As a way of diversifying local economies, many communities have adopted economic development strategies that support businesses of local residents. In a recent paper coauthored with Atlanta Fed economist Anil Rupasingha, Dr. Stephan Goetz of the Northeast Regional Center for Rural Development discusses the growing impact of self-employment and its variation in urban, suburban, and rural contexts. Today Dr. Goetz will discuss the findings of his research as well as policy and program implications for communities.

Dr. Goetz, thank you for speaking with us.

**Singleton:** Welcome to the Federal Reserve Bank of Atlanta's Economic Development podcast series. I'm Theresa Singleton with the Federal Reserve Bank of Philadelphia.

**Goetz:** Thank you for providing the opportunity.

**Singleton:** Before I ask about your research findings, I am curious about the term "self-employment." What's included in this term and what's not included?

**Goetz:** As the term implies, the self-employed are, basically, people who work for themselves as opposed to working for somebody else. So we can think of two types of workers out there: those who are self-employed and then wage-and-salary workers, on the other hand.

We know about these self-employed workers because they are the ones who file the federal income tax Schedule C to report profit or losses from their business. So that's one way of collecting information on them or knowing who they are. And they are also sometimes referred to as sole proprietors, and they include limited partnerships, limited liability partnerships, which file tax Form 1065, and so forth. So these self-employed workers are not counted as part of the employment securities database that the individual states track and use to determine who gets unemployment compensation if and when they are laid off.

These self-employed workers can be found in virtually all industries ranging from construction to manufacturing and services. And so the person who cuts grass in the summer and then shovels sidewalks in the winter could be self-employed, but there are also many independent local storeowners, doctors, and real estate agents, and even some brokers and hedge fund managers in New York City who are self-employed.

**Singleton:** What's been the trend of self-employment in terms of net jobs as well as the percentage of overall jobs? Also, what is driving this trend, and is it expected to continue?

**Goetz:** The self-employment has been expanding at a remarkable rate even as the rest of the economy has been lagging behind, as you know. To me this is one of the great untold stories of the changing American workforce and the way people work. Between 2000 through 2010, the number of self-employed increased from 25 million to 36 million workers, which is a staggering 40 percent increase. In comparison, over that period the wage-and-salary job number, basically, stagnated at around 137 million jobs. So, as a result, as a percent of all jobs the share of self-employed has increased from 15 percent in 2000 to nearly 21 percent in 2010. So you can think of that as one in every five workers being self-employed at the present, and within the next decade, if these trends continue, it will actually be one in every four workers. So it's a profound change that is under way.

Now, as for what's driving this trend, I think that technological change is one of the major factors, both in terms of forcing people into self-employment, but also by allowing individuals to start their own companies. In the past, for example, you may have had to employ a tax accountant to keep your books and file your income taxes, but now you can use computer software made possible by technology to do this much more cheaply. So the productivity of those who know how to use this technology has increased dramatically, and it's much easier for them to set up a business and work for themselves without having to employ a huge, costly staff.

On the other hand, of course, we also know that technological change has allowed many industries, especially those involved in natural resource extraction and manufacturing, to shed workers by replacing them with capital or with technology. And these laid-off workers may have been forced into self-employment when they didn't really want to work for themselves.

**Singleton:** Your research suggests differing impacts on the effectiveness of self-employment on employment growth based on urban and rural locations. What were these findings, and why do you believe them?

**Goetz:** My coauthor, Dr. Anil Rupasingha from the Atlanta Fed, and I found that in rural areas some of the positive effects of self-employment on job creation may in fact occur at the expense of surrounding counties. One way of thinking about this is that in rural areas jobs may be sucked in from adjacent counties in support of the newly self-employed workers, but this is just a hypothesis at this time. Nevertheless, we estimate overall that the effect of self-employed workers on job creation is about four times stronger, or larger, in urban areas compared to rural areas. And this difference could be due to the fact that urban areas have much denser labor markets and they are, in a sense, more self-contained so they are less prone to these kinds of negative spillover effects across the county borders. But as I said, these are just working hypotheses at this time, and we haven't been able to test them yet.
Singleton: What trends are you seeing regarding gender or age among the self-employed population, either in your work or in other research?

Goetz: There are some really interesting trends that have been picked up in other data sets, such as the Kauffman Foundation's Index of Entrepreneurial Activity, for example, that is based on the current population survey. So this index is only available at the state level, not at the county levels, but even so it provides important clues as to what is happening to the self-employed in individual counties.

For example, entrepreneurial activity is about twice as high for males as it is for females, and this gap has increased over the last decade. In terms of age differences, the data show that the 20- to 34-year-old cohort, that is, the younger workers, have slightly lower rates of starting new firms whereas those who are older (35 and above) are much more likely to be working for themselves compared to this younger group. To me this strongly suggests that some kind of minimum experience is necessary for these workers before they get the courage to start their own company. And I think helping the younger workers to start their own firms could be an important option for public policy, given the high youth unemployment rates we are currently experiencing.

Briefly, in terms of demographics, the data also show that individuals with less than a high school degree are about twice as likely to start their own firm as are those in all other educational categories, and that also has become more pronounced in the last five years. And immigrants are twice as likely to start their own companies as native-born individuals, and among racial groups, Latinos have the highest start-up rates.

Singleton: Would you describe the role of self-employment as a postrecession recovery strategy? If so, how might local communities develop targeted policies or programs to encourage more individuals to pursue self-employment and support those already self-employed?

Goetz: I think that the data show an urgent and clear need for us as academics and also for policymakers to look closely at self-employment as a postrecession recovery strategy. As I've already noted, wage-and-salary employment has barely recovered since 2000, and the economy simply is not generating enough wage-and-salary jobs to accommodate new workers who are entering the workforce. I think there is an opportunity and a need to provide more individuals with the tools and skills they require in order to be able to work for themselves.

I'm struck by this gender difference in new firm formation that I just talked about. Perhaps we could think about specific mentoring and business skills development programs that would allow more women to become successfully self-employed. A number of land grant universities in the different states across the country already have these kinds of business training programs available.

There are quite a few simple and low-cost things that local communities can do to support the local self-employed. One is simply raising awareness of the importance of local businesses. For example, they could set up an award banquet each year for the most successful local business.

Supporting these local businesses is not just some kind of a feel-good or "back to the past" romantic notion, if you will. In fact we have compelling evidence to suggest that small locally owned firms are one of the few genuine sources of rising productivity in per capita incomes over time for many communities, and especially those that are rural. So it's just as important, I believe, for local chambers of commerce to look inside their communities for sources of economic growth as it is for them to try and recruit businesses from the outside, which is an increasingly difficult strategy to implement. And, more generally, local policymakers can think about removing barriers to self-employment, such as overly onerous local ordinances and regulations, and also creating more supportive environments, in general. They can provide business planning assistance, help with grant applications, funding applications, and also with access to foreign markets through export enhancement programs.

And finally, I think local or regional business trade shows that are sponsored by local elected officials can be very important for connecting self-employed workers who may otherwise not be aware of the goods and services that are available locally. In this manner, local firms and the self-employed can support one another more rather than just buying goods and services outside the community.

Singleton: Dr. Goetz, thank you for joining us today.

Goetz: It has been my pleasure. Thank you.

Singleton: This concludes our podcast. We've been speaking with Dr. Stephan Goetz at the Northeast Regional Center for Rural Development.

Also, for more podcasts on this topic and others, please visit the Atlanta Fed's website at www.frbatlanta.org. If you have comments or questions, please e-mail podcast@frbatlanta.org. Thank you for listening.

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