frustrate their attempts to achieve autonomy through free enterprise.

One of these factors appears to be initial training. Indeed, own-account workers in Portugal are still characterised by a low level of education and vocational training. This factor constitutes a serious handicap, particularly in dealing with matters linked to management of a small business (poor market analyses, lack of diagnosis and planning, underestimation of commercial dimensions, logistics and marketing, etc).

In the initial phase of a business start-up project, the difficulties most frequently encountered appear to be economic, bureaucratic and legal in nature. In many cases, financial resources come from the savings of family or friends, imposing tight restrictions.

A third obstacle may be linked to protection against social risks and to the risks involved in the activity in question. The contributions for the social security of the self-employed, which range from 25.4% to 32% depending on the institution in question, and private insurance place a heavy burden on earnings and make it difficult to consolidate the finances of the new project.

Moreover, there is little coverage of self-employment by professional associations, and coverage varies greatly between branches and professions, preventing the self-employed from representing their collective interests.

Finally, a number of sociocultural factors that are characteristic of Por-

tuguese society need to be mentioned. The lack of a spirit of enterprise and the prevalence of a defensive attitude regarding financial commitments constitute significant sociological barriers to the development of self-employment.

#### Policies to increase self-employment

Portugal has not been one of those countries with a strong tradition of explicitly promoting self-employment through policy measures. The salaried employment model is deeply rooted in Portugal. Nonetheless, as in other European countries, self-employment is now considered an interesting possibility for national policies to promote employment and business development.

Consequently, alongside the rise of neoliberal values, a complex framework of support programmes for business start-ups and self-employment has emerged. Of the programmes run directly by the public employment service, the following deserve particular mention: the "collective sessions for new entrepreneurs and the self-employed"; the support grant for the creation of self-employment (ACPE), which is open to all salaried employees, with a specific scheme for the unemployed (CPE); the Conservation of Cultural Heritage, the aims of which are pursued by means of activities on a self-employed basis; local employment initiatives (ILE); certain measures under the Social Employment Market offering self-employment as a way out of unemployment (e.g. school-workshops); and the diverse range of training opportunities with the objective of providing development aid for job creation or small enterprise projects.

This spectrum of technical and financial support is supplemented by other mechanisms and incentives, their aim being to create new productive units in the context of job creation: Support Centres for Job Creation (CACE); "nests" of firms; Support Regime for Microenterprises (RIME); the System of Support for

Young Entrepreneurs (SAJE); the System of Regional Incentives (SIR); and other programmes, most of them financed by the EU, the aim of which is to dynamise the growth of a network of SMEs.

Given the range of such measures and the importance of self-employment in Portugal, it was not considered opportune to introduce new measures to stimulate self-employment in the National Action Plan for employment, rather the focus is on "acquiring knowledge of the qualitative profile of self-employment, and countering illegal employment in the form of pseudo-self-employment".

#### The public debate

Self-employment has never been the subject of great interest in public debate in Portugal. It is only very recently that themes such as the spirit of enterprise and self-employment have begun to arouse public interest. Moreover, the topic tends to be treated in a distorted way. For example, public conceptions of self-employment are closely linked to pseudo-self-employment.

The debate on self-employment has been conducted primarily by the social partners, and the results of their discussions have manifested themselves in the measures envisaged in the Strategic Consultation Agreement, which contains regulatory, preventive and fiscal measures.

Thus, it seems that certain important conditions are currently not in place to focus public discourse on the theme of self-employment as a reference model for the work society in the next century.

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## Finland

### The evolution and incidence of self-employment

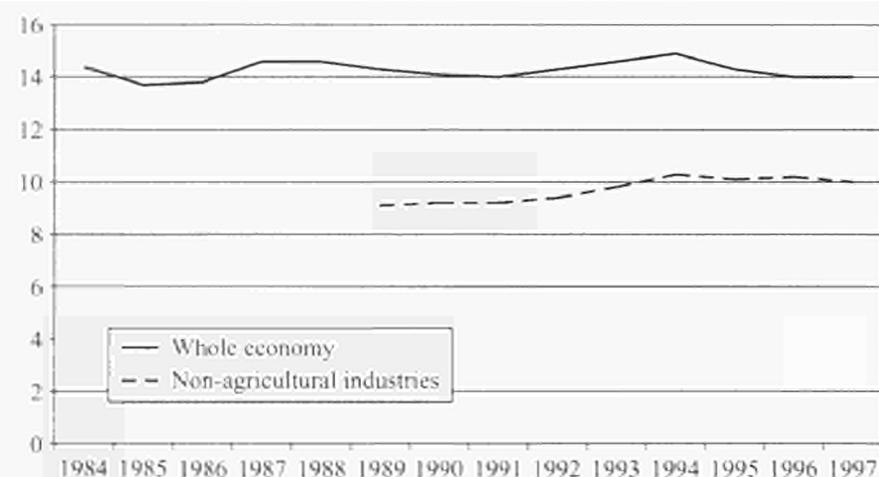
Economic restructuring in Finland has typically lagged behind similar developments in Continental Europe, as has been reflected in the higher than average proportion of agricultural industries and the lower than average proportion of service industries in total employment. Because the local government sector has traditionally borne the main responsibility for the provision of care and other welfare services, there has been little room for an expansion of private services. The relatively high labour taxation – with a resulting high tax wedge, the deep-rooted tradition of egalitarian values and the low population density of the country have also hindered the development of private consumer services. In many countries, growth in the service sector has been accompanied by a rise in self-employment and other non-standard forms of employment. However, during the 1980s, Finland began experiencing a reversal of the long-term trend away from self-employment in the non-agricultural sector.

Figure 1 shows developments in self-employment as a proportion of total employment both in the whole economy (1984–1997) and in the non-agricultural sector (1989–1997). The figures, which are based on data from the Labour Force Survey (LFS),

do not include unpaid family workers but do include owner-managers of limited companies as of 1987. Due

to the high incidence of self-employment in the declining sectors of agriculture and forestry (Table 1), the

**Figure 1: Self-employment as a percentage of total employment in the whole economy and in the non-agricultural sector, 1984–1997**



Note: Includes owner-managers of limited companies as of 1987.

**Table 1: Self-employment as a percentage of total employment by industry, 1989, 1993 and 1997**

| Industry  | 1989 | 1993 | 1997 |
|---|------|------|------|
| Agriculture, forestry, fishing                              | 65   | 64   | 67   |
| Manufacturing, mining, quarrying, energy supply             | 5    | 6    | 6    |
| Construction  | 16   | 19   | 19   |
| Trade, repair of vehicles and household goods               | 17   | 18   | 20   |
| Hotels and restaurants                                      | 13   | 17   | 14   |
| Transport, storage and communication                        | 12   | 13   | 14   |
| Financial intermediation, real estate and business services | 11   | 13   | 13   |
| Education, health care and social work                      | 3    | 2    | 2    |
| Personal services and other community services              | 19   | 22   | 20   |
| All non-agricultural industries                             | 9    | 10   | 10   |
| All industries  | 14   | 15   | 14   |

Source: Statistics Finland Labour Force Survey.

proportion of self-employment is higher in the whole economy than in the non-agricultural sector, though the trend is slightly positive for the latter. In 1997, self-employment accounted for 10% of non-agricultural employment and for 14% of total employment in Finland.

The Finnish economy experienced a deep crisis in the early 1990s, when total output dropped by about 11% and employment declined by 18% – more than 450,000 people. The trough was passed in 1993, and in 1996 total output reached the level of the previous boom of 1989 and 1990. There was a decline of 10% in non-agricultural self-employment between 1989 and 1993, but by 1997, after the trough, self-employment had risen by a total of 8%. The decline in self-employment was more moderate, and its recovery more marked, than was the case for total employment during the most recent business cycle, when non-agricultural self-employment contributed slightly to a more favourable labour market performance.

Table 1 shows that recent changes in the incidence of self-employment by industry have been rather modest, with a slight increase in most sectors, including construction, business services and private consumer services. At a more disaggregated level encompassing 23 industries, self-employment accounted in 1997 for more than 15% of total employment in the following industries: agricul-

ture (74%); service stations, repair of motor vehicles and repair of personal and household goods (40%); forestry (25%); land and water construction (23%); personal and household services, recreational and cultural services, and care of the environment (20%); retail trade (19%); transport (19%); building construction (18%); technical and business services (17%); and wholesale trade (16%).

For both women and men, about one-third of total self-employment is found in the agricultural sector (Table 2). Another third of female self-employment is found in personal and household services or the retail trade; for men, however, a second third is found in construction, trade or transport. Gender segregation tends to be even stronger among the self-employed than it is among employees (Kovalainen, 1993). Moreover, two-thirds of the self-employed are men, the proportion showing a slight upward trend since 1984.

The occupational profile of the self-employed to a large extent reflects the distribution by industry. The non-homogeneous character of self-employment is shown in the large spread of educational backgrounds. However, the average level of education among the self-employed is clearly lower than that among employees. This outcome is partly due to the older age of self-employed people as compared with the average age for employees. Indeed, the number of older self-em-

ployed people (aged 60 and over) exceeds that of those under 30 years of age. About half of the self-employed are 45 years of age or over, while the corresponding proportion among employees is 35%. It is also clear that the self-employed put in longer working hours than employees, the reported weekly average being about 11 hours higher. In the non-agricultural sector, 25% of the self-employed and 65% of employees reported an average working week of less than 40 hours in 1997.

### Factors affecting trends in self-employment

In the 1980s, the relative importance of industry as a source of jobs started to decline in Finland. At the same time, the shift to employment in services began to accelerate. This shift is not entirely due to changes in technology, trade and consumption patterns; it also partly reflects a growth in the contracting out of service-type activities – such as advertising, real estate maintenance, cleaning, catering, communications, computing and legal services – which had formerly been carried out within industry. This gave rise to job openings in business services, creating opportunities for self-employment and entrepreneurship.

In some fields of consumer services in particular, the recent growth of Business Format Franchising has lowered the threshold for entrepreneurship. The employment impact – relative to the size of the population – is still the lowest among the western European countries. In 1997, the number of chains was 75, with their 900 outlets employing about 15,000 people. The number of chains is expected to increase by 50 to 70% by the year 2000, however, with a doubling of the number of people employed in the franchising business (Eräheimo & Laakso, 1998).

In the 1990s, reshaping of the organisation and delivery of public services also stimulated new patterns of activities, especially in the fields of social welfare and health care. The

**Table 2: Distribution of self-employment by industry and gender in 1997 (in %)**

| Industry  | Women | Men | Total |
|---|-------|-----|-------|
| Agriculture, forestry, fishing                              | 34    | 34  | 34    |
| Manufacturing, mining, quarrying, energy supply             | 7     | 10  | 9     |
| Construction  | 1     | 12  | 8     |
| Trade, repair of vehicles and household goods               | 16    | 17  | 17    |
| Hotels and restaurants                                      | 6     | 2   | 3     |
| Transport, storage and communication                        | 2     | 10  | 7     |
| Financial intermediation, real estate and business services | 10    | 10  | 10    |
| Education, health care and social work                      | 7     | 2   | 3     |
| Personal services and other community services              | 18    | 3   | 8     |
| All non-agricultural industries                             | 66    | 66  | 66    |
| All industries  | 100   | 100 | 100   |

Source: Statistics Finland Labour Force Survey.

establishment of private enterprises was very rapid in the mid-1990s; within two years, the stock of private enterprises in social welfare services increased by more than 70% and that in health-care services by more than 40% (Ohtonen, 1997). According to Simonen (1998), the new entrepreneurs acted as innovators, too, providing alternative services when compared with public-sector activities. For instance, the new entrepreneurs started new types of service-based group homes and offered visiting services for the elderly in their own homes, the business concept being the provision of high-quality services tailored to the needs of individual clients. At present, some 15% of all those employed in social welfare and health-care services work in the private sector. In cases of contracting out public services, the staff who used to provide municipal services have sometimes been offered the opportunity to continue as entrepreneurs. According to a recent survey carried out by the Association of Finnish Local and Regional Authorities, this opportunity has been offered in about 15% of all municipalities. In practice, however, the significance of companies set up by former municipal employees has remained marginal so far.

Another factor contributing to the increased interest in self-employment and entrepreneurship is high unemployment. Lack of paid work pushes people into self-employment. Moreover, entrepreneurship has been promoted through more widespread counselling, start-up grants and entrepreneurship training. In ESF projects, separate policy measures have been integrated to form pathways leading to entrepreneurship. The establishment of worker cooperatives made up of unemployed people has also been supported by public funds. Cooperatives provide a safe middle way between unemployment and paid work by means of the employment contract with the cooperative. In the period 1987–1997, about 300 new worker cooperatives of unemployed people

were founded. By international standards, however, cooperatives are still rather uncommon in Finland.

The high tax wedge has obviously arrested the growth of private personal and household services and has also contributed to tax evasion or unjustified claims for social benefits filed by people working clandestinely. It has been estimated that some 3 to 4% of the recipients of unemployment benefits work on the black market (Työministeriö, 1994). According to several surveys, the unemployed do not work in the black economy more than the employed. The black economy is assumed to be bigger in absolute terms during periods of high economic activity and is also thought to reflect the effect of better opportunities. In terms of capabilities and contacts, a better education and a higher level of income seem to be positively related to a high incidence of undeclared work. Finally, according to a survey commissioned by the National Board of Taxes in 1996, 16% of the respondents reported that they had carried out undeclared work during the preceding year. Moreover, 19% of the respondents said that during the preceding five years, they had bought goods or services on which statutory dues had not been paid. Thus, to a certain extent, self-employment is also associated with undeclared work. At the level of the whole economy, the scope of the problem is likely to be rather small, but in some sectors, such as construction, repair of vehicles or cleaning, the phenomenon is certainly more widespread.

### **Policy measures to promote self-employment**

In Finland, as in the other Nordic countries, taxation is differentiated by kind of income. Earned income is taxed progressively and capital income proportionately. All types of capital income are liable to a uniform 28% tax rate, while for earned income the highest marginal tax rate, including employees' compulsory social security contributions, is more than

60%. As such, the large gap favours entrepreneurship at the expense of dependent employment. In many new types of subcontracting arrangements, the boundary between self-employment and paid employment is rather vague. This has led to some unpleasant surprises for self-employed subcontractors in cases where the tax authorities have adopted a different interpretation and have retroactively imposed progressive taxation on earned income. To improve legal security, new measures for ascertaining the tax treatment in advance have been called for recently.

The self-employed and employees have similar pension schemes in Finland. Due to the later introduction of the Self-Employed Persons' Pension Act and other special features related to old age, the pay-as-you-go scheme is being co-funded by the central government. The liability of the self-employed for financing their own pensions was tightened from the beginning of 1998, however, as failure to pay contributions will now result in a lower employment pension. In the past, such losses were financed by the central government, which tended to increase the risk of default. In the financing of social security benefits, there are some other exceptions from the neutral treatment of self-employment and paid employment. In sickness insurance, for instance, the contributions are lower for the self-employed.

To promote self-employment, a legislative amendment was introduced in 1993, whereby those starting up a business were granted a reduction in pension contributions. Self-employed persons under 44 years of age receive a 50% reduction in the contributions payable for the first three years. A self-employed person can only get this reduction once. It has been proposed that the upper age for entitlement to the reduction should be raised. Another policy reform related to social security contributions was introduced in 1998. The purpose of the reform was to make it easier for small businesses to settle all their employer liabilities.

In its first stage, the reform simplifies the payment of social contributions in businesses with less than five employees. Similar improvements are being designed for businesses with fewer than ten employees.

The recent policy of promoting entrepreneurship in Finland is based on a government resolution passed in May 1996. The resulting efforts have mainly simplified administrative procedures and improved the work of the authorities handling industrial and business matters. In early 1988, a working group appointed by the Ministry of Trade and Industry proposed several measures to simplify the permit and registration procedures for SMEs. As the lack of information on setting up a business constitutes a major obstacle to would-be entrepreneurs, the government aims to increase counselling services at the 15 newly established regional Employment and Development Centres. Special associations – centres for newly established business enterprises – have also been created to provide free counselling. The associations are being financed jointly by businesses, the labour administration and municipalities. A separate association has also been founded to serve female clients. In addition, the government has also taken measures to increase the volume of loans to small enterprises and female entrepreneurs as well as measures to ensure that there are enough start-up grants to meet the demand.

The introduction of the start-up grant scheme in Finland dates back to 1984. To qualify for the scheme, a person must be a registered, unemployed jobseeker who has either previous business experience or training and a viable business idea. The allowance, which can be granted for a maximum of ten months, is not intended to provide working capital for the enterprise, but to cover living expenses during the initial phase. The volume of the scheme has fluctuated considerably and has been curtailed substantially since 1993. The average number of beneficiaries decreased from 5,100 people in 1993 to 2,700 in 1997.

In October 1997, two parallel experiments of a temporary nature were introduced in order to boost household demand for domestic work such as cleaning, care and home renovation. Depending on the region, the aid takes the form either of a direct subsidy to the enterprises providing the service or of individual tax deductions in state income taxation. The experiment will continue until the end of 1999, and the experiences gained will be evaluated during the trial phase.

Remaining efforts to promote entrepreneurship are increasingly inter-related with those to improve the operating conditions of service industries. In Finland, this issue has recently been discussed in a few working-group reports (cf. Kauppa- ja teollisuusministeriö, 1998). Moreover,

continuous efforts are being made to find ways of simplifying administrative procedures, both those related to the setting-up of a business and the recurrent duties. As regards the start-up programmes, the tendency is towards paying closer attention to the selection of potential entrepreneurs. As the entrants into self-employment and those remaining in business often have particular characteristics which seem to make them well suited for self-employment, programmes to encourage self-employment among the unemployed, for instance, should take these characteristics into account in order to yield sustainable results.

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## Sweden

### Introduction

Self-employment has been in the focus of public debate for some years under several aspects, for example, with regard to measures seeking to reduce unemployment by increasing the numbers of self-employed or with regard to the advantages and disadvantages, respectively, of certain types of self-employment (especially within the private services sector). Self-employment as a share of total employment has been falling reasonably steadily since the early 1950s. One major contribution to this development is the declining number of self-employed within the agricultural sector, a trend that is common in most industrialised countries. However, in comparison to other OECD countries, Sweden has one of the lowest ratios of self-employment to total employment. Nonetheless, there are indications that the declining trend has ceased.

### Assessment of self-employment

#### Types of self-employment

There are three primary legal forms of self-employment in Sweden: private firm, trading company and joint-stock company. The most common type of self-employment is private firms, followed by joint-stock companies. Self-employed individuals usually (but not necessarily) are issued with a so-called *F-skattsedel*, a notice of tax assessment meaning that they pay social security contributions and VAT themselves. Another notice of tax assessment is also available, the so-called *F/A-skattsedel*, enabling the holder to divide tax payments between work as a dependent employee (where the employer pays the social contributions on the income earned as an em-

ployee) and as self-employed (where the holder pays the social contributions and VAT on the income earned as self-employed).

#### Development of self-employment

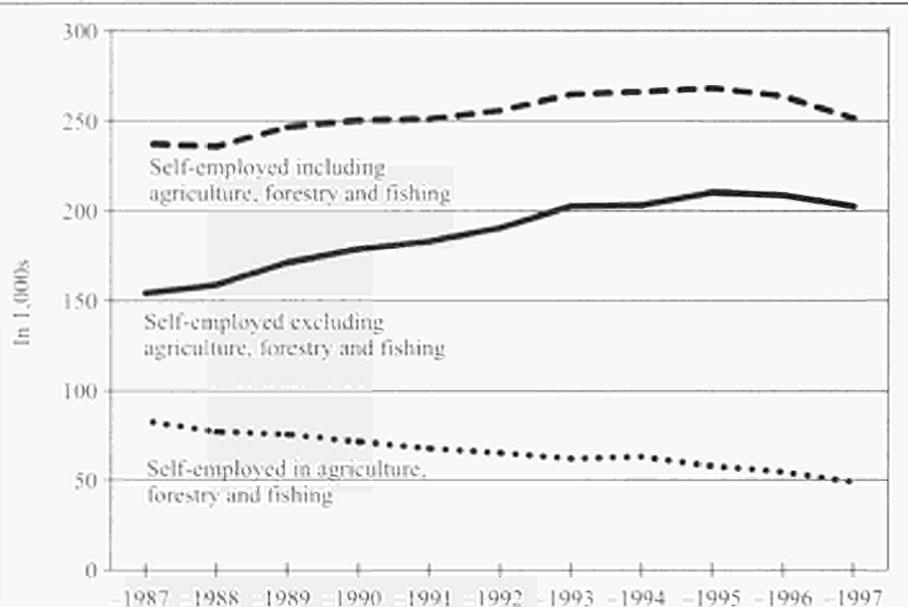
In the early 1990s, when Sweden was struck by its most severe recession since the 1930s, employment fell markedly (from 4.5 million in 1990 to less than 4 million in 1994). This decrease concerned the number of dependent employees, while the trend in the number of self-employed – with no employees – was flat or even weakly positive (especially when excluding agriculture, fishing and forestry; see Figure 1). According to the Labour Force Surveys, somewhat over 250,000 individuals were self-employed as their main occupation (of which close to 50,000 were in agriculture, fishing or forestry) in 1997. These and all the following figures, unless otherwise stated, concern self-em-

ployed entrepreneurs with no employees.

In 1997, self-employment, defined as above, made up around 6.5% of total employment, according to the Labour Force Survey. Excluding agriculture, fishing and forestry, the share was 5% (see Figure 2). When including entrepreneurs with employees, self-employment in 1997 made up around 11% of total employment.

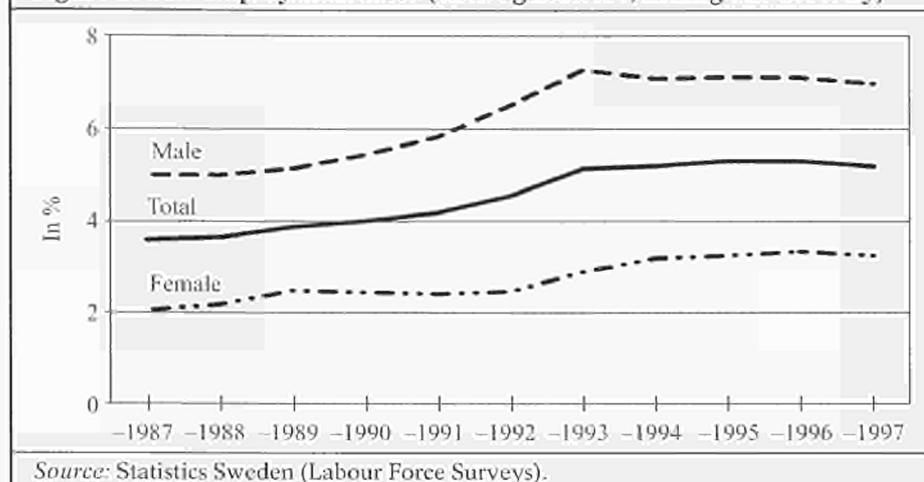
From 1987 to 1997, the development of the female self-employment rate in the non-agricultural sectors was a little steeper than the trend for male self-employment; male self-employment made up around 7% of total male employment in 1997 (see Figure 2). While male self-employment rates increased sharply during the recession and remained constant thereafter, the rate of female self-employment increased slowly but steadily; female self-employment amounted to somewhat more than 3% of total female employment in 1997.

Figure 1: Self-employed (with no employees)



Source: Statistics Sweden (Labour Force Surveys).

Figure 2: Self-employment rates (excl. agriculture, fishing and forestry)



### Sector-based development

The wholesale and retail trade and the transport and communication sector together overtook agriculture, forestry and fishing as the largest sector for self-employed in 1992 (see Table 1)<sup>1</sup>. Around 61,000 individuals, or almost a quarter of the self-employed, were working in trade and communications, while around 49,000, or close to one-fifth, were employed in agriculture, forestry and fishing in 1997. The share of self-employed working in the area of financial intermediation, real estate, renting and business activities amounted to a similar figure in 1997: around 47,000, or close to 20%.<sup>2</sup> The size of this sector, in absolute as well as relative terms, more than doubled between 1987 and 1997. The rapid development of information technology is most probably an important factor regarding the changes in the shares of self-employment in this sector, but it is hard to quantify any effects. Outsourcing is also likely to be a contributing factor, but here, too, the effects are hard to quantify.

### New enterprises

There is a weak positive trend for the number of new enterprises founded between 1992 and 1997.<sup>3</sup> Close to 29,000 firms were started in 1997, of which 38% had no full-time employees and 45% had one full-time employee. More than 80% of these 29,000 enterprises were in the serv-

ices sector. Slightly less than 30% of the enterprises founded in 1997 were started by women, while around one-fifth were started by an entrepreneur with an immigrant background. The educational level of individuals starting companies is generally high – 45% of the enterprises founded in 1997 were started by a person with post-secondary education – but the variation between sectors is substantial. Within the manufacturing and construction sectors, the corresponding share was 20%, compared to around 50% in the aggregated services sector.

## Policies

### Changes in the tax system

The tax reform of 1990–1991 included, inter alia, a lowering of the marginal tax rates on income combined with higher indirect taxation (a widening of the tax base). The economic conditions of small firms were much debated before this reform, but the issue was not treated in detail before the reform took effect. Thus, shortly afterwards, an overhaul of the tax regulations for private firms commenced, with the purpose of applying the same regulations to private firms as apply to limited liability companies. New tax regulations for private firms which were more similar to those for limited liability companies, and which also generally implied lower taxes, thus came into effect in

1994. However, the improvement was accompanied by considerably more complex regulations. Even before the reform, the costs of tax accounting had been relatively high for very small firms; after the reform, there was even more uneven distribution. In 1996, a new overhaul started with the aim of simplifying the regulations for private firms. An interim report (SOU, 1997: 178) was published in December 1997 and proposed less complex rules to be applied from the year of assessment 2000. In early 1998, the government made additional proposals for the overhaul, aiming at further simplifying the regulations for private firms with a small turnover. This next report was to be presented by 31 December 1998.

A simplification for prospective self-employed implying easier access to *F-skattsedel* status was passed by the Riksdag in December 1997.<sup>4</sup> Minor deductions for the social security contributions of the self-employed (up to a ceiling of SEK 9,000 per annum) apply as of 1997. The deductions are structured such that the self-employed with the lowest turnover benefit most.

An important topic in the political debate concerns the advantages and disadvantages of introducing tax subsidies or tax reductions on services targeting households. In 1996, the government entrusted a committee

1 The figures are derived from the Labour Force Survey.

2 Assessments of self-employment as a share of undeclared work are hard to obtain. During the period 1986–1992, the estimated GDP share of undeclared work was quite steady at around 4.5–5% (see Tengblad, 1994).

3 The figures are derived from Statistics Sweden. Figures for 1997 are provisional. Even more recent figures from *Stiftelsen Svenska Jobs & Society* indicate that during the first half of 1998, there was a downturn in the number of newly started enterprises (*Ny-företagarbarometern/Jobs and Society*). The figures in this section are based on information from Statistics Sweden on enterprises with a yearly turnover exceeding SEK 30,000.

4 The share of applications for *F-skattsedel* that would have not been rejected given the new rules is low, however (around 1%, or 500 of the 40,000 applications in 1996; of these 40,000 applications, a total of 1,500 were rejected).

|   | 1987      |                                   |                            |                            | 1992      |                                   |                            |                            | 1997      |                                   |                            |                            |
|---|-----------|-----------------------------------|----------------------------|----------------------------|-----------|-----------------------------------|----------------------------|----------------------------|-----------|-----------------------------------|----------------------------|----------------------------|
|   | In 1,000s | % of sectoral or total employment | % of total self-employment | % of total self-employment | In 1,000s | % of sectoral or total employment | % of total self-employment | % of total self-employment | In 1,000s | % of sectoral or total employment | % of total self-employment | % of total self-employment |
| Agriculture, forestry and fishing   | 83        | 48                                | 35                         | 26                         | 66        | 47                                | 26                         | 19                         | 49        | 45                                | 19                         | 19                         |
| Manufacturing, mining and quarrying   | 19        | 2                                 | 8                          | 9                          | 22        | 3                                 | 9                          | 8                          | 20        | 3                                 | 8                          | 8                          |
| Construction  | 27        | 9                                 | 11                         | 13                         | 32        | 11                                | 13                         | 12                         | 31        | 14                                | 12                         | 12                         |
| Wholesale and retail trade; transport, storage and communication                | 57        | 7                                 | 24                         | 24                         | 62        | 7                                 | 24                         | 24                         | 61        | 8                                 | 24                         | 24                         |
| Financial intermediation, real estate, renting and business activities          | 21        | 6                                 | 9                          | 14                         | 36        | 9                                 | 14                         | 19                         | 47        | 11                                | 19                         | 19                         |
| Education, research and development   | 0.5       | 0.2                               | 1                          | 1                          | 2         | 0.5                               | 1                          | 1                          | 3         | 1                                 | 1                          | 1                          |
| Health and social work  | 4         | 0.5                               | 2                          | 2                          | 6         | 1                                 | 2                          | 2                          | 5         | 1                                 | 2                          | 2                          |
| Hotels and restaurants; other community, social and personal service activities | 27        | 10                                | 11                         | 12                         | 30        | 10                                | 12                         | 14                         | 36        | 12                                | 14                         | 14                         |
| Unspecified   | 0.5       | 17                                | 0                          | 0                          | 1         | 15                                | 0                          | 0                          | 0.5       | 11                                | 0                          | 0                          |
| Total   | 238       | 5.5                               | 100                        | 100                        | 256       | 6.1                               | 100                        | 100                        | 252       | 6.4                               | 100                        | 100                        |

Note: The figures in % may not add up to 100 due to rounding off.

Source: Statistics Sweden (Labour Force Surveys).

with the task of analysing the conditions for the development of the services sector. In 1997, the committee presented its final report (SOU, 1997: 17), where certain tax reductions were proposed for areas of the private services sector that can be considered as substitutes for private household work or that concern repairs and restoration of private homes. But apart from the extension of a temporary tax reduction on repairs and restoration of private homes, there have been no government proposals along the lines presented by this committee.

### Improved advice and facilitated loans for entrepreneurs

The importance of consultancy services providing business advice and of facilitating the availability of credit for entrepreneurs have been emphasised for a long time. In recent years, several steps have been taken in this direction. The Swedish National Board for Industrial and Technical Development (NUTEK) and ALMI are two bodies which support the growth of self-employment and SMEs.<sup>5</sup> First of all, ALMI, but to some extent also NUTEK, can provide loan facilities for entrepreneurs. In 1993, a special type of loan for new firms, *Nyförretagarlånet*, was introduced (modelled on a similar German scheme). This type of loan covers a maximum of 30% of the prospective firm's capital requirements. The maximum loan is SEK 1 million. The entrepreneur must invest at least 10% him or herself, and the remaining amount is financed by a bank or other type of financier. The state-owned ALMI, *Företagspartner* (which replaced the former regional development funds in 1994), is the financier of this type of loan. ALMI also offers specially targeted loans for female entrepreneurs. Other organisations carrying out activities to promote the

<sup>5</sup> ALMI operates by commission to the Swedish government, county councils and certain municipalities to support the growth and development of small and medium-sized companies, while NUTEK is a governmental body.

development of self-employment and SMEs are *Stiftelsen Svenska Jobs & Society* and a producer's organisation, *Företagarnas Riksorganisation*. The municipalities have local trade and industry departments where officials can provide information to prospective entrepreneurs.

### Targeted labour market measures and altered unemployment benefit rules

The public employment service (PES) offers courses in how to run one's own business. "Start-up grants" is a labour market measure provided by the PES and targeted at facilitating self-employment. The grants are available for individuals who are unemployed (or threatened with unemployment) and who need help in supporting themselves while establishing their own new firms.<sup>6</sup> An applicant must present a viable business plan to the public employment service office. The grant is equivalent to the benefit that would otherwise have been paid from an insurance fund, but it can also be provided to people who are not entitled to such benefits. It is normally payable for a maximum of six months, but in some cases it is possible to receive the grant for twelve months. The average number of persons receiving start-up grants has increased from 2,000 per month in 1992 to somewhat over 12,000 in 1997 (41% are women). In 1997, almost 40% of new firms had been started by a person who had received a start-up grant.<sup>7</sup> In some cases, an unemployed person has the option of preparing the start of the new business as a project within the employment development programme (*arbetslivsutveckling* – ALU), normally for a maximum of six months. The start-up grant may be received on completion of this project.

Other types of financial help with a similar structure to the start-up grants are available from organisations associated with the social partners: *Trygghetsfonden* for private-

sector blue-collar workers, *Restart (Trygghetsrådet)* for private-sector white-collar workers and *Trygghetsstiftelsen* for state employees.

The rules for unemployment insurance were altered at the beginning of 1997 and are now more liberal as regards payment of unemployment benefit to unemployed self-employed. Before the change in the regulations, a self-employed person who was not doing enough business to support him or herself had to liquidate the firm in order to obtain unemployment benefit. Under the current regulations, the interruption in business may not be of a seasonal character, and no business activity may take place while benefits are being received, but the firm does not have to be liquidated.

### Concluding remarks

Since the early 1990s, several barriers against self-employment have been removed or lowered, such as tax regulations which were perhaps favourable to larger companies but unfavourable to the self-employed. However, these advances have to some extent been acquired at the expense of clarity and simplicity in the tax legislation for the self-employed. There is more qualified business advice and improved credit facilities for prospective self-employed, coming both from public and private sources. Nevertheless, some problem areas and disputed issues remain. Representatives from the employer side are opposed to start-up grants and argue that they distort competition. The deadweight effects of start-up grants, i.e. how many persons would have started their business even without the grant, are also unclear. Whether or not tax deductions should be introduced where household services are purchased continues to be a controversial issue. The dividing line in the debate seems to run between whether an increase through tax reductions in relatively low-skilled jobs is desirable in the private sector or whether it would be

wiser to use tax revenue for other purposes. In addition, the net effect on employment of such a tax subsidy remains disputed.

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#### Internet addresses:

- ALMI: [www.almi.se](http://www.almi.se)  
 Swedish National Board for Industrial and Technical Development: [www.nutek.se](http://www.nutek.se)  
 Swedish National Labour Market Administration: [www.amv.se](http://www.amv.se)

<sup>6</sup> Individuals who live in certain (mostly rural) areas of Sweden, so-called regional development areas, can receive start-up grants without fulfilling these requirements.

<sup>7</sup> According to Statistics Sweden.



## United Kingdom

### Assessment of self-employment

#### Definitional issues and data

In the UK, as elsewhere, the concept of self-employment is complex. There are many definitions: in taxation and social security law and in employment law. Most empirical analysis of self-employment, however, relies not on legal definitions, but on sources such as the Labour Force Survey (LFS), where self-employment is categorised according to respondents' self-definition. Casey and Creigh (1988) showed that LFS estimates of UK self-employment differ from those based on National Insurance (social security) or Inland Revenue (income tax) data sources<sup>1</sup>. Official definitions may not correspond with individuals' perceptions of their own status. A further inconsistency relates to the distinction between incorporated and unincorporated businesses (see Hakim, 1988). The decision to incorporate a business may be one of administrative convenience or tax advantage, and two proprietors of similar businesses, one of which is incorporated and the other not (with the former classified as an employee and the latter as self-employed), might both regard themselves as "self-employed".

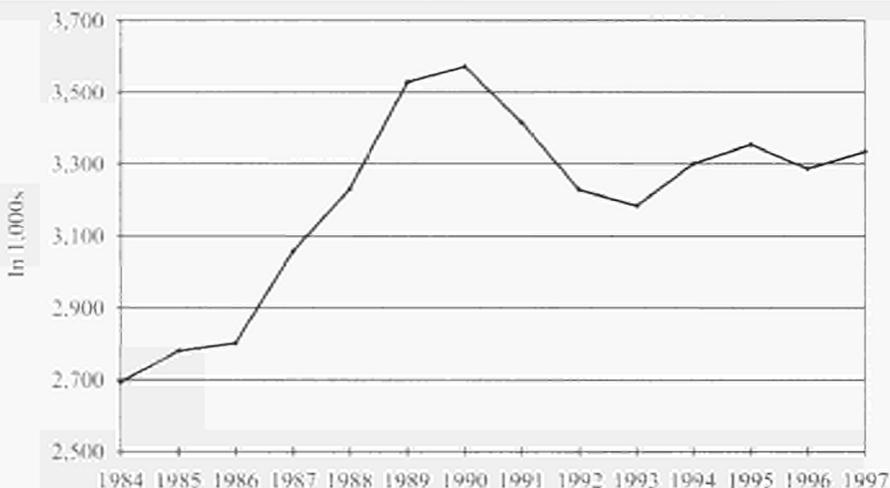
Most research, however, defines self-employment for labour market purposes in terms of notions of independence and autonomy, i.e. the self-employed are those who work on their own account rather than for an employer in a conventional employment relationship (see Bryson & White, 1997). Unfortunately, there is no UK data source which separately identifies the different categories of worker with differing degrees of autonomy and independence, who, taken together, comprise the "self-employed". These include:

- entrepreneurs and the proprietors of small businesses;
- independent professional workers (in the liberal professions and the arts, for example);
- manual craft workers;
- farmers;
- some categories of homeworkers or "outworkers";
- "labour-only" sub-contractors, e.g. in the construction industry.

Some of these groups correspond more closely to the autonomous model of the genuinely self-employed, whereas others (particularly the last two) include people self-employed in name only, who might be better regarded as "disguised employees".

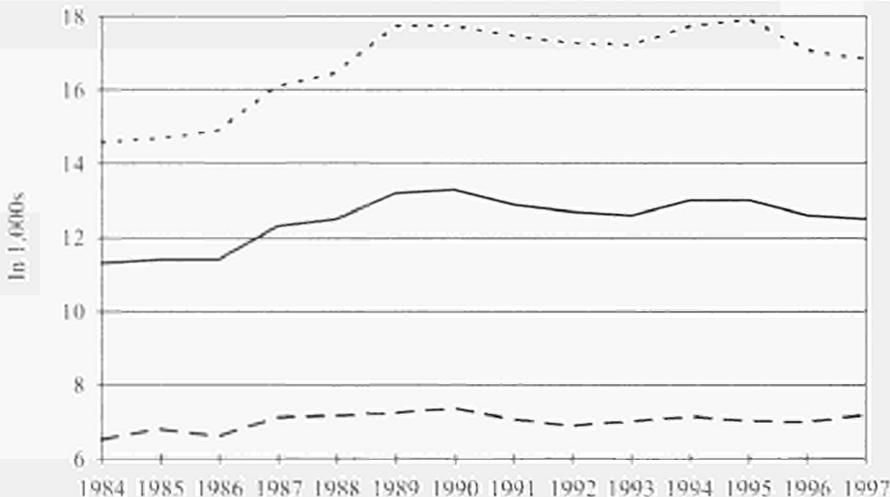
<sup>1</sup> See also Moralee (1998) on differences between LFS and income-tax data.

Figure 1: Self-employed, UK, 1984-1997 (not seasonally adjusted)



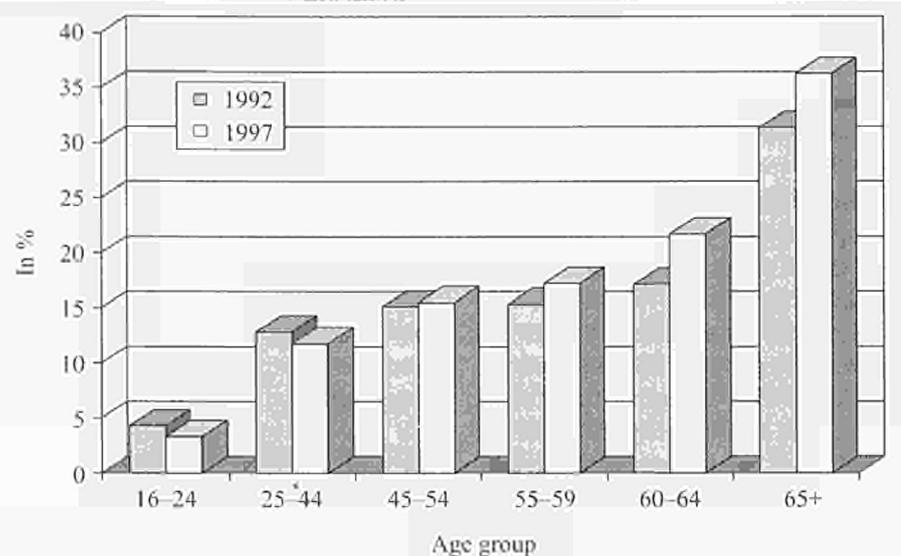
Source: Labour Force Survey.

Figure 2: Self-employment rates, UK, 1984-1997



Source: Labour Force Survey.

Figure 3: Self-employment rates by age group, UK, 1992–1997



Source: Labour Force Survey.

In this article, we make use of the LFS self-employment data which, although reliant on respondents' self-definitions, enable us to track developments over time and to disaggregate the self-employed by personal characteristics, occupation and sector, providing at least a partial picture of the various categories of self-employed identified above.

### Composition of and trends in self-employment

#### Overall trends

1979–1989 was a period of historically unprecedented growth in self-employment. LFS data for Great Britain<sup>2</sup> show that over 1979–1989 self-employment almost doubled from 1.77 million to 3.43 million, and the self-employment rate (the proportion of all those in employment who are self-employed) grew from 7.3% to 13.1%.

Self-employment increased every year in the 1980s and did not follow the economic cycle. Since the early 1990s, however, the pattern has changed, with self-employment moving more closely in line with the overall level of employment (Camp-

bell & Daly, 1992; Moralee, 1998). These trends can be seen clearly in Figure 1, and Figure 2 shows that since 1990 the self-employment rate has fluctuated between 12.5% and 13.5% of the employed labour force.

#### Trends by gender

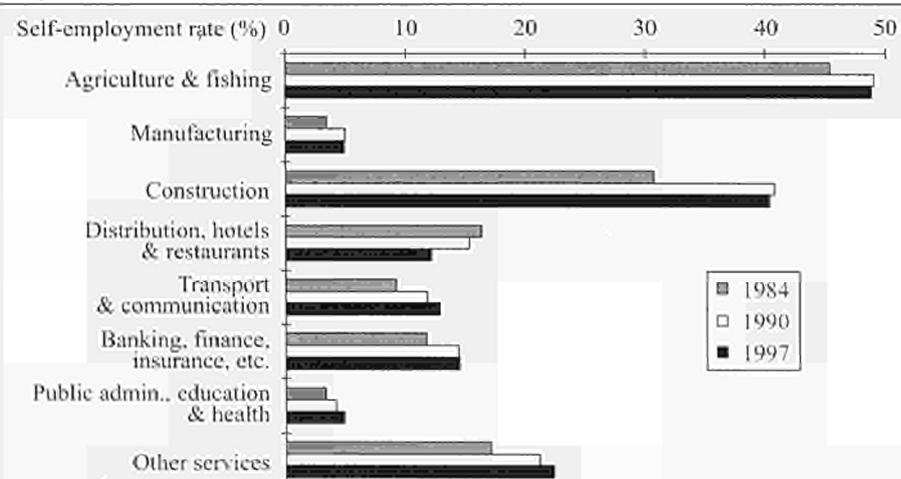
Over the period 1984–1997, there was slight growth in the female share of self-employment from 24.0% to 25.8%. As pointed out in Daly and Campbell (1992), although female self-employment grew proportionately faster than male self-employment in the 1980s, most of this difference occurred during the first half

of the decade; since 1984, the rates of growth of male and female self-employment have been fairly similar. It is also worth noting (see Figure 2), that throughout the period, female self-employment rates have been less than half their male equivalents.

#### Trends by age group

Previous research (Meager, 1993; Campbell & Daly, 1992) showed that young people were less likely to be self-employed than older people (consistent with the notion that an accumulation of human and financial capital is an important precondition for self-employment entry). LFS data suggest that people beyond normal retirement age record the highest self-employment rate. This is unsurprising given that the self-employed do not have a fixed retirement age and may have greater opportunity than employees to reduce their labour input in later life; it is also likely that some people move from employee to self-employed status as a route into retirement. The data also suggest, however, that in the 1980s the age differences narrowed and that self-employment grew relatively faster among young people. More recently (1992–1997), this pattern has changed (Figure 3), and self-employment rates among the older groups have increased faster than among the younger groups, where self-employ-

Figure 4: Self-employment rates by sector, Great Britain, 1984–1997



Source: Labour Force Survey.

<sup>2</sup> I.e. excluding Northern Ireland. Due to data discontinuities in published LFS data, the charts presented here for the UK as a whole (including Northern Ireland) begin in 1984.

ment rates have fallen (in contrast to their rapid growth during the 1980s).

### Sectoral and occupational composition of self-employment

Figure 4 shows (for Great Britain only) sectoral trends in self-employment rates<sup>3</sup>. In all sectors, with the exception of distribution, hotels and restaurants, self-employment rates have increased since 1984. The growth was particularly marked in construction during the period 1984–1990, reflecting the accelerating trend towards the use of “labour-only” sub-contracting. Falling rates of self-employment in retailing, hotels and catering are harder to explain, but may reflect, in part, the trend towards concentration in this sector, with increasing market share in retail multiples and supermarkets at the expense of small shopkeepers.

Figure 5 shows self-employment rates by occupation and confirms the importance of self-employment in craft occupations and in managerial and administrative occupations. Two caveats are, however, in order. First, it is likely that many of the nominally self-employed in construction (whose actual status may be closer to dependent employment) are likely to have been classified as craft workers. Second, as noted elsewhere (Meager, 1991), there are doubts about the re-

liability of the managerial category as recorded in the LFS data, due to the propensity of many self-employed people to report themselves as “managers”, irrespective of the real nature of their business or activity.

Also of interest is the fact that the managerial and administrative category is the only group which has recorded a significant fall in the self-employment rate during the 1990s; this reflects growing numbers of employees in this category and falling numbers of self-employed. A full explanation of this change is not available, but it is consistent with the fact that over the same period the proportion of self-employed who employ others has fallen (Moralee, 1998), and may reflect a further shift away from the traditional model of the self-employed person as a small business proprietor towards a more diverse range of individual self-employed workers and professionals.

### Analysis and evaluation

The diversity of the self-employed presents a major difficulty in explaining recent trends in self-employment. The “self-employed” include individuals engaged in very different activities, with varying degrees of autonomy, and the growth or decline of

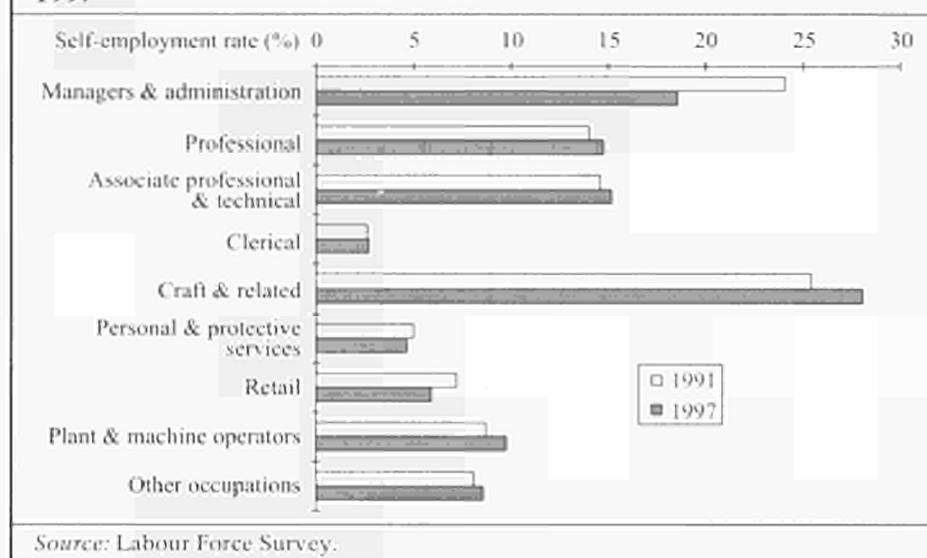
each of these groups is influenced by a range of different factors (Meager et al., 1994). This heterogeneity makes it unlikely that one model can account for aggregate trends in self-employment. The existing literature does, nevertheless, contain some evidence on the factors underlying the unusual growth in self-employment in the UK during the 1980s, although analysis of more recent trends is less well developed.

### The 1980s

Previous research (cf. Acs et al., 1992; Meager et al., 1992; Meager, 1993) that has examined the fast growth of UK self-employment in the 1980s suggests that no single factor can explain these developments. Rather, to explain the differential experience of European countries, despite a generally convergent macro-economic environment and a common policy stance supportive of self-employment growth, we must take account of a number of interrelated influences. In particular:

- *the economic cycle*: Growing unemployment may “push” people into self-employment; on the other hand, entry to and survival in self-employment is easier at times of economic growth. The net effect of these two opposing influences on self-employment levels is not predictable a priori. It seems that the “unemployment push” effect may have been more significant in the early 1980s (when the UK experienced higher rates of inflow to self-employment from unemployment than most other European countries; Meager, 1993), whilst the effect of economic growth dominated in the late 1980s; the result being that self-employment grew throughout the decade;
- *structural change*: The rapid shift in the UK from manufacturing to services (where the density of self-

Figure 5: Self-employment rates by occupation, Great Britain, 1991–1997



3 Note that in both these figures, the energy and water supply sector is excluded, as LFS sample sizes are too small for reliable estimates to be made for self-employment in this sector.

- employment is higher) in the 1980s was a force leading to self-employment growth, more than outweighing the ongoing decline in agricultural employment (another sector with a high self-employment rate);
- *changing working and contractual patterns*: The "contracting out" of service functions by large employers, the growth of franchising and other shifts in the contractual organisation of work further contributed to self-employment growth. A particular feature in the UK was the growth of "labour-only" subcontracting in construction (where the self-employment rate grew rapidly; see Figure 4), generating a growing pool of "self-employed" labour which shared many of the features of dependent waged employment (apart from the contractual security of employment).

These three influences were, however, also present in other countries where self-employment did not increase, or not as rapidly as in the UK. Other contributors to the distinct developments in the UK (Meager, 1993; Campbell & Daly, 1992; Bryson & White, 1997), include the following:

- *the regulatory framework for business start-up*, which was looser in the UK than in some other European countries, such that self-employment may have been more responsive in the UK than elsewhere to the economic and structural influences identified above;
- *the structure and regulation of the market for financial capital* facing the self-employed. There is some evidence that the UK capital market regime was less strict in the 1980s than in other countries, and that it underwent a considerable relaxation as a result of financial deregulation in the 1980s. This, coupled with factors such as growing home ownership and house-price appreciation, generated an environment which facilitated access to loan capital for potential self-employed people;

- *labour market policies* aimed at encouraging people (especially the unemployed) to enter self-employment. The UK's Enterprise Allowance Scheme (EAS) was among the largest in European countries. Whilst the evaluation evidence (Meager, 1996) suggests that the effectiveness of such schemes was limited in creating sustainable self-employment opportunities for unemployed people, they undoubtedly contributed to the short-term inflow to self-employment during the late 1980s.

Other factors identified in the literature appear to have been less important in the UK's case. In particular, despite arguments by many commentators to the effect that the Thatcher government's emphasis on the "enterprise culture" led to a more positive attitude towards self-employment among the labour force, the evidence from attitude surveys (see Blanchflower & Oswald, 1990) does not support this argument.

### The 1990s

We have seen (Figures 1 and 2) that, since 1990, the relationship between self-employment and overall employment has changed in the UK. In place of the continuous rise of self-employment, the 1990s have seen fluctuations in the levels and rates of self-employment. In the recession at the beginning of the 1990s, self-employment fell along with total employment (in contrast to the experience of the previous recession). As employment picked up after 1993, so did self-employment, but less rapidly, and the self-employment rate has yet to reach its previous peak of 13%.

It remains unclear whether the experience of the 1980s was an aberration or a "once-for-all" shift in the self-employment rate, and whether self-employment levels will in the future be more sensitive to overall economic conditions. It is, however, possible, drawing on the evidence on the factors influencing inflows to and

outflows from self-employment in the UK (Bryson & White, 1997), to develop some hypotheses for the different experiences of the 1980s and 1990s.

First, it seems that some of the factors contributing to self-employment growth in the 1980s have not persisted to the same extent in the 1990s. Thus, for example, in the case of outsourcing, there are likely to have been fewer "non-core" support activities left within many organisations to subcontract during the 1990s. In construction firms, in particular, having disbanded their direct labour forces and turned to the use of subcontractors and self-employed labour, there is potential for self-employment growth, and self-employment in this sector is more likely in future to follow overall business trends. Figure 4 shows this effect clearly. Similarly, some institutional factors supporting self-employment growth have been less present in the 1990s; the capital market for start-up finance is clearly tighter than that during the credit boom of the 1980s, and the more sluggish housing market has also affected the net personal wealth of many individuals. The policy environment has also changed, and the scale of the various initiatives subsidising self-employment entry was reduced<sup>4</sup>.

Second, the recession of the early 1990s may have had different implications for the volume and composition of self-employment than the previous recession. The most recent recession led to significant job losses in service sectors (with high concentrations of the self-employed), whereas the 1980s recession had its biggest impact in traditional manufacturing industries. Whilst the overall shift from manufacturing to service-sector employment has continued in the 1990s, it has been less marked,

<sup>4</sup> Although there are some signs of a resurgence of policy interest in this area with, for example, the recent (1998) announcement of a subsidised self-employment option for participants in the New Deal for Young People, which is the main active labour market programme of the current Labour government.

and there may also have been other structural shifts militating against self-employment (Figure 4 showed a recent fall, for example, in self-employment rates in retailing and catering, perhaps reflecting a shift towards larger organisations).

Third, the 1980s growth in self-employment included large numbers of people who did not fit the profile of the traditional self-employed entrepreneur or small business owner. The "new self-employed" were more likely to be young, more likely to be female, and more likely to be drawn from the ranks of the unemployed than their predecessors. Self-employed people with these characteristics were more likely to enter highly competitive service-sector activities with low capital requirements and low barriers to entry, often with a poor chance of survival or a high risk of displacing existing businesses (Meager et al., 1994). As Bryson and White (1997) pointed out, the existing research does not adequately disentangle the relative influence on self-employment survival of characteristics such as age, gender and previous unemployment on the one hand, and the nature of the self-employment entered on the other. Nevertheless, the changing composition of the newly self-employed during the 1980s raises the possibility that they included people with personal or business characteristics associated with lower survival rates (consistent with the rapid fall in self-employment as the economy entered recession after 1990).

### Policy issues and debate

Policy emphasis on self-employment has fluctuated in recent decades. In the 1980s, there was strong and explicit support for an "enterprise culture" based on deregulation, fewer administrative constraints facing small businesses, and the encouragement of start-up businesses, especially among the unemployed. By the early 1990s, however, there was increasing debate (see Storey, 1994) about the likely contribution of self-

employment to employment growth (most of the self-employed do not employ others, and the proportion of self-employed with employees has fallen recently from 40% in 1992 to 35% in 1997) and about the appropriate focus of small business policy. Some commentators (Storey, 1994) argued for a policy shift towards the identification of and support for existing businesses with growth potential, rather than encouraging people with limited financial and human capital to enter self-employment with poor prospects of their businesses surviving without support<sup>5</sup>. More recently, however, there is evidence of a renewed emphasis on entrepreneurship and self-employment in policy debate, with some authors (Gavron et al., 1998)<sup>6</sup> challenging previous evidence and arguing not only that self-employment schemes for the unemployed have performed well, but that they should be expanded and incorporated into the current range of "welfare to work" policies.

Whether or not self-employment resumes its previous upward trend, however, it is clear that even at current levels, it represents a larger share of employment than it did before. The evidence suggests that the UK has relatively high rates of inflow to and outflow from self-employment, compared to other countries. Traditional models of self-employment assumed relatively little mobility between self-employment and waged employment, or that such mobility was typically an event occurring in later life, with individuals entering self-employment with human and financial capital gained in waged employment, the move to self-employment forming part of a transition towards retirement. In the UK, however, the high and growing rates of flow between self-employment and other labour market states suggest that it is no longer possible to regard self-employment as a distinct segment of the labour market affecting a minority of the workforce (Meager, 1998). It is clear that a higher proportion of the labour force experiences spells of self-employment dur-

ing their working lives than is indicated by the stock data alone.

What are the labour market and social policy implications of growing levels of self-employment and of more people participating in self-employment at some stage in their working lives? Two implications in particular stand out in the UK context.

The first relates to the economic well-being of those who have experienced self-employment during their working lives. Previous research (Meager et al., 1996) indicates that the expansion of self-employment since the early 1980s (particularly among groups historically under-represented among the self-employed) has led to a growing group of people whose self-employment is associated with low and unstable incomes, relative insecurity, and low levels of income and wealth in later life (due to loss of pension entitlements and low savings potential during self-employment spells). The UK's existing pensions system is poorly adjusted to a growing incidence of self-employment, particularly as many of the "new" self-employed are concentrated near the bottom of the income distribution. Such people are often ill placed to compensate for their lack of an employer-provided pension and low level of entitlement to a state pension by making their own private provision.

A second policy issue relates to the role of training. It is well documented (Meager, 1993) that the self-employed are significantly less likely to receive work-related training than their counterparts in dependent employment (they also work, on average, significantly longer hours than employees, making it less likely that they can find time outside their self-employed activities for training). Given this, and if a growing propor-

<sup>5</sup> See Meager (1996) and Metcalf (1998) for discussion of the evidence on self-employment schemes for the unemployed.

<sup>6</sup> It is notable, however, that such authors focus on survival rates and do not take account of deadweight and displacement effects, which were often extremely high in the case of the previous Enterprise Allowance Scheme.

tion of the labour force experience self-employment during their working lives, a key question is whether their (in-)ability to obtain and finance continuing training will disadvantage them in labour market terms. It is not clear, in an economic and technological environment in which "lifelong learning" becomes increasingly important, that the UK's existing training structures are adapted to ensure that the self-employed are able to develop and update their vocational skills.

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The European employment strategy adopted by the European Council in Essen in December 1994 imposed new demands on the Observatory. In particular, it is expected to contribute effectively to the task of monitoring the progress of labour market reforms that are in line with the common strategic goals. Following the changes introduced in 1996 to cope with these new challenges and tasks, the Observatory now consists of two networks: MISEP (Mutual Information System on Employment Policies) and SYSDM (System of Documentation, Evaluation and Monitoring of Employment Policies) and a new RESEARCH advisory group.

The main products of the networks, which consist of members of the national labour market administrations (MISEP) and independent researchers (SYSDM, RESEARCH) and are administered by a common secretariat, are the following:

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