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ABSTRACT

In a comparison of self-employment patterns in Germany and the United Kingdom, data from the Labour Force Survey (United Kingdom) and Mikrozensus (Germany) were analyzed to identify the personal characteristics of self-employed individuals in the two countries, the characteristics of their self-employed activity, and movement in and out of self-employment. An overview of the similarities and differences between self-employment in Germany and the United Kingdom was then developed. It established that both countries experienced absolute and relative increases in self-employment in the 1980s (3.2 million workers or 12 percent of the work force in the United Kingdom; 2.5 million or 9 percent in Germany). Growth of self-employment has been faster in the United Kingdom. The profile of the self-employed in the two countries turned out to be very similar. In both countries, however, the self-employed are a very heterogeneous group, and it is likely that the different types of self-employed people are subject to very different influences, including the following: economic cycle, unemployment, structural changes in the economy, demographic changes, employer behavior, government policies, institutional and legislative framework, and attitudinal change. (A report on self-employment in the former German Democratic Republic and "new Lander" and 83 references are appended.) (MN)

Self-Employment in the United Kingdom and Germany

by

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Report of a comparative study, funded by the Anglo-German Foundation for the Study of Industrial Society

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PREFACE

Both the UK and the Federal Republic of Germany (pre-unification, hereafter "Germany") experienced an increase in self-employment during the 1980s; both an absolute increase, and an increase relative to the level of total employment in each country. This development took many analysts of the labour market and policy-makers by surprise. Labour market commentators since the 1950s had typically ignored self-employment, or dismissed it as a residual segment of the labour market, associated with agriculture, small-scale crafts, and a somewhat archaic "*petit-bourgeois*" section of society. Similarly, the models of industrial economists showed that due to economies of scale, and the requirements of modern technologies, the optimal size of an "enterprise" invariably implied an employment level greater than one. For such analysts, self-employment was at best a transitory stage through which (some) newly emergent enterprises might pass on their way to becoming fully-fledged "small businesses".

Seen from the perspective of the early 1990s, however, it seems reasonable to ask, in both the UK and Germany, whether the 1970s and (especially) the 1980s, witnessed a reversal in the previously inexorable trend towards declining self-employment. Is self-employment emerging as a new and significant form of employment in the "post-mass production" era, or is the experience of the last two decades merely a "blip" or a deviation from the downward historical trend?

These are questions which can be asked of many developed economies, the majority of which share the recent experience of a reversal of the decline in self-employment, or at least a slowing in the rate of that decline (see *Evans 1987, ILO 1990* for an overview of the international trends). Despite this common pattern, however, there has been considerable variation between countries in the extent of recent change. The UK and Germany form an interesting basis for comparison in this respect, since the "renaissance" in self-employment (if that is indeed what it turns out to be), would appear to be more pronounced in the UK than in Germany.

Partly because of the earlier lack of interest in self-employment, and partly because self-employment is an inherently less regulated and documented activity than wage employment, considerably less is known about this segment of the labour market than any other. In so far as self-employment is increasing in significance as a component of the labour market, however, there is a growing need for policy-makers and others concerned with labour market developments to have an understanding of self-employment: what it is; what factors (including government policies) influence it; what implications does its recent growth have for the functioning of the labour market and for the economic and social welfare of the workforce. Interest in self-employment is given a further twist by recent developments in Eastern Europe (not least in the eastern part of re-united Germany), where the development of self-employment and "entrepreneurship" is frequently seen as a mechanism for stimulating the transition to a market economy, and for absorbing some of the unemployment involved in such a transition. Those concerned with such developments in the east will need to ask what lessons can be drawn from recent experiences of self-employment in Western Europe.

These are far-reaching questions with which researchers and analysts are only beginning to grapple, and to which the Anglo-German research project[1] on which the present report is based, hopes to be able to make some contribution. The purpose of the project was to begin to throw light on the recent and historically unprecedented developments in self-employment in these two countries, through an examination of what is common and what is different about self-employment in the two countries. The report is not an academic research monograph, although it does draw heavily on the findings of the research conducted for the Anglo-German project (interested readers should see *Meager 1989, 1991a, 1991b* and *Kaiser and Dietrich, 1990*). Rather it attempts to bring these findings, and others, to the attention of a wider, non-specialist audience, and to illustrate and discuss some of the important issues raised by these recent developments in the labour market.

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[1] The project, funded by the Anglo-German Foundation, was conducted by Nigel Meager of the Institute of Manpower Studies in Brighton, and by Manfred Kaiser and Hans Dietrich of the Institut für Arbeitsmarkt- und Berufsforschung in Nürnberg. The report was written while Nigel Meager was a Guest Fellow at the Wissenschaftszentrum Berlin für Sozialforschung (WZB), and he is grateful for the opportunity this provided to discuss many of the issues in the report with WZB colleagues.

1 INTRODUCTION: THE PHENOMENON OF SELF-EMPLOYMENT IN THE UK AND GERMANY

1.1 Recent trends in the UK and Germany

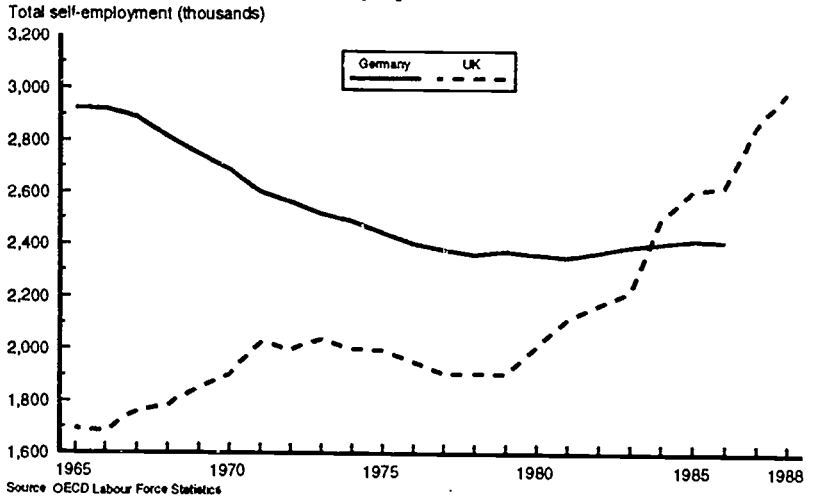
According to recent official data, the UK labour force contained in 1989 some 3.2 million self-employed (or 12 per cent of the employed workforce), as against 2.5 million self-employed in Germany (9 per cent of the employed workforce). This picture of self-employment being somewhat more significant in both absolute and proportional terms in the UK than in Germany is, however, a relatively recent one.

Comparing the recent experience of the UK and Germany (Figure 1), two features stand out:

- firstly, the reversal of the long-term historical decline in the numbers of self-employed began rather earlier in the UK than in Germany. The comparable data used in our figures begin only in 1965, but it is clear that from the mid-1960s at least, the number of self-employed in the UK had ceased falling, and after some fluctuation during the late 1960s and the 1970s, began its steady upward trend in 1979. In Germany by contrast, the downward trend in self-employment continued throughout the 1960s and early 1970s (albeit at progressively slower rates), stabilising only in the mid-late 1970s;

- the most recent (post-1979) growth in self-employment has been considerably faster in the UK than Germany. Between 1979 and 1988 self-employment grew at an annual average rate of 5.2 per cent in the UK, compared with an annual rate of only 0.2 per cent in Germany over the slightly shorter period 1979-86. Whilst the UK has shown by far the fastest recent growth in self-employment of any European Community (EC) country, Germany's performance lies close to the EC average[1].

Figure 1: Self-employment trends 1965-88



One possible explanation for the different self-employment trends in the two countries can be quickly dismissed[2]. This explanation hinges on the relative importance of agricultural employment. In most countries, agriculture contains a higher proportion of self-employed workers than any other sector. Furthermore, in most industrialised countries the proportion of total employment accounted for by agriculture has fallen in recent decades, under the combined influence of modern farming methods, and the consolidation of smallholdings into large farms. This decline, taken together with the relative importance of self-employment in agriculture has tended to impart a downward influence to overall self-employment trends in many advanced countries.

Given that UK agriculture underwent an earlier and faster modernisation phase, in comparison with most of its European competitors, agriculture has been relatively unimportant in recent years in employment terms in the UK (just over 2 per cent of all those in employment now work on the land). Hence the effect of

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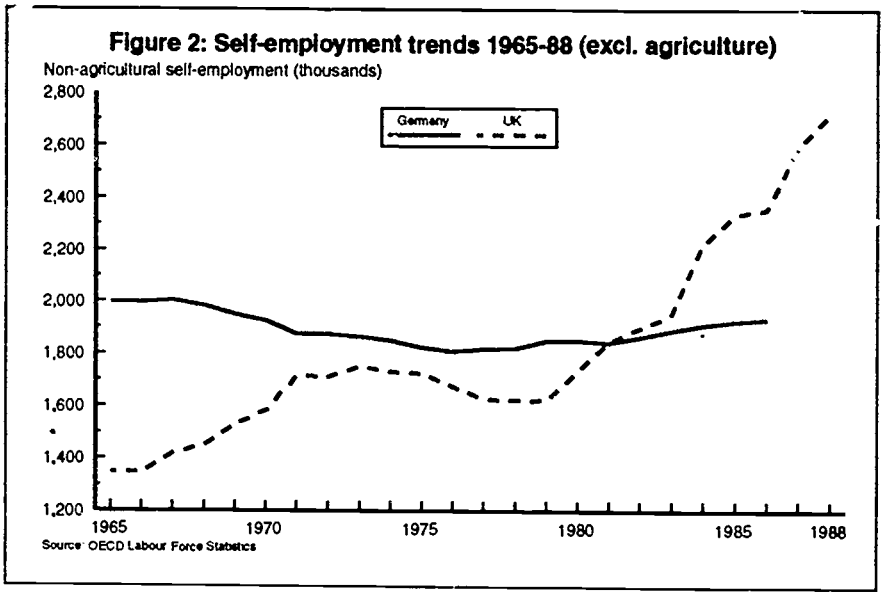
[1] See the data presented in *Meager 1991a.*

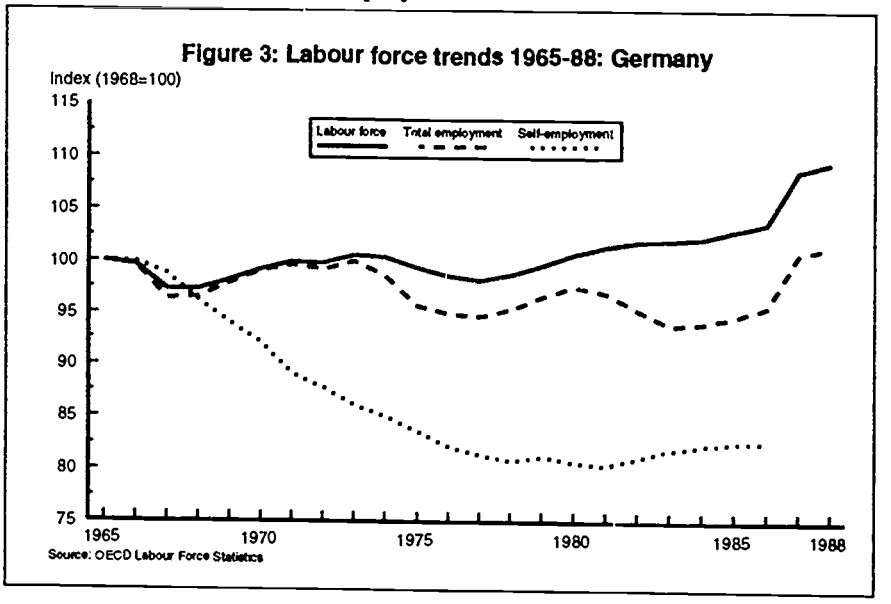
[2] We will examine critically in Chapter 3 below many of the other hypotheses which have been put forward to explain the different self-employment trends in the two countries.

agricultural decline in dragging down the total level of self-employment has been relatively weak.



As far as a UK-German comparison goes, however, very little of the difference can be attributed to agriculture. Although in Germany agriculture is more important in employment terms (4 per cent of total employment), self-employment is less widespread in German agriculture than in the UK (37 per cent of agricultural workers were self-employed in Germany in 1989, compared with 51 per cent in the UK - see section 3.1.1 below), and the effect of declining agriculture in Germany is not sufficient to explain the "poorer" overall performance of self-employment compared with the UK. As shown in Figure 2, a large disparity between the two countries' experiences persists after agriculture is removed from the data.

Given this stark difference in the trends in the **absolute** number of self-employed in the two countries, however, we also need to ask whether there is a similar difference when we examine trends in the **relative** number of self-employed. In other words, did the different performance of self-employment in the two countries simply reflect differences in the performance of the labour market in the two countries, with the UK's faster self-employment growth occurring in parallel with a similar growth in the overall labour force and/or the overall level of employment?

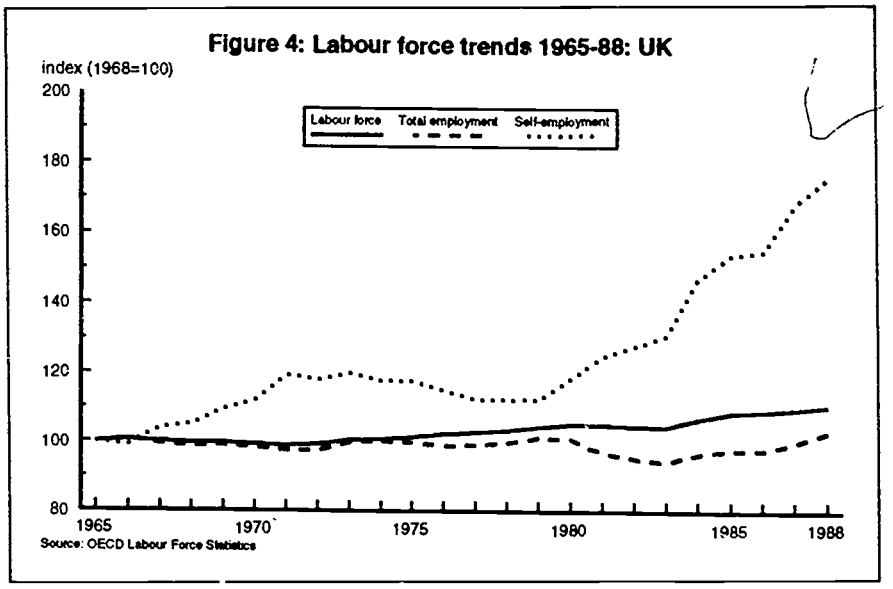


Again, as suggested by Figures 3 and 4, the answer would appear to be negative. Self-employment in the UK grew considerably faster than either the overall labour force or the total number of people in work (total employment); whilst in Germany, the opposite was true; self-employment fell during a period when the general trend in the labour force and in total employment was upwards (although in the case of total employment, strong cyclical fluctuations around this overall trend can be seen)[3].

Figures 5 and 6 show trends in **self-employment rates** (i.e. the proportion of people in employment who are self-employed), again confirming the picture that (whether or not we include agriculture) the clear difference between the trends in the two countries remains. In the 1960s a considerably higher proportion of German

[3] Total employment consists of the employees plus the self-employed, with the unemployed making up the difference between total employment and the overall labour force.

workers than British workers were self-employed (over 11 per cent, and under 7 per cent respectively), but UK self-employment rates doubled between the mid-1960s and the mid-1980s, whilst German rates fell until the early 1980s, after which they showed a slight tendency to increase. As a result, a higher proportion of British workers than German are now self-employed.

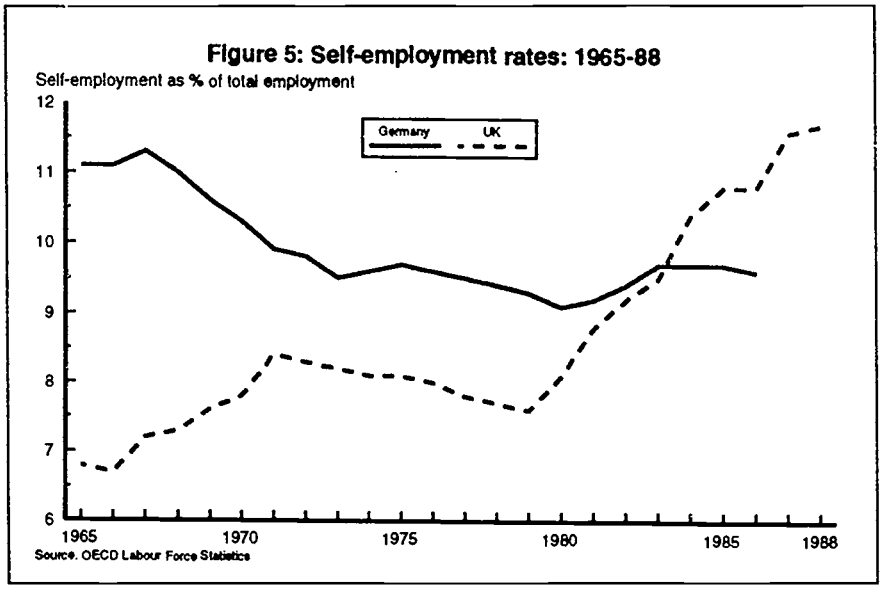


These recent developments in self-employment in the two countries suggest the following questions:

- does the recent experience in the two countries reflect essentially the **same** phenomenon (viz. a reversal in the long-term decline in self-employment), occurring for the same reasons, but with this reversal having occurred more strongly in the UK than in Germany?

  Or,

- do the differences in the recent trend of self-employment reflect the fact that something very different is happening to self-employment in the two countries?



1.2 Definitional issues

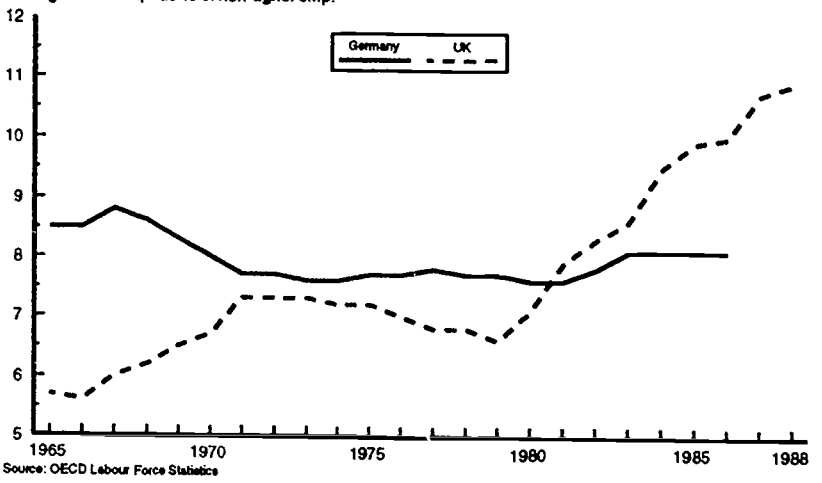
A key problem in attempting to answer this question about the recent trends in self-employment, is that the definition of self-employment is not necessarily a precise one, and it may, moreover, vary over time and between countries.

It should be stated at the outset that our primary interest, and the primary focus of this report, is in self-employment as a *labour market "status"*. Traditional labour market analysis regards people of working age as occupying one of three labour market "states": employment, unemployment or economic inactivity[4]. Self-employment has typically been considered merely as a (relatively insignificant) sub-category of employment. While this treatment may have been justified in the past, when self-employment was declining, its recent apparent resurgence suggests that it may merit consideration as a labour market state in its own right. It is intuitively clear that self-employment is in principle, fundamentally different in nature from dependent employment, and is likely to be subject to rather different influences.

[4] The economically inactive are those people of working age who are not in the active labour force (e.g. because they are in full-time education, or because they are taking a "career break" for child-care or other reasons).

We are interested, then, in those people who enter or "choose" self-employment, rather than dependent employment (i.e. wage or salary employment in a conventional employment relationship), and in changes over time in the numbers and types of people who become self-employed. We are not primarily concerned with small businesses, or "entrepreneurs" *per se*, which have been the focus of much recent interest and policy research[5]. Whilst there is some overlap between the two areas, in the sense that many of the self-employed in both countries will be the owner-managers of small businesses, this is by no means the case for all of the self-employed, as will emerge from the report.

Figure 6: Self-employment rates: 1965-88 (excl. agriculture)



For the present analysis then, we define the self-employed as those who work on their own account rather than for an employer in a conventional (dependent) employment relationship, and who perceive themselves as self-employed. We rely for the most part in the analysis, on survey data which use the self-definition of individuals as to whether they are self-employed. We recognise that self-definition may give rise to problems in that whether individuals regard themselves as self-employed or employed may vary according to the way they are treated for tax, social security or employment law purposes; and in cases when the individual runs a business it may vary depending on whether the business is incorporated (i.e. a limited company or a *GmbH*) or not. These issues are discussed at length in the UK context by *Hakim, 1988* and *Casey and Creigh, 1988*. Whilst recognising that definitional ambiguities may be somewhat greater in the UK case than in the German one[6], our judgement on the basis of the evidence available is that such ambiguities do not obscure the basic pattern of self-employment revealed in the survey data, and that there is adequate comparability between the data in the two countries for the kind of analysis presented here.

This does not imply, however, that the self-employed are themselves a homogeneous category. Indeed a key issue to be taken into account in any analysis of self-employment is the extreme **diversity** of the self-employed. There is no such thing as a "typical" self-employed person. Self-employment covers a wide range of types of individuals and activities, including:

- traditional small-(and medium-sized) business owners (who in the German case form a distinct social and economic stratum known as *Mittelstand*);

- farmers (*Landwirte*);

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[5] For a recent Anglo-German comparison, see *Bannock and Albach, 1991*.

[6] The clearer position with regard to self-employment data in Germany is aptly summarised by *Carroll and Mosakowski, 1987*, who argue: "Using data from West Germany also offers some advantages for measuring self-employment. Small firms in West Germany are officially designated "*mittelständische Unternehmen*". This designation requires that a firm must be legally and financially independent and that the owner must actively participate in its management .... Closely related to this categorization of firms is an official employment classification scheme known as *Stellung im Beruf*" (*Carroll and Mosakowski, 1987 p. 578*). According to this classification, which distinguishes the self-employed from family workers, and dependent employees, (*Statistisches Bundesamt 1990*, p.90), the self-employed are defined as "Persons who lead or manage in an organisational or economic sense, as owner or leaseholder, a firm or workplace in business or agriculture (including self-employed craftworkers), as well as all those in the liberal professions, those with home businesses, and *Zwischenmeister*" (*our translation*).

- independent and highly skilled professional workers (in the "liberal professions" or *freie Berufe*[7]);

- manual craft workers (many of which are grouped into a clearly defined sector in Germany - *Handwerk*[8]);

- some categories of homeworkers or "outworkers" ("*selbständige Heimarbeiter*");

- a wide range of "own account" workers of varying degrees of skill.

Clearly each of these different types of self-employment is composed of different types of individuals, and is likely to be subject to rather different influences. They are also likely to vary in their degree of "independence", and some forms of self-employment may well be similar in important respects to dependent employment[9].

1.3 How similar is "self-employment" in the UK and Germany?

Before examining the possible causes for the different trends in self-employment in the two countries, then, we need to ascertain how similar "self-employment" in the UK and Germany actually is. That is, do the self-employed in the two countries consist of people with similar characteristics, engaged in similar activities, and subject to similar influences? This is the fundamental question examined in this report, especially in Chapters 2 and 3 which summarise the body of our empirical findings, and where we construct a detailed profile of self-employment in the two countries, based on survey evidence.

The answer to this question clearly affects the kinds of hypotheses we can put forward to explain recent developments. If "self-employment" turns out to be a fundamentally different phenomenon in the two countries (composed of different types of people, in different types of occupations and sectors, subject to different influences), then we might explain the difference between the two countries primarily in terms of the UK having a larger proportion of faster-growing types of self-employment than Germany.

Alternatively, if self-employment is rather similar (in terms of the types of people and the factors which influence them) in the two countries, then we may need to explain the differences more in terms of the various influencing factors (e.g. macro-economic developments, government policies etc) operating in different ways or with different intensities between the two countries.

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[7] *Freie Berufe* appears to be a specifically German concept for which no direct English equivalent exists. There is no clear definition of *freie Berufe*, and the scope of the concept has changed as, for example, new professional occupations have emerged. Nevertheless, a key text on the subject (*Büschges 1989*) argues that *freie Berufe* can be "distinguished from other occupations in that their members, operating under their own responsibility and independence of judgement, exercise (mainly intellectual) skills, mostly on a self-employed basis, in a relationship of trust based on the free decision of patients, clients or customers. The performance of these skills, which demands special expertise, and high occupational qualifications, is subject to professional standards which are normally enforced on a co-operative basis by experts" (our translation). Typical occupations seen as *freie Berufe* are the law, medicine, accountancy and architecture.

[8] *Handwerk* is also a specifically German concept, which covers a far wider range of occupations than its English translation ("crafts") might imply, and it also denotes that the occupations concerned are subject to specific legal regulations (see *Doran 1984*). *Handwerklich* activity is characterised by a small firm mode of production, but one which "despite a more or less exclusive use of machines and tools, gives priority to the quality of human service" (*Hartfiel 1976* - our translation). A prerequisite for being self-employed in a *Handwerk* activity is being entered in the *Handwerk* register, which on the one hand defines the various activities which are to count as *Handwerk*, and on the other hand admits individuals to membership of the professional association, without which they cannot practise this activity on a self-employed basis.

[9] As discussed in Chapter 3 below, it has been suggested that one possible cause of the recent growth in self-employment is an increasing tendency towards sub-contracting and "contracting-out" among large firms, with a growth in the numbers of self-employed who are heavily dependent on a single employer, and who might be regarded in some sense as "disguised employees", or in the German case as "*Scheinselbständige*" (see *Mayer and Paasch 1990*).

After considering the detailed profiles of self-employment in each country (in Chapter 2, we examine the personal characteristics of the self-employed, whilst in Chapter 3 we look at the activities in which they are engaged), we consider briefly (in Chapter 4) the size and composition of inflows to and outflows from self-employment in the two countries. Finally, in Chapter 5 we summarise our findings, and go on to consider some of the main hypotheses for the different trends over time in the two countries, in the light of the cross-sectional evidence presented in previous Chapters.

2 THE PERSONAL CHARACTERISTICS OF THE SELF-EMPLOYED

2.1 Data and method

In this Chapter and the following Chapter we construct a detailed profile of the self-employed in the two countries using survey data, asking the question, "how similar are the self-employed in the UK and Germany?". These Chapters summarise the findings of research presented in considerably greater detail in the various reports and working papers associated with the project[1]. The present Chapter concentrates on the personal characteristics of the self-employed (age, gender, marital status etc.), whilst Chapter 3 looks at the nature and location of the activities in which the self-employed are engaged in the two countries.

Our primary data sources are the Labour Force Survey in the UK, and the *Mikrozensus* in Germany. The data sources and their disadvantages are discussed at length in *Meager, 1989* and *Kaiser and Dietrich, 1990*. The key point to note for present purposes, however, is that a significant portion of both surveys is conducted according to common European Community definitions (the surveys are used as inputs to the European Labour Force Survey), and as such these surveys represent the best source of comparable labour force information between the two countries.

In the analysis, we make considerable use of the notion of a *self-employment rate*, which is defined as the proportion of those in employment who are self-employed. Whilst this measure of self-employment has serious deficiencies if used as an indicator of trends over time[2] (the main problem being that variations in the self-employment rate are dominated by changes in the *denominator* - total employment - rather than by changes in the *numerator* - self-employment - see the discussion in Chapter 5 below), it provides the clearest simple indicator of the *propensity* of workers in a given category to be self-employed, and of how that propensity differs from workers in other categories. As such it is the best means of constructing a "snapshot" profile of the self-employed in the two countries, using cross-section data[3].

We should note, however, that most of the findings presented here are essentially *bivariate* analyses of the relevant survey data. That is, they examine the relationship between self-employment rates and one other variable at a time (age, gender, ethnic origin etc). This means that in a statistical sense, the graphs and tables presented in this report do not enable us to disentangle the separate influences of the various "independent" variables on the self-employment rate. Thus, for example, we may find that self-employment rates vary with qualification level, but given that qualification levels themselves vary with age, it is not clear how much of this apparent "qualification effect" is actually an age effect, since as the report shows, self-employment rates also vary strongly with age. To identify the separate influences of different variables requires a more sophisticated multivariate statistical analysis, inappropriate for a general report of this type. Nevertheless, where the data have been subjected to such analysis (see the UK results in *Meager 1991a*, for example), they generally show that the bivariate results as presented here are robust ones, and are confirmed by the multivariate analysis.

We consider below, then, some basic personal characteristics of the self-employed, i.e. we attempt to answer the question "which types of people are more likely to be self-employed?" in each country, before going on, in Chapter 3, to ask where the self-employed are found in each country ("in which occupations, industries and localities?"), and to address some further questions about the conditions in which the self-employed work

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[1] See *Meager, 1989, 1991a, 1991b and Kaiser and Dietrich, 1990.*

[2] See *Meager, 1992a.*

[3] The self-employment rate, which is essentially the proportion of workers in a given category who are self-employed, may be interpreted differently according to the precise context in which it is used. Thus in the present Chapter where we consider the self-employment rate according to various personal characteristics, the self-employment rate is interpreted as the *propensity* of individuals of a given age, gender, marital status etc to be self-employed. In Chapter 3, however, where we examine the characteristics of the jobs undertaken by the self-employed, the self-employment rate is interpreted as the *density* of self-employment in a particular occupational group, industrial sector, region etc.

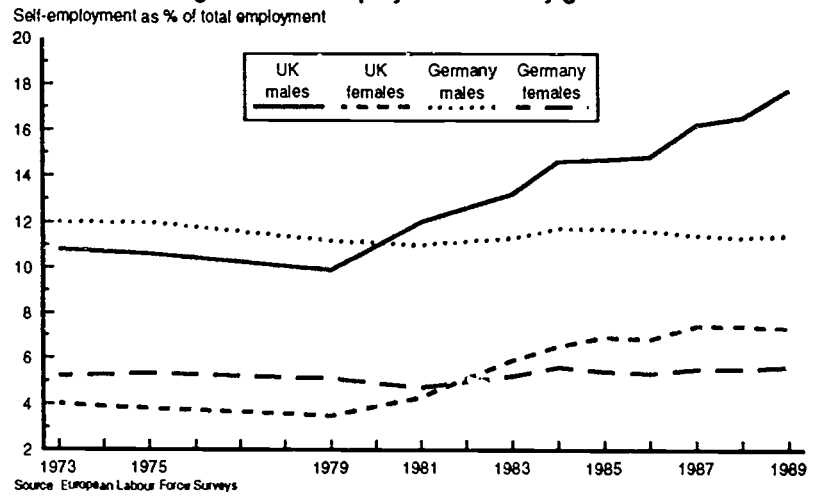
in each country (e.g. "how many hours a week do they work?").

2.2 Personal characteristics of the self-employed

2.2.1 Gender

In both countries, men in employment are just over twice as likely to be self-employed as are women, and in both countries the male and female self-employment rates have tended to move together (Figure 7). In fact, over the period since the early 1970s, the female self-employment rate in both countries has grown slightly faster than the male rate. Furthermore, given that female employment in general grew much faster than male employment in both countries, the *absolute number* of female self-employed has grown extremely fast in both countries. Published data from the European Labour Force Survey show that in 1973 women accounted for 17.8 per cent of the self-employed in the UK and for 20.3 per cent in Germany, and that by 1989 these shares had increased to 23.7 and 24.1 per cent respectively. The main difference between the two countries is that the rapid growth in female self-employment in the UK mainly occurred during the early 1980s (in fact over 1979-84), whereas in Germany the most rapid growth occurred in the mid-late 1980s.

Figure 7: Self-employment rates by gender



Several hypotheses may be advanced to explain the disproportionate growth in female self-employment common to both countries. The occupational profile and qualification level of the women involved are relevant here (sections 3.1.2 and 2.2.5 below), however, and it is unlikely that one single explanation can account for developments among all types of self-employed women.

One hypothesis would be that such a growth is associated with employers increasingly sub-contracting a range of *low-skilled activities* (particularly service activities such as catering, and cleaning, typically involving a high proportion of female, part-time labour), and/or the increased use of homeworkers (again mainly female). There is some evidence, particularly in the UK (see *Hakim 1988*), and to a lesser extent in Germany (see *Mayer and Paasch 1990*) that such activities have played a role in recent self-employment growth (see also Chapter 5 below). There is also, however, evidence of strong growth of female employment in both countries among *more highly skilled* (e.g. managerial and professional) occupations. A plausible explanation for the latter is that female penetration of these occupations has grown in recent decades, and women's expectations of career progression in such occupations have also been raised. In practice, however, faced with persistent inequality of opportunity and barriers to promotion in conventional dependent employment relationships, coupled with difficulties in combining careers with family/child-care responsibilities, well-qualified women may increasingly be opting for self-employment where such constraints may be less prevalent (see the case study evidence cited in *OECD 1990*). On this perspective then, self-employment growth among well-qualified women might be seen as representing a search by such women for "self-realisation" in their careers.

2.2.2 Age

The self-employment rate tends to increase with age in both countries (Figure 8). In the UK the rate increases strongly with age up to the mid-30s age group, then flattens out somewhat before increasing rapidly again amongst the older age groups. In Germany, there is a steady increase through the age groups to age 65, then a rapid increase amongst post-retirement age groups.

This general pattern is consistent with previous research (see, for example, *Curran and Burrows 1988* for the UK), and with the intuitive notion that older people are more likely to have acquired sufficient levels of both *financial capital*, and *human capital* (relevant work experience, and personal contacts are likely to be particularly important here), to set up in self-employment. We must recognise, however, that because the age distribution shown in Figure 8 contains a cumulative element (in the sense that many of the older self-employed will have become self-employed when they were younger, and remained self-employed), it is possible that self-employment rates would increase with age, even if the likelihood of someone *becoming* self-employed did not vary with age. In practice, however, there is evidence (for other countries at least) from data on inflows into self-employment[4] that this likelihood *does* increase with age in the way that might be expected.

Figure 8: Self-employment rates by age

Concentrating for the moment on features common to both countries in Figure 8, perhaps the most striking such feature is the dramatically higher self-employment rate in the post-65 age range (a rate which has, moreover, shown some tendency to increase over time in both countries). A large, and growing proportion of those who work beyond statutory retirement age are self-employed.

It is not possible from the data available to say how much of this feature is due to existing self-employed people remaining in self-employment beyond normal retirement age, and how much it is due to people entering self-employment in this age group (perhaps after having retired from dependent employment). Flow data from the UK, however (see *Meager 1991a*), show that the representation of the over-65s among people entering self-employment is much lower than their representation either among the existing self-employed, or among those leaving self-employment. On this basis, then, it would seem that the high post-65 retirement rates are more likely to be due to existing self-employed not retiring at the "normal" age, than to new entrants to self-employment[5].

Nevertheless, the data do show that there is still some entry to self-employment among the oldest groups, and the latter effect clearly plays some role in both countries. Given that many dependent employees effectively have no choice but to retire at 60 or 65 (or indeed earlier - the 1980s was characterised in both countries, but particularly in Germany (see also *Büchtemann and Meager 1991*), by the widespread use of early retirement policies), should such people wish to continue to work, they would have to change jobs, or (in face of the well-documented bias amongst employers against the recruitment of older workers; see for example, *Metcalf and Thompson 1990*), to become self-employed.

In so far as there is a greater self-employment propensity among older workers, at least two other factors may be relevant:

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[4] See, for example, *Blanchflower and Meyer 1991* who analyse such data for the USA and Australia (although the USA results conflict with those of *Evans and Leighton 1989*, which suggest that th likelihood of an individual entering self-employment is independent of age, at least up to age 40).

[5] Similar findings are reported for the US by *Aronson 1991* (pp. 22-23).

- firstly, it is possible that the self-employed may be less well-provided for in terms of an occupational pension than their counterparts in the employed sector, and are therefore more likely to be dependent purely on (full or partial) state pension provision (there is some evidence of this, at least in the German case -see *Gout and Büchtemann 1987*). They will, therefore, have a stronger incentive to remain in the labour force so long as they are still capable of work, and there is a sense, therefore, in which the self-employed may be less able to afford to retire than the employed.

- Secondly, given that they do not have to retire at any specified age, many self-employed may be reluctant to retire from an enterprise which is essentially their own creation. This would be reinforced by the fact that the self-employed have, to a far greater extent than their employed counterparts, considerable opportunity to adjust their hours of work and effort in line with their physical and mental capabilities as they age.

Depending on the balance between these two factors, the continuing growth of self-employment may have important social policy implications in both countries. An important priority of further research in both countries should be to ascertain how far this group of older self-employed (which may well continue to grow, as increasing numbers of people who entered self-employment in the 1970s and 1980s reach retirement age), consists of people continuing to work *through choice*, and how far it consists of people who *do not feel able to afford to retire*.

The question of adequate pension provision for the self-employed may be particularly important in so far as the recent growth in self-employment has been composed of people who do not come from a background of self-employment. Previous writers in both countries have argued that traditionally the self-employed have been disproportionately drawn from a *petit-bourgeois* or *Mittelstand* segment of society, with its own social and financial networks and support mechanisms[6]. Furthermore the work of *Burrows 1991* for the UK shows the importance of family background in influencing an individual's membership of the "*petit-bourgeois*" component of self-employment. In so far as this pattern breaks down, with new types of people becoming self-employed (e.g. having been "pushed" into self-employment as a result of unemployment, or because their previous posts have been "contracted out" by an employing organisation - see the discussion in section 5.2.4 below), this raises the important question of whether the appropriate financial and social structures exist to provide adequately for such people in their retirement.

Turning to the main difference between the two countries revealed in the age distribution of Figure 8, it would appear that whereas in Germany the self-employment rate starts at a very low level amongst the youngest age groups, and increases strongly with age, such that amongst the oldest (55-plus) age groups the German self-employment rate is somewhat higher than the British, the UK pattern starts with somewhat higher self-employment rates amongst the youngest age ranges, but these increase less rapidly with age, particularly during the middle age ranges. Part of the observed difference could be simply a "cohort" effect, in that given the much faster overall growth in self-employment in the UK than in Germany during the 1980s, the UK age distribution will, by definition, include a higher proportion of new entrants to self-employment, who are on average likely to be younger than existing self-employed.

This does not explain all of the difference, however. Two further factors, related to institutional differences between the two countries are likely to be relevant. Firstly, an important difference stems from the "dual" training system for young people, prevalent in Germany, but not the UK. Unlike the UK, a high proportion of those who enter the labour market in their teens and early 20s will be involved in full- or part-time vocational training. Such training, which typically requires that the trainee be employed as an "apprentice", has considerable importance in the German system, and most young labour market entrants will aim to acquire such a training, even those whose aspiration is to become self-employed. Indeed for many occupations, particularly those covered by the highly regulated *Handwerk* system (see the discussion in section 1.2 above, section 5.2.6 below and in *Doran 1984*), it is not legally possible to become self-employed without having acquired an appropriate vocational qualification and experience. More generally, and this is

[6] But see, for example, *Curran 1990* for the UK, and *Bögenhold and Staber 1990* for Germany, arguing that this identification of the self-employed with a homogeneous social class or group is an over-simple representation of reality.

the second and related institutional factor, the greater degree of legal regulation associated with entry to certain occupations, and with setting up certain types of business, means that barriers to entry for many self-employed are likely to be higher in Germany than for their equivalents in the UK. It is also possible to argue (see section 5.2.6 below) that start-up capital for those wanting to enter self-employment may have been somewhat easier to come by during the 1980s in the UK than in Germany.

Taken together, these institutional differences between the two countries suggest that given the typical requirements of human and financial capital for entry to self-employment, the association between age and entry to self-employment is likely to be greater in Germany than in the UK. In crude terms, in so far as it is, *ceteris paribus*, harder for an individual to set up in self-employment in Germany than in the UK, the advantage which comes with age (in terms of assets, experience and qualifications) is likely to play a greater role in Germany. Such an explanation is consistent with the pattern shown in Figure 8, with the self-employment rate increasing much more strongly with age in the German than in the UK case.

Figure 9: Self-employment rates by age & gender

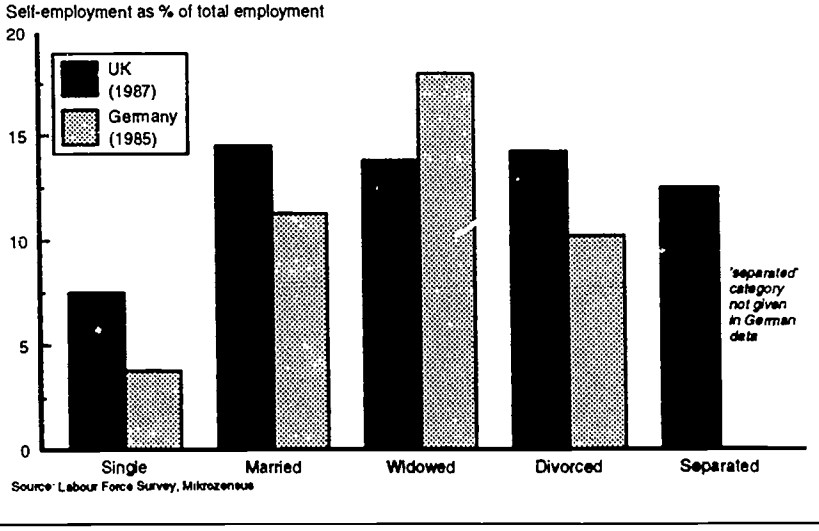
Finally, Figure 9 shows that the age pattern of self-employment rates is similar for both men and women in both countries. That is, self-employment rates increase with age for both sexes in both countries, and with the exception of the youngest age groups in the UK, the male self-employment rate remains in general close to twice the female rate in all age groups.

2.2.3 Marital status

Figure 10 shows self-employment rates by marital status in the two countries. The common feature which stands out clearly in both countries is that self-employment rates are much lower for single people than for married people. In part, this simply reflects the variation in self-employment rates by age. As we have seen above, people in their late teens and early 20s are much less likely to be self-employed than are workers in the older age ranges - they are also, of course, much more likely to be single than their older counterparts.

This age pattern is only part of the explanation, however, since if we control for age *and* marital status simultaneously (see, for example, the multivariate analysis presented in *Meager 1991a*), we still find that single workers have a considerably lower propensity to be self-employed, than do married workers of the same age.

Figure 10: Self-employment rates by marital status



This finding is consistent with the notion put forward in much of the literature on small businesses, namely that family circumstances may be an important influence on an individual's likelihood of being self-employed, and that having the support of a spouse may be important, especially in the early stages of self-employment (many

small businesses are effectively "partnerships" between spouses). The self-employment rate remains high among people who are widowed, separated or divorced (although there are some important differences between men and women here - see below). The main difference between the UK and Germany in this respect is that the self-employment rate for widowed Germans is much higher than the other categories. This difference *is* largely an age effect, however. That is, the average age of the widowed group is much higher than that of the other categories, and as we have seen above, the increase in the self-employment rate amongst the oldest groups is much more marked in Germany than the UK.

Figure 11 breaks the data down by gender, and some notable similarities and differences between men and women emerge. Firstly, it is interesting to note that in both countries the difference between the self-employment rates of single and married people applies equally to men and women. It might of course have been expected, that given the traditional sexual division of labour within the household, the support provided by one spouse (in order for the other to become self-employed) might come more often from the female than from the male partner (previous studies have shown, for example, that controlling for other factors, married men tend to have more successful working careers than their single counterparts, but that the opposite is true for married women).

Figure 11: Self-employment rates by marital status and gender

In the case of self-employment, however, the *financial* support of a spouse may also be critical in the sense that setting up on one's own may be considerably facilitated by having a spouse who is *employed* and providing a stable contribution to household income, particularly during the early years of self-employment. There is no *a priori* reason not to expect this factor to apply equally to male and to female self-employed, and such an interpretation is consistent with our finding in both countries that the self-employment rate is relatively high among married persons of both sexes. Naturally, it might also be an important support for a self-employed person to have a spouse or partner who contributes their own labour (perhaps at a relatively low wage cost) to the enterprise, or who is otherwise able to provide moral support or advice to the self-employed person (again, however, given traditional gender roles one might expect this to come more often from the female than the male partner).

Figure 11 does, however, show important differences between the sexes. Taking the UK first, it appears that whilst for men self-employment rates are similar among the widowed, divorced and separated (and somewhat higher than for married men), this is not the case for women. Widowed women exhibit a higher self-employment rate than any other group of women, whilst the self-employment rate falls off somewhat amongst divorced, and especially amongst separated women. One possible reason for this is the likely dominance of the man in a high proportion of such family "partnerships", such that on divorce or separation it is more likely that the man will "inherit" and continue the business[7]. The high rate of self-employment among widowed women, by contrast is likely to be the result of women inheriting the business from deceased husbands - some of these women may already have been self-employed "partners" in the family business, but many others may have been previously employed or out of the labour force. A similar pattern

[7] Without more detailed evidence, however, care should be exercised in attributing causality to relationships between marital status and self-employment propensity. In principle the causality might operate in either direction (certain family circumstances might make it easier to become self-employed, but equally the strain of running a small business might contribute to marital breakdown).

is observable in the German data (which do not identify a "separated" category), but although widowed people of both sexes have the highest self-employment rates, the difference between widowed men and women is much smaller than the gender difference both for the other marital status categories in Germany and for widowed people in the UK. The reasons for this difference remain unclear.

2.2.4 Ethnic origin/nationality

Popular stereotypes relating to ethnic minorities and self-employment or small business ownership abound in both countries, and the common picture of an Asian (in the UK) or Turkish (in Germany) small shopkeeper or trader, often leads to the conclusion that self-employment propensities are exceptionally high amongst such groups.

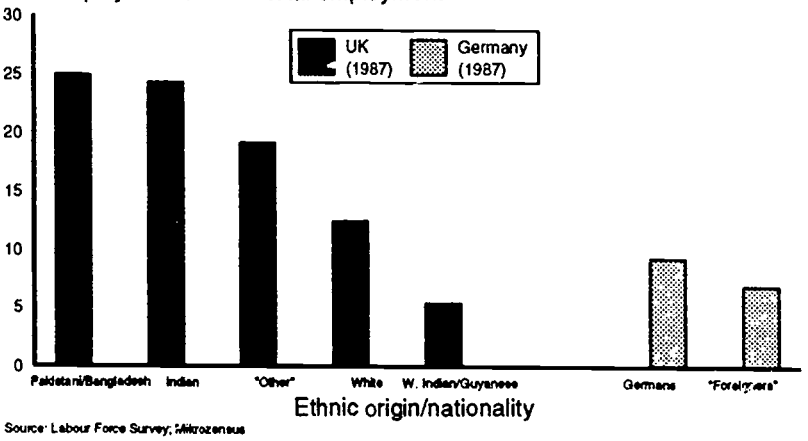
Direct comparisons between the two countries are difficult, firstly because of the very different composition of the ethnic minority population - in the UK, most of the non-white ethnic population trace their origin to British ex-colonies (notably the Indian subcontinent, the West Indies and Africa), and a high proportion are second or third generation British citizens. In Germany, the largest ethnic minorities are drawn from southern European countries such as Turkey and Yugoslavia, and are not for the most part German citizens.

Secondly, these differences are reflected in different concepts of "ethnicity" used in official statistics and surveys. Thus the UK Labour Force Survey focuses on a self-assessment of ethnic origin, whilst the German data are based on citizenship, and a high proportion of those who might be identified as ethnic minorities are classified as "foreigners" (*Ausländer*).

Bearing these differences in mind, Figure 12 shows that self-employment rates do indeed differ significantly between ethnic groups in the UK, and between "foreigners" and German nationals in Germany.

In the UK, several broad differences in self-employment propensities between ethnic groups stand out. In particular, workers of West Indian/Guyanese origin have a self-employment rate less than half the white rate, whilst workers of Indian subcontinent origin have a rate twice the white rate. These differences hold separately for men and women (see *Meager 1991a*). These findings are partly consistent with popular stereotype (concerning, for example, Asians and small business ownership), and also with other recent research (*Curran and Burrows 1988*). Some earlier research in the UK (*Rees and Shah 1986*), suggesting that ethnic minorities have a generally *lower than average* self-employment propensity, suffers from its use of data which do not distinguish between the different ethnic communities.

Figure 12: Self-employment rates by ethnic origin/nationality



There is as yet, no reliable evidence on how much of these differences can be attributed to *differences in the composition* of the different ethnic minority communities (in terms of social class, education etc); how much to *discrimination* in both labour and financial markets; and how much to "*cultural differences*". Whilst popular stereotype stresses the latter, the other two are clearly likely to play some role. It is likely to be relevant, for example, that a high proportion of Asian immigrants to the UK in the 1960s and 1970s (e.g. many of those who came from East Africa) came from a wealthy, business-owning middle class. A high proportion of West Indian immigrants from the 1950s onwards were, by contrast, working class in origin, and entered the UK in order to take up typically low-skilled wage employment. Many studies have shown the importance of social class and family background

in influencing self-employment propensities. This may well be even more important amongst ethnic groups who, faced with well-documented discrimination in financial markets, are frequently forced to rely on the support of family and social networks within their own communities in order to start up in self-employment (see for example the evidence for the USA discussed in *Aronson 1991*).

There is little information on trends in ethnic minority self-employment in the UK, and what there is suggests broad stability over time, although preliminary comparison of the data for 1984-87 (*Meager 1991a*) suggests that the mid-1980s saw a *slight* increase in the dispersion of ethnic minority self-employment rates. Thus some groups (notably those of Indian origin and the heterogeneous group of "other/mixed origin") experienced increases in already high self-employment rates, whilst the majority (white) workforce experienced a less marked upward trend, and the Afro-Caribbean groups with the lowest self-employment rates showed a further slight decline in those rates.

The German data do not, at first glance, suggest a similar pattern, since, as shown in Figure 12, the self-employment rate among German nationals is somewhat higher than that among foreigners (this is true for both men and women). The German data are available over a longer time period, however, showing a strong trend towards a narrowing of the gap between German and foreign workers. Thus in 1987 a German worker was 1.4 times as likely as a foreign worker to be self-employed, whereas in the early 1970s he/she would have been four times as likely to be self-employed.

The foreign workforce in Germany is large enough (7-8 per cent of the overall workforce), for strong trends in its composition to influence the overall picture, and the data suggest (*Kaiser and Dietrich 1990*) that the overall German self-employment rate would have declined during the 1970s and 1980s, but for the increasing propensity of foreign workers to enter self-employment. Several hypotheses can be advanced to explain the German findings (*Kaiser and Dietrich 1990*):

- it can be argued that the longer foreign workers live in the host country, the more likely they may be to make the investment of setting up a small business. This argument, moreover, is affected by the fact that many foreign workers entered Germany with "guest worker" status, with their initial right to entry and residence being tied to their being in (wage) employment. By definition, therefore, the foreign workforce would have had a relatively low self-employment rate during the early years of large-scale immigration to Germany (see *Gout and Büchtemann 1987*);

- as unemployment rose during the early 1980s, foreign workers were disproportionately affected, and therefore experienced a stronger labour market pressure to become self-employed;

- increasingly, over the period in question, the foreign workforce in Germany has acquired higher level qualifications, and given the more general association in Germany between educational qualification and self-employment propensities (see section 2.2.5 below), this may have contributed to the growing rate of self-employment amongst this group.

In summary, there are few general points which can be made about this complex question, other than that there exist important differences between the self-employment propensities of the major ethnic groups in both countries, although in the German case (but not in the British), there has been a recent tendency for self-employment propensities among the two broad groups (German and "foreigners") to converge.

Given the (growing) importance of self-employment among some ethnic minorities in both countries, however, this is an aspect which clearly deserves both more research and more attention from policy-makers in the two countries. In particular, the question should be addressed as to whether a high and growing self-employment rate among minority communities is an important (and beneficial) mechanism for economic improvement and integration among these communities, and therefore to be encouraged by policy. This is sometimes argued in the context of the USA (again see *Aronson 1991*, pp. 82-84) where self-employment rates among relatively recent (and economically disadvantaged) immigrant groups tend to be high during an initial transitional phase, and then to diminish with increasing economic integration.

Alternatively, the possibility exists that high/growing ethnic minority self-employment rates are themselves

merely a symptom of persistent disadvantage and labour market discrimination, but which tend to reinforce that disadvantage through economic separatism (with ethnic minorities entering self-employment and forming small businesses with the support of capital and labour inputs from their own community, and predominantly serving ethnic minority markets in their products and services).

2.2.5 Education and qualification level

Whilst it is clear from existing research that educational qualifications may be an important influence on individual propensities to enter self-employment, comparisons between the UK and Germany are difficult to make, given the major differences between the education and training system in the two countries. These difficulties can be avoided to a certain extent in so far as we are interested in comparing the *relationship* between educational levels and self-employment propensities. That is, we are not for example, mainly concerned with whether the German *Abitur* can be regarded as "equivalent" in some sense with the British A-levels. Rather, we are interested in whether, in each country, a higher educational level is associated with a higher or lower tendency to be self-employed. To answer this kind of question requires us to be able to "rank" different qualifications according to their educational level in each country, which is less sensitive to whether or not each level can be directly compared with the corresponding level in the other country.

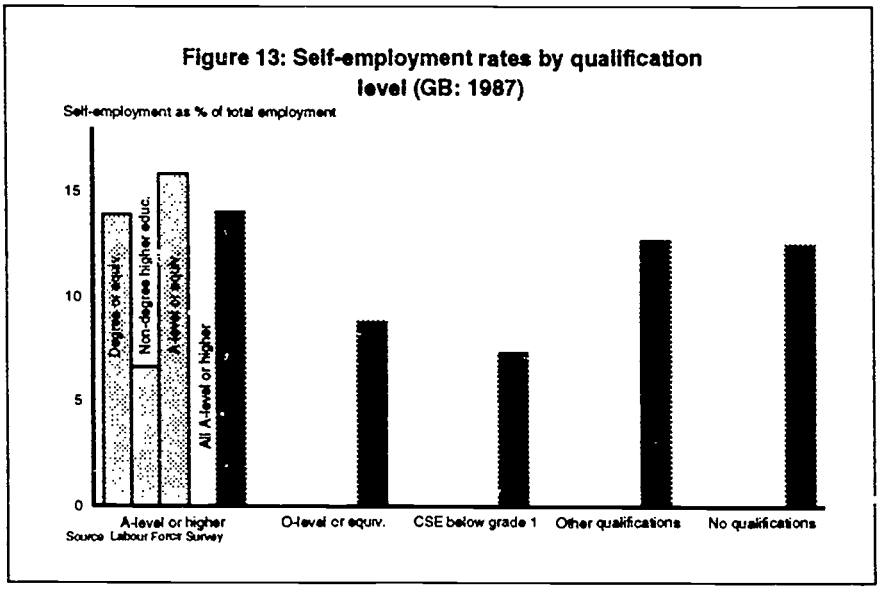


Figure 13 shows self-employment rates by broad educational qualification level for Great Britain[8], and looking first at the three main categories identified (A-level or higher; O-level or equivalent; CSE below grade 1), there would appear to be a clear tendency for self-employment propensities to increase with qualification level (part, but not all of this pattern is an age effect - in particular, the CSE is a recently introduced qualification, and its holders are on average relatively young). The picture is complicated somewhat when we look at the remaining two broad groups in the Figure - people with "other qualifications", and people with "no qualifications" - both of which record higher than average self-employment rates. The high self-employment rate among those with no qualifications is largely an age effect (such people are significantly older than the sample average, and we saw above - section 2.2.2 - that self-employment rates increase strongly with age), whilst it is difficult to attribute significance to the finding for the group with "other qualifications" which is a rather small, heterogeneous, residual category, consisting of people whose qualifications do not fit into the standard classification in a straightforward fashion.

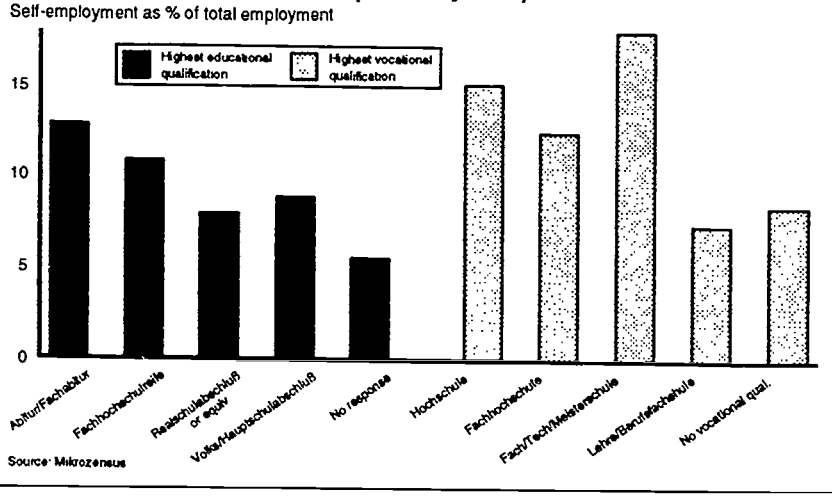
Figure 15 (below), shows furthermore, that the broad pattern of variation between qualification and self-employment rates is similar for men and women. A multivariate analysis (presented in *Meager 1991a*), which controls also for the effects of age, marital status and other variables suggests, however, that there may be some important differences between men and women in this respect. It shows in particular, that a strong and statistically significant relationship between increasing qualification level and increasing self-employment propensities holds only for women. For men, there is no clear relationship - if anything there is a weak relationship in the other direction; that is, once we control for other variables (particularly age), better qualified men may actually have a (slightly) *lower* propensity to be self-employed than poorly qualified men.

[8] Note that unlike most of the Figures and Tables in the report, Figure 11 is for *Great Britain* rather than the UK (i.e. it excludes Northern Ireland).

The picture is further complicated when more detailed categories of educational qualification are examined. Thus for example, it is clear from Figure 13, that within the highly qualified (A-level or higher) group, there is considerable variation in self-employment rates between the three sub-categories. This variation (see *Meager 1991a*) is related not so much to the *level* of qualification, but to its *particular vocational orientation*. Thus the extremely high self-employment rate among the "A-level or equivalent" category reflects the fact that this group includes some technical and craft qualifications (e.g. City and Guilds) which are associated with many occupations with a high self-employment rate (including occupations in hotels and catering, and in the construction sector)[9]. Similarly the sub-category "higher education below degree level", which exhibits a lower than average self-employment propensity, contains many vocational qualifications (especially teaching and nursing qualifications) which lead directly to occupations which are overwhelmingly dominated by dependent (wage) employment, mainly in the public sector.

Turning to the German picture (shown in Figure 14), the data distinguish (see *Kaiser and Dietrich 1990*), between "highest educational qualification" which corresponds to the basic level of educational attainment, and "highest vocational qualification" which refers to the level and type of specific vocational education acquired (but which also includes university-level qualifications, which in the UK might not be regarded as "vocational").

Figure 14: Self-employment rates by qualification level (Germany 1985)



Taking the former categorisation first, the Figure shows that in broad terms, self-employment propensity tends to increase with qualification level, and Figure 15 confirms that the relationship holds similarly among men and women. As far as the pattern of vocational qualifications is concerned, Figure 14 tells a similar story, of self-employment propensities increasing with the level of qualification. Thus having a university (*Hochschule*) degree increases the self-employment propensity, compared with having university entrance-level qualifications (*Abitur*); similarly, graduating from a *Fachhochschule*[10] is associated with a higher self-employment propensity than simply having the entrance-level qualifications (*Fachhochschulreife*).

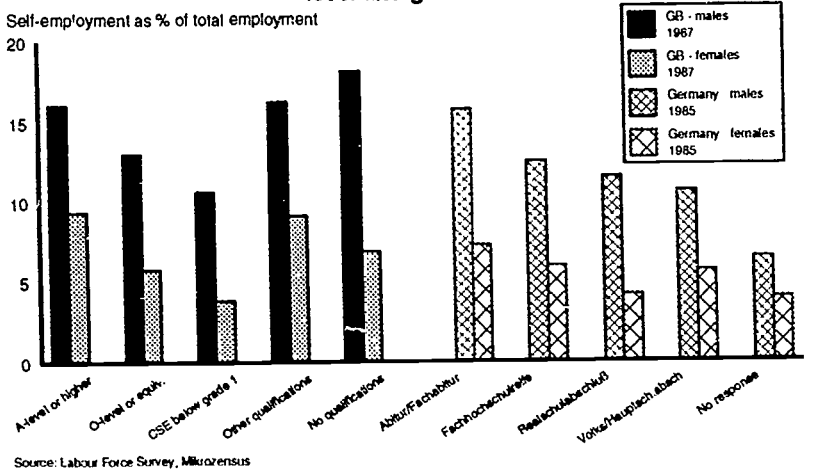
As in the UK, however, the picture is more complex than this and, as shown in *Kaiser and Dietrich 1990*, there are particular educational sub-systems corresponding to particular combinations of educational and vocational qualifications which are associated with particularly high (or low) self-employment propensities. This can be seen in part in Figure 14, where the main exception to the overall pattern of self-employment rates increasing with level of vocational qualification relates to graduates of the various *Fach-/Techniker-/Meisterschulen* for which no direct UK equivalents exist, but which produce a variety of craft and technician-level qualifications, through full- and/or part-time study. Nearly one in four graduates of this sub-system are self-employed, the highest propensity of any of the main categories examined. As in the UK, moreover, some of these vocational qualifications are strongly associated with certain occupations in which self-employment is prevalent (e.g. some of the liberal professions or *freie Berufe*, such as accountancy, the legal profession, architecture, medicine etc). However, in the German case the link may be an even stronger one, since there are many occupations (particularly those governed by the regulations of the *Handwerk* system - see the discussion in section 5.2.6 below), for which having undertaken an apprenticeship and a

[9] The occupational pattern of self-employment rates is considered further in section 3.1.2 below.

[10] There is no direct British equivalent of a *Fachhochschule*, which is essentially an institution of higher education, below university level, and specialising mainly in technical, economic, and applied social science subjects.

Meister's examination is a legal requirement for being able to set up in self-employment.

Figure 15: Self-employment rates by qualification level and gender



Source: Labour Force Survey, Mikrozensus

Finally, Figure 15 confirms that in both countries the overall relationship between broad level of educational attainment, and propensity to be self-employed is similar for both men and women.

In sum, then, it would seem that in both countries there appears to be a positive overall relationship between qualification level and propensity to be self-employed but in the case of the UK at least, the overall relationship holds only for women, once other variables such as age are taken into account. For men in the UK, the relationship is weaker, and operates if anything in the other direction. In both countries, however, any underlying relationship with educational qualifications is complicated by certain institutional patterns, in particular the existence of particular vocational qualifications which are strongly associated with entry to occupations in which self-employment is common (as in the UK), and/or which may actually be a rigid requirement for becoming self-employed in certain occupations (as in Germany).

3 THE CHARACTERISTICS OF SELF-EMPLOYED ACTIVITIES

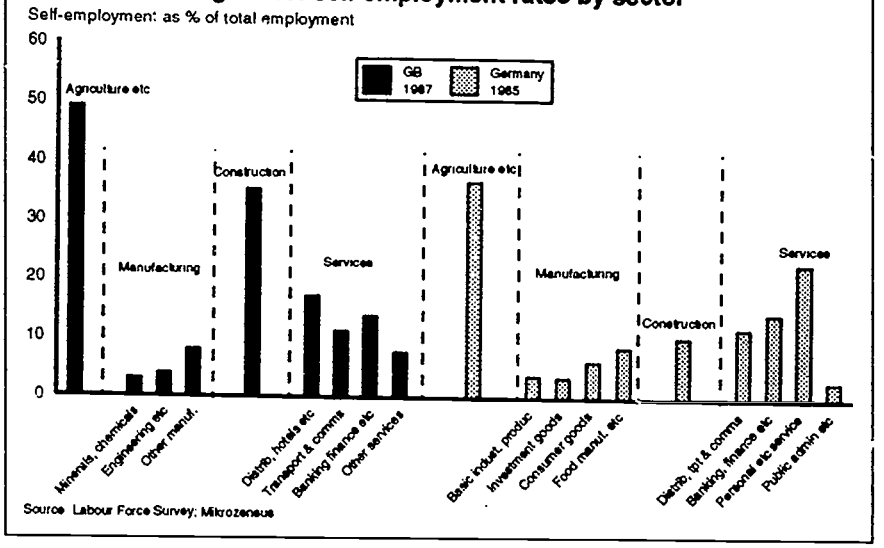
3.1 Industrial, occupational and regional profiles of self-employment

Having asked "what kinds of people are found in self-employment?", we consider in this Chapter the related question of "where are the self-employed found?". In particular, we examine the density of self-employment (again as expressed by the self-employment rate) in different industrial sectors, occupations and regions.

3.1.1 Industrial sector

Self-employment rates vary widely by industrial sector in both countries (Figure 16). Whilst direct comparisons are rendered difficult because of differences in the industrial classifications adopted by the Labour Force Survey and the *Mikrozensus*, it is clear that the broad pattern of variation is similar in both countries, with the highest self-employment rates being recorded in *agriculture*, and the lowest in the *manufacturing sector*, with the *service sector* lying between these two extremes.

Figure 16: Self-employment rates by sector



Source: Labour Force Survey; Mikrozensus

The main difference between the two countries is the much lower self-employment rate in the German *construction sector* which at 10 per cent is just above the all sector average, in contrast to the 35 per cent recorded in the UK. There is some evidence (see *Bennett et al. 1988*), that the UK building industry experienced a shift towards the increased use of labour-only sub-contractors (with a strong tendency to make use of self-employed workers) during the 1980s, whilst there is no evidence of such a shift in Germany, where dependent employment remains the norm in this sector (although it is arguable, that despite their legal status as self-employed, many sub-contract construction workers in the UK remain highly "dependent" in this sense - see the discussion in *Rainbird 1991*).

It is notable that in both countries, those sectors in which employment *grew the fastest* during the 1980s (notably the service sectors) are also those sectors with relatively high densities of self-employment, whilst those sectors with *declining* employment (especially manufacturing) have low self-employment densities. The main exception is agriculture, which is a declining sector in total employment terms, but which also has a very high self-employment density in both countries. Agriculture however, as noted in Chapter 1, is a relatively small sector, and changes in its size carry little weight in the overall employment picture.

A key question raised by the sectoral pattern of self-employment densities, then, is: "how far can changes in the overall level and rate of self-employment be attributed to the changing sectoral balance of employment?". That is, does the general shift from manufacturing to services employment (i.e. from low self-employment to high self-employment sectors) in recent years, account for the overall rise in self-employment and, in particular, is the slower growth in German self-employment observed in Chapter 1 associated with a slower rate of structural change within the German economy as a whole? We consider the possible answers to these questions in Chapter 5 below.

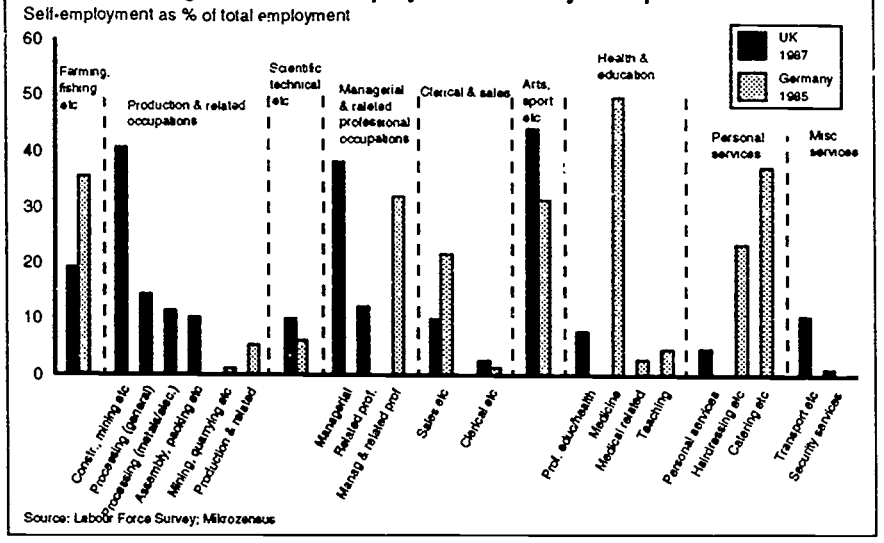
3.1.2 Occupation

International comparison of the occupational structure of self-employment is severely hampered by the lack of comparability of the classifications used in different countries. This is true to an even greater extent for

occupational data than for sectoral data, and it is significant, for example, that EUROSTAT (the Statistical Office of the European Communities) will not release occupational data from the European Labour Force Surveys because of this lack of comparability. Any discussion of the density of self-employment in individual occupations in the UK and Germany must therefore be somewhat cautious in the conclusions it draws.

With these *caveats* in mind, Figure 17 shows self-employment rates by occupation in the two countries, with the occupational categories grouped into broadly similar areas. There are few clear similarities between the two countries in the overall pattern revealed in the Figure, other than the general observation that the self-employment rate varies enormously between occupations in both countries, from 1 per cent or less to nearly 50 per cent.

Figure 17: Self-employment rates by occupation



In general, it seems that the distribution of self-employment rates is somewhat more polarised in Germany than in the UK. That is, the German data reveal more occupational groups with extremely high or extremely low self-employment rates, and the UK data more occupational groups with self-employment rates close to the average. This suggests the hypothesis that self-employment is more closely tied to an individual's occupation or profession in Germany than is the case in the UK, with certain occupations being clearly identified as "freelance" activities, and others identified as wage employment activities. It is possible that such a pattern in Germany could be linked to the high degree of institutional regulation of occupational qualifications (e.g. in *Handwerk*), but given the difficulties of comparison, it is important not to read too much into these data at this stage, since some of the apparent differences in occupational self-employment propensities could simply be the result of the different ways in which occupations are grouped in the two countries. Thus, for example, taking the various *health (medical) and educational* occupations, it is possible that the patterns between the two countries are more similar than those suggested by the Figure - such that if the UK data were broken down into the three categories employed in the German data, they might also reveal (as in Germany) a very high rate of self-employment amongst medical doctors, dentists etc, but very low rates amongst other medical and related workers, and teachers.

There are nevertheless a number of interesting similarities and differences between the occupational patterns in the two countries shown in Figure 17, which seem less likely to be attributable to such aggregation factors. Taking the similarities first, as might be expected, high self-employment rates are recorded in *literary, artistic and sports* occupations in both countries (in the UK this is the group with the highest self-employment rate). Similarly *agricultural and related occupations* also record high self-employment rates in both countries (but especially in Germany), as do *managerial and related professional occupations*; again, especially in Germany (in the UK, managerial occupations *per se* record an extremely high self-employment rate, but the various professional occupations supporting management - accountants etc - record a rather lower rate, whilst in Germany the two groups are combined in the statistics, but together record a very high self-employment rate). Further in accordance with expectation, is the finding that *clerical occupations* have very low self-employment densities in both countries, and that *professional scientific, technical and engineering occupations* have self-employment rates somewhat below the average in both countries.

Striking differences appear in *production and related occupations*, recording much higher self-employment rates in the UK than in Germany (this is only partly due to the inclusion of construction occupations), and in the various *catering, cleaning, hairdressing and other personal service occupations* where the pattern is

reversed (much higher self-employment rates in Germany than the UK). It is also notable that *sales and related occupations* have much higher self-employment densities in Germany than the UK. There is simply insufficient evidence at this stage to say how far these patterns reflect real differences in the occupational pattern of self-employment, and how far they stem from incomparable definitions used in the data.

Finally, it is worth noting that the pattern of self-employment rates by occupation is broadly similar for men and women in both countries (see *Meager 1991b* for details of the breakdown by gender), with women in most occupations recording similarly lower propensities to be self-employed than men. There are some important deviations from this pattern in both countries, however, with perhaps the most interesting of these concerning managerial occupations. Thus in the UK not only is the overall managerial self-employment rate extremely high, but the self-employment rate among female managers is actually some fourteen percentage points *higher* than the male (48 per cent, compared with 34 per cent), whilst in Germany the main managerial group ("managers, accountants, tax consultants and related occupations"), is the *only* occupational group where the female rate exceeds the male (36 per cent and 32 per cent respectively).

One interpretation of this gender difference, in line with the relationship observed between qualification levels and self-employment propensity recorded above (section 2.2.5) and with our discussion of the relatively fast overall growth in female self-employment in both countries (section 2.2.1), is that faced with discrimination (both direct and indirect) as *employees*, and the well-documented difficulties of achieving career progression to managerial positions (in the UK, for example, only one in five managerial or supervisory posts is held by a woman), some of those women who aspire to the position, status, autonomy and material rewards associated with management are "pushed" into self-employment as a means of fulfilling those objectives.

3.1.3 Region

Table 1 below shows that there is some regional variation in the self-employment rate in both countries. In the UK, the rate varies from a low of 9.0 per cent in Scotland to a high of 16.4 per cent in Northern Ireland. In Germany the inter-regional variation is somewhat less, with (west) Berlin recording the lowest rate (7.5 per cent), and Bayern the highest (10.2 per cent).

How are such regional variations to be explained? Two obvious possible explanations are: firstly, *variations in the industrial structure* between regions; and secondly, regional variations in *labour market tightness*.

Looking first at industrial structure, we have seen above that self-employment rates vary a lot between industries, and it is likely, therefore, that a region with an industrial structure skewed towards the service sector or agriculture would exhibit a relatively high self-employment rate, whilst regions with a high concentration of manufacturing industries would have relatively lower rates. There is some support for such an explanation in the data. Thus, for example, in the UK, average or higher than average self-employment rates are found in the South-West, Northern Ireland, East Anglia, Wales and the South-East (all regions with above average concentrations of service sector and/or agricultural employment). Similarly, lower than average self-employment rates are found in Scotland, the North, the West and East Midlands, Yorkshire and Humberside, and the North-West (all, with the exception of Scotland, regions with above average concentrations of manufacturing employment).

Variations in the industrial structure can explain only part of the variation in regional self-employment rates in the UK, however, and it has been shown by several authors (see, for example, *Creigh et al. 1986* and *Meager 1991a*), that controlling for industrial structure reduces but does not eliminate the variation in self-employment rates. Thus, for example, the low self-employment rates in the North and Scotland cannot be attributed to the industrial structures of those regions.

In the German case also, regional variations in industrial structure appear to be relevant, with agriculture in particular playing an important role. Thus the four regions with a higher than average self-employment rate (Bayern, Baden-Württemberg, Rheinland-Pfalz and Niedersachsen), all have higher than average concentrations of agricultural employment, whilst of the seven regions with lower than average self-employment rates, all bar Schleswig-Holstein also have lower than average concentrations of agricultural employment.

Table 1: Self-employment rates by Region			
	UK: 1987		
	Males (%)	Females (%)	All (%)
North	12.6	6.3	9.9
Yorkshire & Humberside	15.3	7.2	11.8
East Midlands	15.9	7.0	12.2
East Anglia	17.2	10.6	14.5
South-East	18.4	8.3	14.1
South-West	20.4	10.0	16.0
West Midlands	14.1	5.6	10.6
North-West	15.0	6.8	11.5
Wales	15.4	8.9	12.7
Scotland	12.4	4.6	9.0
Northern Ireland	23.6	6.2	16.4
(all regions)	16.5	7.5	12.7
	Germany: 1985		
	Males (%)	Females (%)	All (%)
Berlin (west)	9.3	5.0	7.5
Schleswig-Holstein	11.5	4.7	8.9
Hamburg	11.1	5.6	8.7
Niedersachsen	11.8	5.2	9.3
Bremen	9.0	5.8	7.6
Nordrhein-Westfalen	9.9	5.6	8.4
Hessen	10.1	5.1	8.2
Rheinland-Pfalz	11.3	6.1	9.4
Saarland	9.4	6.6	8.4
Baden-Württemberg	12.4	5.9	9.8
Bayern	13.5	5.4	10.2
(all regions)	11.4	5.5	9.1
Source: Labour Force Survey; Mikrozensus			

As in the case of the UK, however, an explanation rooted in industrial structure appears to be insufficient to account for the full range of variation in regional self-employment rates in Germany. Thus for example, on the one hand, the two German *Bundesländer* with the highest self-employment rates (Bayern and Baden-Württemberg), have higher than average concentrations of agricultural employment (a factor which would tend to increase the overall self-employment rate in these regions). On the other hand, these two *Bundesländer* also have larger than average concentrations of manufacturing employment, a factor which

might be expected to be associated with *lower* than average self-employment rates. This is particularly true of Baden-Württemberg, which in 1985 had some 47 per cent of its employed workforce in production sectors (*produzierendes Gewerbe*), compared with a national average of 42 per cent.

It is of course possible that there may be important differences between self-employment rates within individual sub-sectors, such that, for example, Baden-Württemberg's industrial structure is skewed towards manufacturing industries which contain a higher than average proportion of self-employed. It is certainly true that the manufacturing sector in both Bayern and Baden-Württemberg is commonly regarded as having a greater emphasis on modern, high-technology activities, dominated by smaller firms, than is the case in the traditional manufacturing areas of the Ruhrgebiet and Northern Germany. Indeed Baden-Württemberg is sometimes cited as an example of an "industrial district" (in the sense of *Piore and Sabel, 1984*), with a dense network of highly integrated and mutually dependent "flexibly specialised" smaller firms.

Further exploration of these questions would require more detailed analysis of trends at a sub-sectoral level within regions. It remains the case, then, in both countries, that industrial structure, at least at the broad level of aggregation for which comparable data are currently available, can provide only part of the explanation for regional differences in self-employment propensities.

Turning to the second factor, labour market tightness, the picture is equally complex. There is a long, inconclusive debate in the academic literature about the extent to which high levels of unemployment and a lack of opportunities for wage employment, constitute a "push" for people to enter self-employment (see *Bögenhold 1987*, *Meager 1992a*, and the discussion in Chapter 5 below for further discussion of these issues). For present purposes, however, it is sufficient to note that whilst on the one hand a depressed local economic climate may provide an *incentive* for people to enter self-employment, it may also on the other hand provide a *constraint* on establishing a thriving business enterprise. Any relationship between unemployment and self-employment will depend then, on which of these two factors is dominant.

Looking at the evidence from our study, the cross-sectional regional data for both countries appear to show some correlation between self-employment and unemployment rates. The relationship is in both countries, a *negative* one, that is to say, there is a crude "north-south" divide in both countries, such that regions with higher than average unemployment regions (generally in the north of both countries), tend to have lower self-employment rates, and *vice versa*. On the face of it, then, it would seem that the negative effect in a given region of a depressed economic climate on business opportunities and survival chances tends to outweigh any stimulus to self-employment provided by high levels of unemployment in that region.

Figure 18: Regional self-employment & unemployment rates

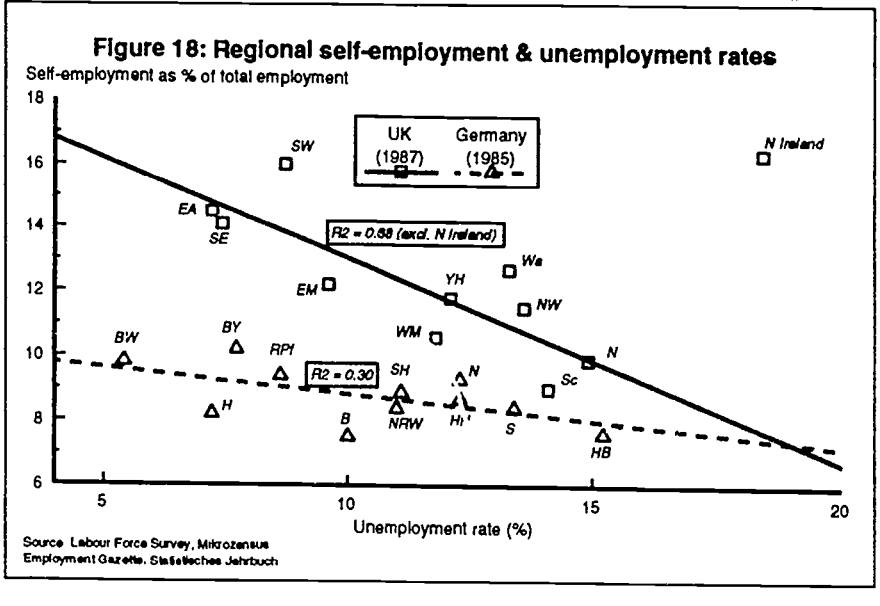


Figure 18 plots the relationship between regional unemployment and self-employment rates in both countries, and it can be seen firstly that the trade-off in the UK (once the outlying case of Northern Ireland is excluded), is sharper than in Germany, but that in neither country does the unemployment rate provide anything like a complete explanation of the variation in regional self-employment rates. Thus in Germany the correlation coefficient (R^2) between the two variables is only 0.3, whilst in the UK it is rather higher, but only after Northern Ireland has been excluded. The case of Northern Ireland suggests strongly that industrial structure may also play a role in some cases - since this region has both the highest share of agricultural employment of any region, and the second lowest (after the South-East) share of manufacturing employment.

What happens then if we allow simultaneously for the effects of *both* industrial structure and the labour market? Table 2 shows the result of a simple linear regression in each country with the self-employment rate as the dependent variable, and the unemployment rate, the percentage of employment in agriculture, and the percentage of employment in the service sector as independent variables. The results suggest that in both countries (but especially Germany) the relative importance of agriculture plays the most significant role in influencing a region's self-employment rate. The relationship with unemployment remains a negative one in both countries, but the variable is either not statistically significant (in the German case) or barely so (in the UK case). The percentage of the variation in regional self-employment rates which remains unexplained by industrial structure (as crudely measured here) or unemployment is nearly 20 per cent in Germany, and nearly 40 per cent in the UK.

Further research with more disaggregated data is required for a definitive answer to this question, but it would seem that variations in industrial structure and labour market tightness can go some way towards explaining regional variations in self-employment rates, but that there remains, particularly in the case of the UK, a significant portion of this variation which is unexplained.

Table 2: Regional regressions
- dependent variable: self-employment rate

Independent variable	Germany (1985)	UK (1987)
Constant	8.7	3.7
Regional unemployment rate	-0.04 (0.61)	-0.20 (1.23)
% of regional employment in agriculture	0.25 (3.62)	0.86 (2.75)
% of regional employment in services	-0.01 (0.37)	0.12 (0.11)
R^2	0.82	0.62
n	11	11

Absolute t-values in parentheses
Source: Labour Force Survey; Mikrozensus

Some authors (e.g. *Creigh et al., 1986*) have attributed this unexplained element to "a variety of other economic, social and cultural factors". One possible interpretation is that it is not only the *current industrial structure* of a region which is relevant here, but also the *recent industrial past* of some regions. Much research (e.g. *Curran and Burrows 1988*, and *Burrows 1991* in the UK case) confirms from individual data, the importance of inter-generational influences on self-employment propensities. That is, it would seem that having had a self-employed parent significantly increases an individual's probability of becoming self-employed, presumably as a result of the attitudes, skills, and membership of relevant social networks, that such a family background can represent. In regions where employee-dominated industries have accounted for most economic activity in recent industrial history, fewer people are likely to have been brought up with such a background, and even when there has been a major change in the industrial structure (as in the case of Scotland, following the decline of traditional manufacturing sectors, and the expansion of services), this inter-generational influence on the regional self-employment propensity may persist.

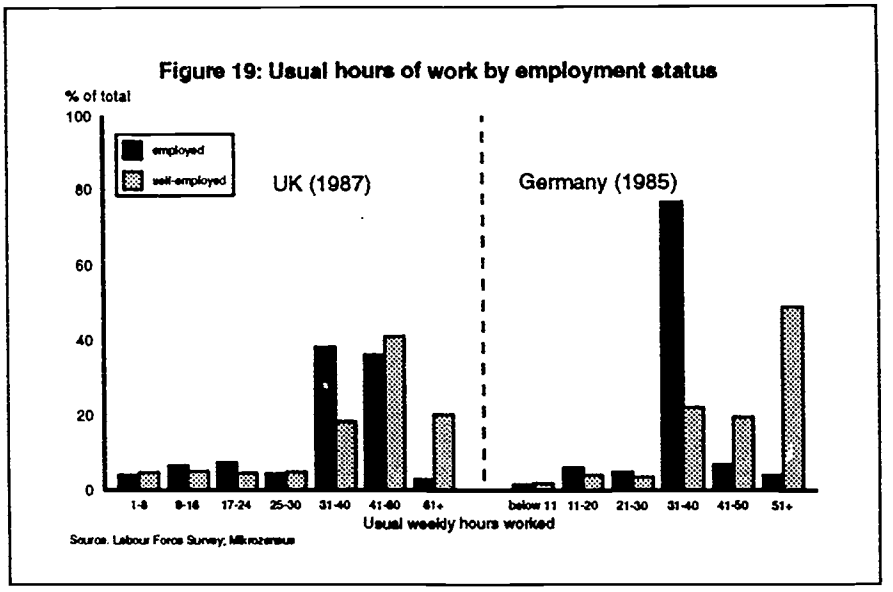
3.2 The "jobs" of the self-employed

In this section we look briefly at some of the characteristics of the work undertaken by the self-employed, in comparison with their employed counterparts. In particular we look firstly at how hard they work, as indicated by the length of their working time, and secondly at whether they work alone or employ others.

3.2.1 Hours of work

The stereotype of the self-employed "entrepreneur" or small business owner, found in the anecdotal "success

stories" beloved of the popular business magazines, often conveys the image of a dynamic, motivated, high earning "workaholic", suggesting that those who work for themselves tend to work longer and harder than those who work for other people.



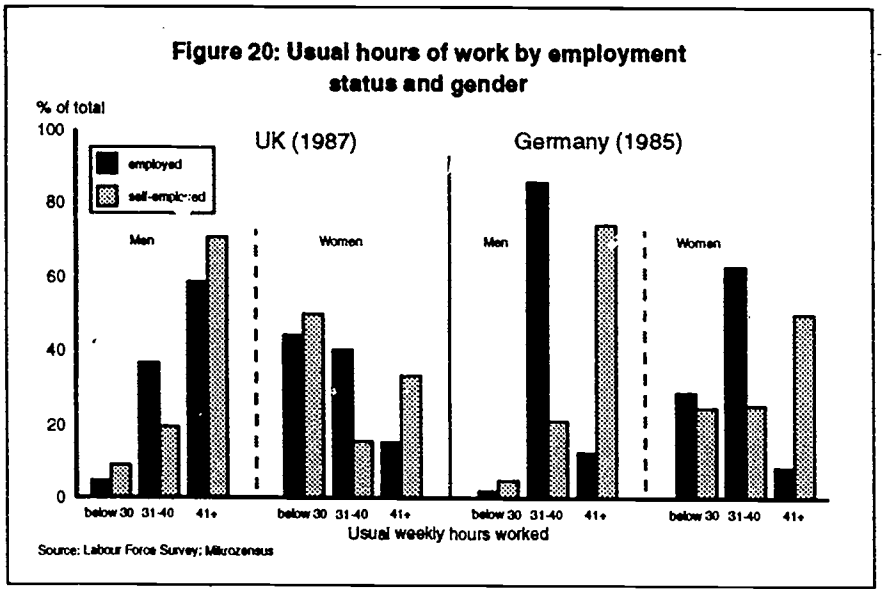
The data on the distribution of hours worked by the self-employed in the UK and Germany (Figure 19), are apparently consistent with this picture. The proportion of people working fewer than 30 hours a week (which is the threshold below which the UK official statistics categorise a worker as part-time) is quite similar for employed and self-employed people in both countries (although on average a slightly smaller proportion of employed than self-employed work these short hours). Thus in the UK, 22 per cent of employees work fewer than 30 hours per week, as do 19 per cent of the self-employed (the figures in Germany are 12 and 10 per cent respectively).

In the 31-40 hours range, which corresponds to current notions of a "full-time" job in dependent employment, the difference is rather marked. In the UK, 38 per cent of employees work between 31 and 40 hours a week, whilst the proportion of self-employed who do so is less than half this figure (18 per cent). In Germany, over three-quarters of all employees (76 per cent) work between 31 and 40 hours a week, compared with a mere 22 per cent of the self-employed. The proportions working longer than 40 hours per week are correspondingly reversed, with a far higher proportion of the self-employed than of employees working more than 40 hours per week. In both countries about two-thirds of the self-employed work for more than 40 hours (61 per cent in the UK, and 68 per cent in Germany), whereas for employees this applies to only 39 per cent in the UK and a mere 10 per cent in Germany.

It would seem then that the self-employed work considerably longer hours on average than their employed counterparts in both countries, but that the difference is particularly marked in Germany, where the working time of employees is somewhat shorter than in the UK, and the working time of the self-employed is somewhat longer. The number of self-employed working extremely long hours is also notable in both countries. Thus in Germany nearly half of the self-employed (49 per cent) work more than 50 hours a week, whilst in the UK, as many as a fifth of the self-employed work more than 60 hours per week.

Figure 20 confirms that this working time difference between employees and the self-employed holds true for men and women in both countries. That is, whilst women's employment in both countries contains a far higher proportion of short working times (under 30 hours per week) than does male employment, the proportion of both men and women working longer than 40 hours is much higher amongst the self-employed than the employed.

An interesting feature, however, is that in both countries, the polarisation of working times between the self-employed and the employed is *greater amongst women* than amongst men. In Germany the proportion of self-employed men working longer than 40 hours is five times higher than the proportion of employed men, whereas amongst women the proportion is more than eight times higher. Similarly, in the UK more than twice as many self-employed women as employed women, proportionately speaking, work more than 40 hours, but among men the ratio is only just above one. Such differences do not exist at the other end of the hours spectrum, however, where in both countries the proportion of women working fewer than thirty hours is rather similar for both the employed and the self-employed. That is, it would seem that whereas both employed and self-employed women undertake part-time work in significant proportions, it is mainly self-



employed women who typically work extremely long working times.

Finally, it is worth recording a note of caution with regard to these data. Whilst it would seem that our findings here are consistent both with previous research, and popular belief, showing that the self-employed work disproportionately long hours, it should be recalled that these data are *self-reported* estimates of hours worked. This means that they are more likely to be inaccurate in the case of the self-employed, than in the case of employees. The former must rely on their own memory and perception when reporting their working time, whereas the latter will have hours of work specified by their employer, and will often have recorded levels of overtime working as well. Moreover, given this popular notion of the "workaholic" small businessman/woman, it is likely that many self-employed people will wish to conform to and perpetuate this image, and thus tend to err on the side of exaggeration when reporting their working time in social surveys.

3.2.2 Size of organisation: the job-creation effect of self-employment

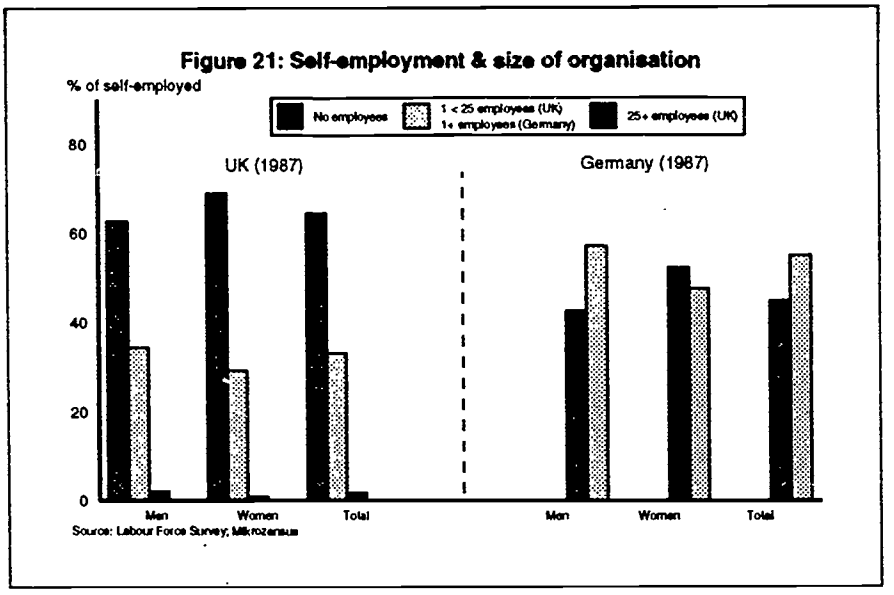
Underlying much of the policy interest in self-employment in recent years in both countries, has been the notion that a growing level of self-employment will have further spin-off effects on the total *level of employment*, as the successful self-employed themselves hire further employees.

This belief stems from the work of Birch and others in the USA (*Birch 1979*), showing that "small businesses" apparently accounted for a disproportionate share of overall employment growth. There has subsequently been considerable debate over the empirical validity of claims that small firms are the "engine of job-creation". This debate has been mirrored in other countries including the UK and Germany (see *Storey and Johnson 1987*, for an account of the arguments, and a comparative international analysis of the job-creation impact of small firms, and *Cramer 1987* for a discussion in the German context). The debate has yet to be conclusively settled, although both *Storey and Johnson 1987*, and *Loveman and Sengenberger 1990* argue that the balance of evidence indicates that the employment impact of small firms is at best rather more modest than Birch's initial claims. In the German case in particular, several studies have shown that firm *age* rather than size *per se*, is the key variable in job growth (see *Hull 1986*), and some recent work comes to the conclusion that when the age effect is taken account of, "the impact of size on employment growth is not significant. There is no "dramatic" job-generation by small firms in West Germany" (*Fritsch 1990*)[1].

Even if we accept the argument about "small businesses" and job-creation, however, it is somewhat problematical to extend this to self-employment *per se* and conclude, as many commentators have done, that a policy emphasis on the indiscriminate stimulation of self-employment can be justified in terms of significant and positive additional employment effects. We have already argued strongly, and the evidence presented above confirms, that the self-employed are an extremely heterogeneous category, including not only the stereotypical entrepreneurial small business owners, but many other types of workers whose self-employment may be much less likely to create jobs for people other than themselves.

[1] In some ways this debate is a somewhat semantic one. Thus, even if it is the *newness* of firms rather than their *smallness* which "drives" the job-creation process, as long as there is a correlation between size and age (most new firms are small, but not *vice versa*), it may still be that small firms account for a disproportionate share of job growth.

Figure 21 presents information on the proportions of self-employed who employ others in each country. Taking the UK first, it shows that almost two-thirds (65 per cent) of the self-employed are own-account workers with no other employees, and that this proportion is slightly higher among self-employed women than among men.



Overall, in 1987, only a third of the self-employed in the UK are proprietors of very small businesses (employing fewer than 25 employees), whilst a mere 1.9 per cent of the self-employed run larger businesses with 25 or more employees. As other researchers have pointed out (*Hakim 1988*), these figures may slightly understate the true extent of small business ownership, as some owners of small, but incorporated businesses may identify themselves as *employees*, in line with their strict legal status, rather than as self-employed.

Nevertheless, these data suggest that in so far as the new self-employed are similar to their predecessors, expanding levels of self-employment in the UK are unlikely to be associated with a major indirect job-creation effect. Not only would it appear that only about 35 in a hundred of the existing self-employed employ someone else, but most of these employ only very few other people - more detailed data given in *Daly 1991* show that of those self-employed with employees, nearly half have only one or two employees, and only about a quarter have more than 5 employees. Furthermore the stock of the existing self-employed contains, by definition, a higher proportion of the more successful self-employed (including those who are likely to create jobs for others), than does a cross-section of new entrants to self-employment (a proportion of whom are likely to "fail" and leave self-employment quickly). Thus it is likely that of every hundred *new* self-employed during the 1980s, even fewer than 35 of them will end up creating jobs for others.

Moreover, the job-creation effect associated with a growth in self-employment may be yet smaller, to the extent that a proportion of the new self-employed are effectively "disguised employees" in posts which have been contracted out or "externalised" by employing organisations (see the discussion on this trend in section 5.2.4 below).

Turning to Germany, Figure 21 shows a rather different picture, in that a considerably greater proportion of the self-employed, over half (55 per cent) in 1987, also employ someone else, although as in the UK, this proportion is higher for males (57 per cent) than for females (48 per cent). It is possible that part of the difference between the two countries is simply a "cohort" or inflow effect due to the much more rapid recent expansion of self-employment in the UK than in Germany. That is, among that sub-set of the self-employed who are likely to employ others, recent entrants to self-employment are less likely to have reached the stage of taking on employees, than are those who have been in self-employment for some time. A country in which self-employment has been growing relatively rapidly such as the UK will have, by definition, a larger proportion of recent entrants among its stock of the self-employed, and therefore the composition of self-employment will tend to be biased towards the self-employed without employees, in comparison with a country like Germany where the overall stock of self-employment is more stable.

This effect cannot explain more than a small part of the difference between the two countries, however, and we must look for other explanations. One of the most plausible (see also *Gout and Büchtemann 1987*) relates to the apprenticeship system in Germany. Many very small businesses in Germany, especially those in the *Handwerk* sector, consist of a self-employed owner-manager, with one or two apprentices. It is a significant feature of the "dual system" of initial youth training in Germany, in comparison with other countries, that

a high proportion of such training is conducted in very small firms (see *Doran 1984*), supported through the legal and institutional influences of the Chambers of Trade and Industry, and of Crafts (see *Lane 1989*). It is commonly argued (see *Bannock and Albach 1991* and *Doran 1984*), that the apprenticeship system is one of the factors leading to the relative strength and stability of the small firm sector in Germany, compared with its counterpart in the UK. This occurs through the double effect of the relatively high quality of training received by those who eventually go on to be self-employed small business owners, and the relatively cheap labour which the apprentices provide to small firms during their training period (German apprentices typically receive a small training allowance, which amounts to a small fraction of the normal adult wage).

Of particular interest in the German case (see *Kaiser and Dietrich 1990*) is the fact that not only is the proportion of the self-employed employing others relatively high, but it has grown strongly in recent years. Thus *Mikrozensus* data show that this proportion has grown steadily from 46 per cent of the self-employed in 1973 to 55 per cent in 1987. This trend occurred to a similar extent among both men and women self-employed, and is in strong contrast to the pattern in the UK, where the reverse has occurred. Thus *Daly 1991* presents Labour Force Survey data from *Great Britain* showing that the proportion of the self-employed with employees fell sharply from 39 per cent in 1981 to 31 per cent in 1989.

The reasons for this development and, in particular, the strongly differing pattern between the two countries are not yet completely clear, but it implies that although self-employment itself in Germany has grown relatively slowly in both absolute and relative terms, (especially when compared with its counterpart in the UK), the size of the *self-employment sector* (by which we mean the self-employed together with their employees - see *Loutfi 1991*), and its relative importance in the German economy as a whole, has grown considerably faster (*Gout and Büchtemann 1987* estimate that taken together, the self-employed and their employees accounted for more than half of the total employment growth over the decade 1976-86).

The sharp decline in the proportion of the self-employed who employ others in the UK cannot simply be attributed to a "cohort" effect associated with the rapid growth of self-employment in the UK. It is interesting to note, however, that it is apparently consistent with the hypothesis (discussed further in Chapter 5 - section 5.2.4) that a shift to self-employment associated with an "externalisation" of labour from large employers, occurred to a greater extent in the UK than in Germany during the 1980s. "Self-employed" workers who are in reality highly dependent on individual large employers, and who are doing work which might equally well be undertaken by dependent employees, are less likely to employ others than the more traditional self-employed small business owners. Further support for this hypothesis is provided by the analysis in *Daly 1991*, which shows that the three industrial sectors which experienced relatively the greatest declines in the proportion of the self-employed with employees were: (1) construction; (2) banking, finance, business services etc; and (3) other services (including catering, cleaning etc); all sectors *either* in which there exists direct evidence of a significant switch from employee to self-employed status (construction), *or* which might be expected *a priori* to be most affected by increasing contracting out and use of freelances.

4 INFLOWS TO AND OUTFLOWS FROM SELF-EMPLOYMENT

When considering a group such as the self-employed, whose size and composition changed considerably during the 1980s, it is useful to examine the characteristics of the "newly self-employed", i.e. those people who became self-employed during the period, and to contrast them with the characteristics of those who were already self-employed, and with those who left self-employment during the period. Are the newly self-employed systematically different from their predecessors, and if so how?

Detailed analysis of such "flows" data has been undertaken for the study, and presented in the individual country reports (see *Meager 1991a*, and *Kaiser and Dietrich 1990*). Here we confine our discussion in this brief chapter to a general overview of some of the important findings from this "flows" analysis.

The Labour Force Survey and the *Mikrozensus* ask respondents about their employment status one year prior to the survey, and by comparing this with their status in the survey year, it is possible to identify people who have changed status during the year (e.g. by moving from employment to self-employment, or to unemployment etc). These data are not true "flows" data, in that they fail to pick up multiple changes in status during the year, and there is also some unreliability introduced by the fact that the question is asked retrospectively[1]. Nevertheless, major changes in the dynamics of flows into and out of self-employment can be expected to show up in these data, and they are particularly useful in indicating the *origins* of people newly entering self-employment (e.g. whether they came from wage employment, unemployment or outside the labour force), and similarly the *destinations* of people leaving self-employment.

4.1 Inflows to self-employment

Table 3 shows that the proportion of the self-employed who have changed employment status in the previous year is somewhat higher in the UK than Germany[2], or in other words, inflows into self-employment appear to be relatively larger in the UK than Germany, and the stock of the self-employed in the UK contains a higher proportion of people with relatively short experience of self-employment.

Table 3: Self-employment "inflow" data

	Germany		UK	
	1985	1989	1984	1987
Proportion of self-employed in current year reporting same status in previous year (%)	89.9	89.6	83.2	84.2
Proportion of self-employed with changed status during year coming from:				
dependent employment	85.3	82.0	47.2	53.1
unemployment	4.9	5.8	20.3	23.7
economic inactivity	9.8	12.2	32.5	23.2

Source: Labour Force Survey; Mikrozensus

Even more striking, however, is the fact that the composition of the inflows to self-employment differs strongly between the two countries. Thus of those self-employed people who changed employment status during the year, the proportion who were previously *employees* is much higher in Germany than the UK (over 80 per cent compared with around 50 per cent), and the proportion coming from *unemployment* or

[1] See *Daly 1991* for a discussion of some of the problems associated with these "flows" data in the UK case.

[2] Some caution needs to be exercised in interpreting these data, however, since the proportion of people with "previous employment status not known" is higher in the UK than in Germany, and this may affect the figures slightly, although not the broad conclusions drawn from them.

economic inactivity is correspondingly smaller. The route into self-employment via wage employment is much more marked in Germany than in the UK.

Both countries showed some change in this distribution during the data period - thus during the late 1980s the proportion coming from unemployment or economic inactivity increased slightly in Germany. In contrast, it fell somewhat during the mid-1980s in the UK, mainly due to the marked fall in the proportion coming from economic inactivity, and it might be argued (see *Meager 1992a)* that this reflects a "discouragement" effect due to unemployment growth in the UK during this period[3].

4.2 Outflows from self-employment

Table 4 presents some summary data on changes in employment status in the two countries, which enable us to examine self-employment "outflows", in terms of the "destinations" of these flows, and in comparison with "inflows" to self-employment.

Table 4: Self-employment "outflows" and changes in employment status

(all figures in thousands)	Germany		UK	
Status	1984/5	1988/9	1983/4	1986/7
Employed both years	23,170	24,194	18,593	18,871
Self-employed both years	2,174	2,242	2,241	2,598
Inflow to self-employment during year	244	261	433	436
Outflow from self-employment during year	176	156	209	253
of which:				
flow to dependent employment	*147*	*118*	*83*	*114*
flow to unemployment/economic inactivity	*29*	*38*	*127*	*139*

Source: Labour Force Survey; Mikrozensus

Particular points of interest from a comparative point of view, which emerge from these data are:

- as with inflows, self-employment outflows are larger in the UK than in Germany (in both absolute terms and in relation to the stock), suggesting that self-employment was somewhat more "dynamic" in the UK than in Germany during the 1980s. In terms of the size, however, the difference between the two countries is smaller in the case of outflows than in the case of inflows; thus whilst in Germany outflows in the period examined were running at between 60 and 72 per cent of inflows, in the UK the range was 48 to 58 per cent. The faster growth in self-employment in the UK during this period was predominantly due to the much larger size of self-employment *inflows*, which more than outweighed the fact that outflows were also somewhat larger in the UK.

- Self-employment outflows increased somewhat in the UK over the period 1984-87 (see *Meager 1991a* and *Meager 1992a*), and it would appear that in the UK a surge in inflows to self-employment[4] is followed, after a lag of a few years, by a corresponding increase in the outflows, thereby weakening the net impact of growing inflows on the overall volume of self-employment. The Table suggests that there is not such a clear response of outflows to inflows in Germany. Although annual inflows to self-employment have tended to increase in recent years in Germany, there has been no corresponding

[3] That is, economically inactive people, who might otherwise have chosen to enter self-employment, abandoned or delayed this decision, in light of what they may have perceived as worsening business opportunities due to growing unemployment.

[4] And as shown in *Daly 1991*, 1983/4 was a peak year for self-employment inflows in the UK.

increase in outflows (indeed Table 4 shows that outflows fell by about 11 per cent between 1984/5 and 1988/9, despite an increase in total inflows over the period of about 7 per cent).

- The data in Table 4 suggest (as do earlier outflow data from the *Mikrozensus* - published in *Gout and Büchtemann 1987*), that the pattern of destinations of people leaving self-employment is rather different between the two countries. In particular, a much higher proportion of those leaving self-employment in Germany than in the UK enter wage employment. Thus whereas in the UK this proportion was around 40-45 per cent during the mid-1980s, it was around 75-85 per cent in Germany. Taking this information together with that presented for inflows above, then, it would seem that in Germany, self-employment is much more closely linked to wage employment than is the case in the UK, in the sense that in Germany most movements into (out of) self-employment are from (to) wage employment.

5 SELF-EMPLOYMENT IN THE UK AND GERMANY - AN OVERVIEW OF SIMILARITIES AND DIFFERENCES

In this final Chapter we summarise the main findings from our detailed comparison of the profiles of the self-employed in the two countries, and set these in the wider context of overall changes in the labour market and socio-economic structure of the two countries in recent years.

Thus we ask:

- firstly, how similar are the self-employed in the UK and Germany; is self-employment essentially the same phenomenon in the two countries?

- And secondly, how can we explain recent trends in self-employment in the two countries, and in particular, differences in these trends between the two countries?

5.1 How similar are the self-employed in the UK and Germany?

In previous Chapters we presented a detailed comparison of the characteristics of the self-employed in the two countries. The outstanding feature of this comparison is the extreme similarity of the profile of the self-employed in both countries. In particular, many of the same factors appear to be associated with a greater likelihood of an individual being self-employed in both Germany and the UK. In summary, that likelihood is higher:

- if the individual is male (although the male/female difference has recently narrowed in both countries);

- if the individual is older. Both countries show an increase in the self-employment rate with age, with an especially marked increase for people beyond normal retirement age;

- if the individual is married. It would appear that the support of a spouse may be an important facilitator of self-employment for both men and women in both countries;

- if the individual is better educated or qualified (this relationship is stronger in Germany than in the UK, where it applies mainly to women), or has an apprenticeship or certain other types of technical or vocational qualifications;

- if the individual works in certain sectors or industries, particularly agriculture, or the private service sectors, and in the UK, at least, in construction;

- if the individual is in certain types of occupation, such as managerial occupations, the liberal professions, "literary, artistic and sports" occupations, construction and agricultural occupations;

- if the individual lives in a particular region. In both countries regions with higher than average unemployment rates have lower than average self-employment rates, although the variation is greater in the UK than in Germany, and is largely associated with regional differences in industrial structure.

Furthermore, our results show many similarities between the two countries in the patterns of work of the self-employed. In particular, the self-employed in both countries work considerably longer average hours per week than do their employed counterparts, partly confirming the popular stereotype of the workaholic small business person.

However, the findings also reveal a number of important differences between certain aspects of self-employment in the two countries. Thus, when we examine self-employment rates by ethnic origin and/or nationality, the German data show a tendency for the self-employment propensities of the German and "foreign" communities to converge. In the UK, by contrast, there is no such tendency, and the large differences between ethnic self-employment rates have if anything, become larger in recent years (Asians have a self-employment rate of about twice the white rate, whilst Afro-Caribbeans have a rate of about half

the white rate).

A further important difference is that a much higher proportion of the German than of the British self-employed employ others, and moreover, this proportion has increased in Germany in recent years, whilst in the UK it has continued to fall (although without detailed information on the numbers of employees in such enterprises it is not possible to estimate the "net job-creation effect" of self-employment growth). Much of this difference, however, appears to stem neither from differences in the self-employed themselves nor from differences in their activities in the two countries, but rather from the fact that the German initial training system is such that many self-employed are able to employ apprentices or trainees at relatively little cost in terms of wages or long-term commitment.

On balance, then, and with some exceptions, the profile of the self-employed in the two countries is remarkably similar. In particular, the same factors seem to influence individual propensities to become self-employed in a similar fashion in both countries. Likewise the activities in which the self-employed are found, and the characteristics of the work they do, tend, again with some exceptions, to be rather similar in the two countries (this is not to deny that the self-employed are an extremely heterogeneous group in both countries).

There is a sense then in which the concept of "self-employment" has a very similar meaning in labour market, social and economic terms in both countries, and we can have some confidence that in talking about self-employment in the two countries we are not dealing with entirely different and non-comparable phenomena. With this in mind, therefore, the key question which arises is, given this similarity, how can we explain the extremely different trends in overall self-employment experienced in the two countries in recent years (as shown in Chapter 1) - viz a strong increase in self-employment in the UK as against a (slowing) decline in Germany? We address this question in the remainder of this final chapter.

5.2 Explaining recent trends in self-employment: some hypotheses

The evidence so far presented suggests that the differences experienced in the two countries with regard to recent self-employment trends cannot be attributed to self-employment being composed of different types of people with different personal characteristics working in different types of activities in the two countries, since, as we have seen, there are few differences between the countries in this respect. Rather, the overall differences must be more the result of different types of external factors influencing the (potential and actual) self-employed, and/or of differential changes in these factors operating in the two countries.

In what follows therefore, we present and examine critically some of the main hypotheses about the nature and extent of such external influences, which might be put forward to explain the UK/German differences, drawing both on the findings presented above, and on the findings of previous research in both countries. It should be stressed that the intention here is merely to provide a summary of the main arguments, many of which are extremely complex, and that whilst it is possible to bring the evidence together in a fashion which plausibly accounts for the observed differences, much of the discussion is necessarily tentative, as there remain a number of important unresolved questions, which should be the subject of future research.

Which factors, then, can explain the development of self-employment, and which might, therefore, play a role in explaining the different trends in the two countries? At least seven potential candidates suggest themselves, and we introduce them briefly here before each is considered in a little more detail.

1 *The economic cycle and the role of unemployment*: there are several competing hypotheses often presented in this context. In particular, there has been a considerable debate in the literature about whether unemployment and/or lack of economic growth and prosperity constitute a "push" factor encouraging people to enter self-employment, given the shortage of alternative employment opportunities (on this hypothesis we would expect self-employment to move counter-cyclically). Alternatively, it has been suggested that successful entry to, and survival in, self-employment itself requires a climate of economic growth and prosperity, such that any influence of the economic cycle on self-employment is likely to operate in the opposite direction (i.e. with self-employment moving pro-cyclically). Possible implications of such hypotheses might explain the UK's relatively faster self-employment growth in terms of the greater depth of the recession in the UK in the early 1980s, or indeed in terms of the

relatively more rapid economic growth in the UK in the latter part of the 1980s.

2 *Structural change*: we have seen above that self-employment densities vary considerably between industries and sectors. It is therefore to be expected that even if there is no change in self-employment densities *within* sectors, a shift in the sectoral structure of an economy would by itself lead to a change in the overall level of self-employment. In particular, the shift in the sectoral structure away from manufacturing (with low self-employment densities) and towards the service sector (with higher densities), observable in most developed economies, might be expected to increase the overall self-employment rate, although this will be offset to a certain extent by the continuing shrinkage in the agricultural sector (with a high density of self-employment). The key question here is whether the faster self-employment growth in the UK is due to a faster and greater change in the economic structure from manufacturing to services in the UK than in Germany.

3 *Demographic change*: we have seen that, in both countries, self-employment rates vary according to individual demographic characteristics, such as age, gender, and ethnic origin/nationality, and hence a shift in the overall demographic structure of the workforce over time is likely to result in a change in the overall self-employment level and rate. The key question here is whether the demographic structure of the workforce has been changing in different ways or to different extents in the two countries, which might therefore partly explain differential developments in the self-employment rate in the two countries.

4 *Employment behaviour of firms and other employing organisations*: it has been argued in both countries that there has been a trend in recent years for (large) employers increasingly to sub-contract parts of their activities to small firms and/or self-employed individuals. The key question here, in so far as such a trend exists, is whether it has been occurring to a differential extent in the two countries, thereby contributing to the different overall self-employment trends.

5 *Government policies*: clearly, there exist government policies and programmes in both countries aimed at supporting the entry to self-employment, and the survival of existing self-employed and small firms. The key question here is whether there exist differences between the nature and extent of such policies in the two countries which might have contributed to the differential growth of self-employment.

6 *Institutional and legislative framework*: in principle, several factors in the institutional and legal environment may be *supportive* of self-employment (e.g. the way the banking system, chambers of commerce etc operate towards the self-employed), and similarly a number of factors which act as *constraints* (the degree of bureaucratic regulation of business and occupational entry might, for example, be relevant). The question here is whether the institutional framework in the two countries differs or has changed so as to contribute to a different development of self-employment in the two countries.

7 *Attitudinal change*: again it is sometimes argued, in both countries, that attitudes among the workforce to self-employment, and in particular whether or not self-employment is seen as a preferable alternative to wage (dependent) employment, are an important influence on individual self-employment propensities. The key question here is whether among people with given demographic characteristics, attitudes towards self-employment have changed in different ways in the two countries in recent years.

It is important to note that these factors hypothesised to influence self-employment may well themselves be inter-related. Thus for example, the extent and nature of government labour market policies (factor 5) are themselves likely to vary with the economic cycle (factor 1). Similarly, government policies and the institutional or legislative framework (factor 6) may both be influential in shaping the workforce's attitudes to and perceptions of self-employment (factor 7). A full explanation of the determinants of self-employment, therefore, would also need to take account of these complex interactions. For the moment, however, our goal is less ambitious, and we now briefly consider some of the evidence on each of these factors.

5.2.1 The economic cycle and the role of unemployment

Several authors (e.g. *Bögenhold and Staber 1990*) argue that labour market pressure in general and unemployment in particular, together with slow or stagnant rates of economic growth, have played an

important recent role in many countries in contributing to the slowing or reversal in the previous decline in self-employment. From this perspective, an increase in self-employment is seen largely as a response to sustained mass unemployment and lack of opportunities in dependent (wage) employment. Others have argued (see, for example, the discussion in *Meager 1992a* and *Meager 1992b*) that whilst "unemployment push" may have played an important role in influencing recent self-employment trends, the dynamics of self-employment are more complex than this, and that there is also a relationship between self-employment and unemployment or the economic cycle which acts in the *opposite* direction. That is, high levels of unemployment and/or slow economic growth may well act as a dampening factor on self-employment in so far as they are associated with poorer market opportunities and higher failure rates for small businesses.

More specifically, it has been argued that simple correlations between self-employment and unemployment at an aggregate level (such as those presented in *Bögenhold and Staber 1990*) fail to establish the "unemployment push" hypothesis, for two important reasons:

- firstly, the evidence is typically presented as a correlation between the self-employment *rate* (i.e. self-employment as a proportion of total employment) and unemployment. As we have already suggested, however, (see section 2.1 above), whilst the use of the self-employment rate is appropriate for the type of cross-sectional analysis presented in this report, it is much less appropriate when used in time-series analysis such as that presented by Bögenhold and Staber. The main reason is that any observed (positive) correlation between the self-employment rate and unemployment is likely to be dominated by the familiar cyclical relationship between unemployment and the *denominator* of the self-employment rate (i.e. total employment). In other words any such correlation may simply be telling us the unsurprising fact that employment fluctuates pro-cyclically, rather than the more interesting fact (which is the core of the unemployment push hypothesis) that self-employment fluctuates counter-cyclically.

- Secondly, the evidence in support of this hypothesis is typically presented in terms of the relationship between unemployment and the total *stock* of self-employment, and is thus not strictly appropriate for testing a hypothesis such as the unemployment push hypothesis, which is essentially a hypothesis about *flows*. In particular, it is a hypothesis about *inflows* into self-employment which argues that as unemployment increases, and/or as economic growth slackens, *more people will enter self-employment.* In principle, then, it is clear that this hypothesis can be examined only through the use of inflow data, and it is clear, moreover, that changes in the stock of self-employment are influenced by both inflows to, and outflows from self-employment. Thus even if the unemployment push hypothesis were valid, the overall impact on the level of self-employment is a net effect from inflows and outflows and cannot be predicted *a priori* (see also the discussion in *Meager 1992a*).

When both factors are taken into account, in the UK and German cases, the picture revealed is less clear than that suggested by Bögenhold and Staber. Thus, the evidence in *Meager 1992a* suggests that if the *level* rather than the rate of self-employment is used in the analysis, there is *no* clear positive relationship over time between self-employment and unemployment of the type claimed by the unemployment push hypothesis. In both countries it would appear that the relationship was predominantly a *negative* one both for the period 1970-79 (albeit a relatively weak relationship in the UK case) and for the post-1983 period, and that only during the recessionary period 1979-83 did the self-employment level increase as unemployment increased.

These findings are consistent with the notion that the underlying relationship between the self-employment stock and unemployment is a negative one. In other words, during most of the post-1970 period, any unemployment push tendency has *been more than outweighed* by the dampening effect of high unemployment/low economic growth on self-employment. In so far as the unemployment push effect dominated, it did so only during the few years of severe recession following 1979. Also of interest is the fact that in both countries the underlying negative relationship appears to have shifted upwards between the pre-1979 and the post-1983 period. That is, in both countries, a given rate of unemployment was associated with a much higher level of self-employment after the recession than was the case before the recession.

The notion that any underlying relationship between unemployment and self-employment is a negative one in both countries is further supported by the regional data presented in our cross-sectional analysis in Chapter 3, where it is clear that regions with higher than average unemployment rates tend to have lower than average

self-employment rates, and *vice versa.*

As suggested above, however, this does not mean that there is no validity in the basic argument underlying the unemployment push hypothesis, but rather that flows data are required to examine this hypothesis adequately. Unfortunately there is a lack of adequate flows data on a time-series basis, although the position is somewhat better in this respect in the German case than in that of the UK. Preliminary analysis with the German flows data (see *Meager 1991c*) shows that there is, in fact, a reasonably clear positive relationship between unemployment and *inflows* to self-employment in the post-1970 period, and that the positive relationship between unemployment and the inflows to self-employment *from unemployment* is even clearer.

It would seem, then, that while there is support for the notion that high unemployment may constitute a "push" factor for some groups of the workforce to enter self-employment, this does not imply that the overall level of self-employment is itself highly responsive to unemployment and economic conditions (except perhaps in periods of severe recession), since the level of self-employment also depends on what happens to outflows from self-employment, which are also likely to increase as unemployment increases (the rapid increase in business failures during the current - 1990-92 - recession in the UK is a case in point).

From the evidence available, our verdict is that in so far as unemployment and the economic cycle have a role in explaining the differences between the UK and German self-employment trends, it is a more complex role than that suggested by proponents of the unemployment push hypothesis. In particular, taking the post-1979 period, when differences in the UK and German trends are particularly marked (see Figure 1 in Chapter 1 above), it seems that any effect during 1979-83 was due to the deeper recession experienced by the UK than in Germany; i.e. the unemployment push effect was temporarily dominant during this period, but this occurred to a greater extent in the UK than in Germany. In the 1983-88 period, however, any effect was due to the faster economic growth experienced by the UK than by Germany; i.e. in this period any unemployment push effect was more than outweighed by the positive effects of improving economic conditions on the business chances of the self-employed, and this was true to a greater extent in the UK than in Germany.

5.2.2 Structural change

As was noted in Chapter 3, during the 1980s in both countries, those sectors with the fastest-growing employment levels (mainly services) tended to be those with the highest self-employment rates, whilst those with declining or slow-growing employment levels (mainly manufacturing) tended also to have relatively low self-employment rates.

This pattern suggests that in explaining recent differences in the overall self-employment experience of the two countries we should ask: how far are differences in the aggregate rate of growth of self-employment in the two countries attributable to differences between the two countries in the rate of structural change? A plausible hypothesis might be that the UK's considerably faster rate of growth of self-employment in the 1980s was at least partly the result of the fact that the relative increase in service sector employment and decline in manufacturing employment was rather greater in the UK than in Germany during this period.

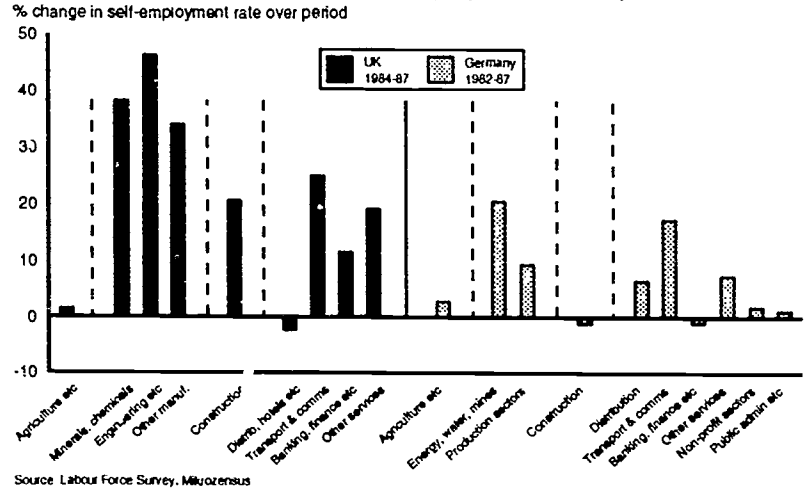
The data suggest, however, that inter-country differences in the rate of growth of self-employment *within* individual sectors were a more important contribution to the overall pattern than were differences in the rate of structural change. In the UK case, for example, it is clear that without significant growth in self-employment rates within sectors, the overall self-employment rate would have changed relatively little. In particular (see also *Meager 1991a*), taking the 1984-87 period, actual UK self-employment grew from 2.6 to 3 million, but if 1984 self-employment rates are applied to total 1987 employment levels in each of the ten broad industrial sectors, the self-employment increase attributable simply to changes in the sectoral balance is only some 64,000 out of an actual increase over the period of 377,000. In other words, if self-employment rates had remained constant in each of these ten sectors, then the economy-wide self-employment rate would have increased only marginally, from 11.2 to 11.3 per cent, as a result of the overall sectoral shift from manufacturing to services; whereas the self-employment rate in fact grew to 12.6 per cent over this period.

As shown in Figure 22, UK self-employment rates grew strongly in nearly all sectors over the 1984-87

period, and in all sectors the increase was greater than that recorded in Germany *over the slightly longer period 1982-87*. In particular, it is of interest to note the differences in construction and financial services, where self-employment rates grew in the UK, but actually declined slightly in Germany over the period.

It is of course possible, given the broad level of sectoral aggregation at which these calculations have been made, that the observed changes result from structural changes in the balance of sub-sectoral employment within sectors, rather than behavioural changes within sectors. Even when behavioural changes are the most likely candidates, moreover, it is unclear how far they result from *demand* side changes (e.g. changes in employer behaviour, such as an increased tendency to use sub-contractors etc - considered further in section 5.2.4 below), and how far they result from *supply* side changes (such as changes in individual propensities to consider self-employment as a desirable form of work - considered further in section 5.2.7 below).

Figure 22: Changes in self-employment rates by sector



Source Labour Force Survey, Mikrozensus

On the basis of the evidence so far presented, however, it would seem that differential changes in the broad sectoral balance of employment between the countries cannot explain more than a small part of the differences between the two countries' overall self-employment trends. A fuller explanation for the reasons for differential growth rates of self-employment between the countries must be sought, therefore, *within* individual sectors and industries.

5.2.3 Demographic changes

We have seen in previous chapters that self-employment rates in both countries vary systematically with *gender* (men having higher self-employment rates than women in both countries); with *age* (older workers having higher self-employment rates than younger in both countries); and with *ethnic origin/nationality* (although in this case the precise pattern is difficult to compare between the countries). A key question, therefore, is whether (differential) changes in the overall demographic structure of the workforce in the two countries have significantly contributed to overall differences in self-employment trends.

As far as *gender* is concerned, the overall trend in both countries towards increasing female participation in the workforce, would, *ceteris paribus*, given that female self-employment rates are considerably lower than male rates (see section 2.1.1 above), tend to reduce overall self-employment rates in both countries. The picture is of course, more complex than this, since there is also a tendency, as we have seen, for female self-employment rates to increase rather faster than male rates in both countries. Nevertheless, we can ask whether and how (assuming no change in gender-specific self-employment rates) the overall shift in the sex structure of the workforce would have affected aggregate self-employment rates in recent years.

Available data[1] show that during the 1980s the overall shift towards female employment was rather greater in the UK than in Germany. Thus between 1981 and 1989 the female share of total employment grew from 40.0 to 43.0 per cent in the UK, but from 38.1 to 39.1 per cent in Germany. This would suggest that, given a similar difference between male and female self-employment rates in the two countries, if those self-employment rates had remained constant over the period, aggregate self-employment would have declined in both countries, but to a greater extent in the UK. In practice, however, we have seen that self-employment rates *grew* in both countries, but to a much greater extent in the UK. This suggests that any effect of the

[1] Published data from the European Labour Force Surveys, for example.

changing sex structure of employment was swamped by the effect of changing sex-specific self-employment rates. Indeed, as shown in Figure 7 above (Chapter 2), both male and female self-employment rates grew strongly in the UK, whilst in Germany the female rate grew slightly and the male rate hardly at all.

Turning to *age* data, we find that in Germany over the period 1980-89, total self-employment grew by some 156,700. If we apply 1980 age-specific self-employment rates to the 1989 age-specific employment totals, however, we find that with no change in age-specific self-employment rates, total self-employment would have grown only by some 24,700. That is, on this very crude calculation, only about 16 per cent of the total change in self-employment over the period can be attributed to changes in the broad age structure of the employed workforce. For the UK case, we have data only for the 1984-87 period, but the picture is quite similar, i.e. only about 17 per cent of the actual growth in self-employment over this period (of nearly 400,000) would have occurred if age-specific self-employment rates had remained constant.

As far as the *ethnic minority/foreign* component of the workforce is concerned, changes in its relative importance also do not contribute much to an explanation of Anglo-German differences. Thus in the UK, whilst ethnic groups have increased their representation among the employed during the period, the overall self-employment trend is dominated by the growth in the self-employment rate among whites, whilst the growth among Asians is partly offset by the decline among Afro-Caribbeans. In Germany by contrast, the "foreign" component of employment has increased, and simultaneously the self-employment rate amongst this group has strongly increased, and as shown in *Kaiser and Dietrich 1990*, without this effect the overall self-employment rate in Germany would have continued to decline during the 1980s. Hence if anything, the changing ethnic/nationality structure of the workforce in Germany resulted in a *faster* growth in self-employment than would otherwise have occurred, and thus would appear to have contributed to *reducing* the difference between the two countries' overall self-employment growth rates, rather than increasing it.

Overall then, on the basis of the (limited) evidence available, we would conclude that differential changes in the demographic structure of the workforce can at most be a relatively small part of the explanation for the observed differences in aggregate self-employment trends between the two countries, and the bulk of those differences reflect changing self-employment propensities *within* specific demographic categories.

5.2.4 Behaviour of employers

In the 1980s, there was considerable and heated debate in the UK (at least in the academic community - see for example *Atkinson and Meager 1986a* and *Pollert 1988)* about firstly, the extent to which employers were changing the structure of their workforces, with a relatively greater use of "peripheral" labour employed on "atypical" terms and conditions of employment, and secondly in so far as such changes were occurring, how far they could be seen as part of a coherent managerial strategy to construct a "flexible firm" of the ideal type characterised by *Atkinson 1985*.

It is not our intention here further to fan the flames of this increasingly sterile debate - suffice it to note that the balance of empirical evidence suggests that such changes *did* occur to some extent (*Hakim 1990*, *McGregor and Sproull 1991*), although different data sources have given rise to different conclusions about the extent of such change (see *Marginson 1989*, and *Morris and Wood 1991*, for discussion of the analytical issues arising from the different empirical approaches adopted to these questions)[2]. The evidence suggests, moreover, that such changes did not represent for the most part a major strategic change to personnel practice (with the possible exception of the public sector, subject to the influences of privatisation and compulsory "contracting-out" of certain service functions). Rather they were a continuation of already present trends, and at least in part explicable by cyclical factors and structural change in employment, as pointed out by many

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[2] Given the intensity of that debate, however, and some widespread misconceptions about the "flexible firm" model developed at IMS in the early 1980s among commentators who appear either not to have read the original sources on which the debate was based, or to have quoted those sources in a highly selective fashion, the following quotation relating to this model, taken from a recently published empirical study of the subject has some relevance:

> "It is worth reiterating that the development of this model was based on case studies of establishments which were known to have introduced changes in work organisation, and no claims were made in the original IMS reports regarding its generality" (*McGregor and Sproull 1991*, p.80).

of the early commentators on this subject (*Meager 1986* p.8, *Atkinson and Meager 1986a* p.22, for example). In so far as they did represent a new approach to personnel planning and deployment, however, the balance of the evidence suggests that they were *ad hoc* rather than strategic, confirming the argument in *Atkinson and Meager 1986b*, that

> "Although the observed changes were widespread, they did not cut very deeply in most of the firms, and therefore the outcome was more likely to be marginal, *ad hoc* and tentative, rather than a purposeful and strategic thrust to achieve flexibility. Short-term cost saving rather than long-term development, dominated management thinking, save where substantial new investment was involved" (*Atkinson and Meager 1986b*, p.26).

For the present discussion, however, the key point is whether, in so far as such changes occurred during the 1980s, they involved a greater use of self-employed or sub-contract labour by large employers, and if so, whether this trend was more marked in the UK than in Germany. It is certainly the case that much more has been written on this topic in the UK than in the German context, but this may reflect the interests and obsessions of UK commentators and social scientists, rather than any real empirical difference.

The whole question of sub-contracting and similar relationships is a complex one, and it is clear that the research to date has done little more than scratch the surface of this area (for a useful discussion of the conceptual issues involved see *Blackburn 1991*). From our point of view, it seems helpful to distinguish between three types of relationship between the self-employed and (larger) firms/employers, all of which have been discussed in the recent debates on this topic, namely:

- "*sub-contracting*" *per se*. That is, when an employer contracts with another firm, which might not, incidentally, be a *small* firm, although it is often assumed in the literature that this is the case;

- *"individual sub-contracting", "disguised employment" or "Scheinselbständigkeit"*. That is, when an employer engages a self-employed person to undertake work, which could equally be undertaken by someone under a regular employment contract (we include here "homeworkers" in so far as they have self-employment status). It is important to note that many workers in this category are in reality highly *dependent* on the organisation for which they work, and do not correspond to the stereotypical notion of an entrepreneurial, independent self-employed business person - see *Rainbird 1991* and *Rubery and Burchell 1991* for discussion of this issue of the "dependency" of the nominally self-employed;

- *franchising*, where a franchisee contracts with a franchisor to operate a business, typically according to a standard business format identified by a product or trademark, the rights to which are owned by the franchisor - see *Felstead 1991a* for a more detailed definition of franchising.

In the UK, evidence from representative surveys of employers suggests that use of relationships of the first two types has increased in the 1980s. Thus with regard to sub-contracting, *McGregor and Sproull 1991* report that amongst their surveyed employers (a sample of almost 900 establishments, including the public sector), for all types of sub-contracted activity identified, the proportion of establishments using sub-contractors[3] increased between 1983 and 1987. For most types of activity, the increases were relatively small, but there were large increases in the proportion of establishments reporting that they bought in cleaning or security services. It is of course not possible to estimate how far such work generated new sub-contractors, and how far it went to existing firms, and in so far as it did lead to the creation of new sub-contracting firms, the extent to which self-employed people are involved is unknown. Any effect on self-employment is, however, likely to be in the direction of increasing it, and it is interesting to note that the occupational group "catering, cleaning and other personal services" also stands out as recording disproportionately large inflows into self-employment during this period according to the Labour Force Survey (*Meager 1991a* pp. 58-60).

As far as the second category (the use of self-employed individuals) is concerned, the same survey (see *Wood and Smith 1988*, and *McGregor and Sproull 1991*) suggests only a modest increase over the 1983-87 period

[3] Defined as firms or self-employed individuals with two or more employees.

(with 26 per cent of employers using such workers in 1987 compared with 18 per cent in 1983). Moreover, of those firms making use of such workers, there was a (small) net balance of firms whose use had increased over the period. Thus, although as pointed out by *McGregor and Sproull* it is somewhat hazardous to attempt to estimate the quantitative impact of such changes on the level of self-employment, it is clear that any such impact would have been a positive one. It is of interest to note, furthermore, that the survey evidence suggests a particularly high incidence of use of self-employed labour in the UK construction industry, an industry in which, as shown above, the self-employment rate increased strongly during the 1980s, and for which we have, moreover, independent evidence of:

> "The changing nature of employment from direct-labour to self-employment. This was accelerated during the recession [*of the early 1980s*] when firms shed directly-employed workers, and turned to labour-only or supply-and-fix subcontracting to reduce overhead costs" (*Bennett et al. 1988* p.19).

Turning to the third category, franchising is a highly specific form of "controlled self-employment" *(Felstead 1991a)*, which has received some attention in the UK literature. The use of franchising has undoubtedly increased during the 1980s, and some of those who (correctly) argue against the identification of the UK's self-employment growth in the 1980s with an "entrepreneurial renaissance", use the documented growth in franchising as a key element of their argument (see, in particular, *Felstead 1991a, 1991b, 1991c*). The main problem with this argument is that the most generous estimates of the expansion of franchising during the 1980s suggest that it can have accounted for no more than a tiny proportion of the overall growth in self-employment during this period. We have seen that recorded self-employment grew by some 1.5 million during the 1980s in the UK. *Felstead 1991a* estimates that there were some 17,000 franchised outlets in existence at the end of the 1980s. Even if we (generously) assume that each outlet accounts for an average of two self-employed people, and that none of these franchises existed before the 1980s, this implies that only about 0.2 per cent of total self-employment growth during the 1980s can be attributed to franchising.

Unfortunately, despite some debate in the German literature on these topics, and the coining of the term "*Scheinselbständigkeit*" (or "false" self-employment), to describe those self-employed people who work in a (largely) dependent relationship with a firm or employing organisation, there is little hard evidence on the subject. *Paasch 1990* defines the "dependently self-employed" as:

> "Economically active people who work *de facto* as dependent employees, and who cannot be distinguished from dependent employees by virtue of their social situation, but who are in a formal, legal sense treated as self-employed" (*Paasch 1990*, p.130; our translation).

German commentators have argued, moreover, that whilst this kind of "dependent" self-employment is by no means a new phenomenon,

> "Since the early 1980s this kind of employment (lying outside employment law) has begun to expand in many occupations and sectors" (*Paasch op. cit.*, p.130; our translation).

In particular, it has been argued that activities particularly affected by this development are construction[4], goods transportation[5] and external advertising and sales activities in various service sectors (in these latter categories, franchised activities are also included)[6].

None of the German research to date provides clear quantitative evidence on this presumed growth in dependent self-employment, although it has been suggested[7] that several hundred thousand people may be

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[4] See *Mayer and Paasch 1986, and 1987.*

[5] See *Mayer, Paasch, and Ruthenberg 1988.*

[6] See *Pfau 1986.*

[7] See *Mayer and Paasch 1990*, p.79 ff.

involved (or anything up to 10 per cent of those recorded as self-employed), and that the trend is increasing, such that much of the recent growth in aggregate German self-employment is attributable to this category.

In the absence of further reliable evidence (and in particular without evidence from representative firm surveys in the German case), however, we must remain agnostic. Thus whilst acknowledging that these forms of self-employment appear to have increased in both countries during the 1980s, it is not possible to ascertain either how much of the total growth in self-employment in each country they account for, or whether they help to explain the difference between the trends in the two countries (e.g. because such developments may have been more prevalent in the UK). Some of the evidence in Chapter 3 (section 3.2.1) is, however, consistent with the notion that such changes may have occurred to a greater extent in the UK than in Germany (e.g. the finding that the proportion of self-employed people without employees has fallen strongly in the UK, but not in Germany; and the finding that this occurred particularly strongly in those UK sectors in which significant switches from employee to self-employed status are commonly believed to have occurred).

5.2.5 Government policies

In both countries during the 1980s, considerable importance was placed on the development of policies to encourage the growth of the small-business sector, an emphasis which was at least in part inspired by the apparent evidence (especially from the USA), that small businesses constituted an important engine for employment growth. It should however be added, that in the German case in particular, government support for the *Mittelstand* (a specifically German concept which corresponds to the notion of a social and economic stratum which is particularly associated with small and medium-sized enterprises), long predates the 1980s, and indeed would appear at least in part to have *political* as much as economic roots, in the sense that a thriving *Mittelstand* has often been perceived as a bulwark against the re-emergence of political extremism in post-war Germany.

It is not our intention here to provide a detailed analysis of small-business policy in the two countries. Such an analysis has in any case been conducted in a recent Anglo-German study (*Bannock and Albach 1991*). From the perspective of the present report, however, it is worth noting that there are, in both countries, two distinct (albeit related) strands of small-business policy. As explained in Chapter 2, our primary interest in this study is in *self-employment as a labour market status*, and we are, therefore, here concerned with these types of policies only in so far as they might help to explain the differential trends in self-employment in the two countries in recent years.

In practical and analytical terms, however, it is extremely difficult to separate these two policy strands, namely on the one hand those policies which are primarily *labour market* based, and which attempt directly to influence the volume and composition of employment, and on the other hand those which form part of a *wider range of policy initiatives* aimed at the small-business sector in general, but which may also have some labour market impact. *Johnson 1990* makes (in the UK context) a useful distinction between those small-firms' policies which can be seen as having primarily an *industrial policy* rationale, and those policies which fall within the sphere of employment policy or *labour market policy* (a similar distinction can be found in the German context between economic and structural/regional policy on the one hand and employment policy on the other hand). Evaluation of the combined effects of these two types of policies is further complicated by the fact that not only do they tend to have variable objectives, but their design and implementation often tend to lie within different spheres of ministerial responsibility (typically there is a broad - *horizontal* - division between policies falling within the broad scope of the labour or employment ministry, and those lying within the broad scope of the economics or industry ministry[8]), and there is a further - *vertical* - distinction between national policies and local or regional initiatives.

[8] Under the recent restructuring of UK employment and training policy, and the creation of Training and Enterprise Councils or TECs (see *Meager 1991d*), a greater coherence has been introduced into UK government policies in these areas, but it remains the case at the time of writing that some small-firms' policies are in the hands of the TECs (who contract with the Employment Department), whilst others remain with the Department of Trade and Industry.

The Anglo-German study referred to above concentrates for the most part on programmes which fall into the industrial policy sphere, and the general conclusion of the study is that in crude terms the emphasis of UK policy is on promoting start-ups (or in terms of our study, *encouraging people to enter self-employment*), whilst German policy gives more emphasis to the support of existing small firms (i.e. to *helping people to remain in self-employment*). In particular, the authors conclude:

> "These schemes [*large-scale soft loan schemes*] and the training system are the main planks in German policy and may help to explain why German SMEs have been able to grow to a larger average size, though the role of SME policy as against historical, institutional and cultural forces, should not be exaggerated. British policies, particularly in taxation, have probably helped to promote start-ups, but they have been less effective in promoting growth" (*Bannock and Albach 1991*, p.69).

Whilst we would concur with this general conclusion, it is worth noting that, in drawing up their "balance sheet" of policies in the two countries, the authors have omitted the main German labour market programme for encouraging business start-ups among the self-employed (i.e. the so-called *Überbrückungsgeld* support, which is paid according to para. 55a of the Employment Promotion Act or AFG - *Arbeitsförderungsgesetz*), but have *included* the corresponding British programme (the Enterprise Allowance Scheme), which indeed they identify as the largest small-business support programme (in financial terms) in the UK.

The German programme (which like the British one pays an allowance to unemployed people who enter self-employment, in lieu of their normal unemployment benefit - see *Kaiser and Otto 1990* for details) is much smaller than its UK equivalent (it peaked in 1988 with nearly 18,000 recipients of assistance under the programme, whilst the Enterprise Allowance Scheme peaked in the same year with over 100,000 participants). It has also been in existence for a rather shorter period than the UK scheme (they began in 1986 and 1982 respectively). However, (as suggested in Chapter 4 above), it is likely that the overall flow from unemployment to self-employment is also considerably smaller in the UK than in Germany, and it is not possible, therefore, to conclude that *Überbrückungsgeld* recipients are a negligible proportion of newly self-employed people in Germany in recent years. Thus although Bannock and Albach's conclusions with regard to the relative emphasis of UK and German policy are clearly correct ones, they may have somewhat underestimated the extent of German policy towards start-up support.

Evaluating the impact of policies such as the Enterprise Allowance Scheme (EAS) and *Überbrückungsgeld* is extremely difficult, since the number of participants in the programme may be a poor indicator of the policy's net impact. In particular, it is likely that a certain proportion of participants will be *"deadweight"* from the point of view of policy impact; that is, they will be unemployed people who would have entered self-employment *anyway (irrespective of the policy's existence)*, but who are eligible for and claim support under the policy. Furthermore, there may be *"displacement"* effects, due to self-employed people subsidised under the policy competing with and driving out of business some existing (unsubsidised) businesses[9].

The evaluation studies so far available for *Überbrückungsgeld* (see *Kaiser and Otto 1990*) have been unable to estimate the extent of these two effects (displacement and deadweight), but crude estimates of these effects, based on survey data for the EAS in the UK, suggest (see *Owens 1989*) that in the short-run at least (the first year) the combined effect may be as large as 73 per cent. That is, for every 100 participants in the scheme, once account is taken of those who would have become self-employed anyway, and those who are driven out of business by the new competition, the net increase in self-employment (and reduction in unemployment) is only 27. Nevertheless, given the relative size of the two programmes, even if the deadweight and displacement effects for *Überbrückungsgeld* were zero (which is extremely unlikely[10]), EAS would have had a greater effect on the absolute and relative size of the inflow into self-employment in the UK, than did *Überbrückungsgeld* on the corresponding inflow in Germany.

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[9] *Lindley 1987* discusses the methodological issues involved in conducting such evaluations.

[10] Although the estimates presented in *Meager 1991c* suggest that *Überbrückungsgeld* may have performed rather better than the EAS, at least in terms of short-term deadweight.

It is interesting to note that the self-employment flows data for the two countries (discussed briefly in Chapter 4 above) are broadly consistent with our interpretation of policy emphasis in the two countries. Thus, in crude terms it would appear that in the UK the *inflows* to (and also, to a lesser extent, the *outflows* from) self-employment are larger (in both absolute terms, and relative to the overall level of self-employment) than the equivalent flows in Germany.

That is, the *inflows* are relatively large in the UK, where there is a greater policy emphasis on encouraging people to enter self-employment - especially unemployed people (and it is interesting to note from the results in Chapter 4, that whereas the numbers of people moving from *dependent employment* to self-employment are rather similar in the two countries, the numbers moving from *unemployment or economic inactivity* to self-employment are much larger in the UK than in Germany). On the other hand the *outflows* are also relatively large (and appear to increase a few years after an increase in inflows) in the UK, which unlike Germany, appears to place rather less emphasis on supporting the existing self-employed, relatively large numbers of whom are therefore likely to leave self-employment (and it is again of interest to note that a higher proportion of outflows from self-employment in the UK than in Germany enter unemployment or economic inactivity).

What then can we say about the contribution of policy to the overall development of self-employment in the two countries? Our tentative conclusion is that the (limited) evidence is consistent with the hypothesis that UK policy has tended to increase the numbers of people (particularly unemployed people) becoming self-employed, whilst German policy has been better at maintaining the existing self-employed - the greater stability of self-employment in Germany stands out from all the data sources available.

UK self-employment has increased strongly, mainly as a result of large increases in the annual inflows to self-employment which, during the growth period of the 1980s, tended to exceed the annual outflows (although the latter were nevertheless also increasing through this period, and were relatively large in comparison with Germany). In Germany by contrast, the earlier decline in self-employment (up to the late 1970s) was arrested in the 1980s, as inflows to self-employment began to increase (albeit less strongly than in the UK), but *apparently without* a corresponding increase in self-employment outflows (see also *Meager 1991c*), and it seems likely that the more extensive support policies for existing small businesses in Germany played a role here. The greater instability of self-employment in the UK, and the relative absence of support policies for the existing self-employed in periods of economic difficulty, may well be further confirmed as the net impact of the most recent UK recession (1990-92) on self-employment and small businesses becomes clearer.

5.2.6 Institutional and legislative framework

An adequate account of the institutional and legislative environments facing the self-employed and small firms in the two countries would require a whole book in itself[11], and we restrict ourselves here to a brief summary of some of the key differences which seem to us to be relevant to the overall development of self-employment. In broad terms, we would argue that the key institutional differences between the two countries tend to act in the same direction as, and reinforce, the policy differences discussed above - i.e. they tend to result in UK self-employment being more "dynamic" and more unstable, with higher rates of both entry and exit than its German counterpart.

Thus, it would appear that despite trends towards deregulation in the 1980s, the degree of regulation with regard to entering certain occupations on a self-employed basis, and with regard to setting up a business in general, remains higher in Germany than in the UK. This is particularly the case in the *Handwerk* or crafts sector which, as we have already noted covers a much wider range of occupations and activities than its name might suggest (from bakers and hairdressers to dispensing opticians) - for an account of the

[11] For an excellent attempt at such an Anglo-German comparison, albeit confined to the crafts sector of small firms, see *Doran 1984*.

complexities of regulation[12] in this sector, see *Doran 1984* and *Streeck 1986*. This sector still accounts for a significant (although declining) proportion of self-employment in Germany - *Gout and Büchtemann 1987* estimate that some 20 per cent of non-agricultural self-employment is covered by the *Handwerk* legislation. In broad terms, to set up in self-employment in a *Handwerk* activity requires one (with some exceptions) to be a *Meister* in the occupation concerned (or to employ such a *Meister*), which in turn means that one must have served an apprenticeship in the occupation, and have certain specified post-apprenticeship experience and training. There is no similar legal requirement for most of the comparable occupations affected in the UK.

This suggests that to a greater extent in Germany than in the UK, entry into self-employment in such highly regulated occupations is itself likely to be dependent on a prior and longer-term career choice of entry to the occupation itself. Thus, for example, in so far as entry to self-employment is responsive to short-term cyclical fluctuations in the economy (as discussed in section 5.2.1 above), we might expect that responsiveness to be less in a more regulated environment such as the German one (or alternatively that it would tend to be crowded into the least regulated activities with the lowest barriers to entry).

Further institutional differences reinforcing these patterns may also be found in the structure and operation of financial capital markets in the two countries. In very crude terms, it is plausible that it would have been relatively easier for the potentially self-employed to obtain start-up finance in the UK than in Germany during the 1980s. Several factors support this hypothesis - firstly, it has been well documented that the UK experienced something of a "credit boom" in the 1980s, which meant that banks and other financial institutions were keen to lend money either directly to (actual or potential) small businesses, or indirectly, through loans for consumption or house-purchase purposes, which could then be relatively easily "recycled" for business start-up purposes.

This contrasts with the relatively "tighter" credit environment in Germany during the same period, and was reinforced in the UK's case by the second factor - namely the relatively large and rapidly growing rate of home-ownership in the UK which, when coupled with a house-price boom during the period, meant firstly that there was a growth in personal housing wealth, which could be used as collateral for borrowing for business start-ups, and secondly, that capital gains in the housing market often leaked into other areas (such as consumption, or financing small businesses), through a process of "equity withdrawal".

Thirdly, it is also well documented that the "venture capital" industry specialising in high-risk financing of new and small businesses, was much more developed in the UK than in Germany, and expanded strongly during the 1980s.

To summarise, a comparison of the institutional (and policy) environments in the two countries suggests that in a crude sense, it may have been "harder" to become self-employed in Germany than in the UK - because of a greater degree of regulation over many types of occupations and businesses, because of a tighter lending environment, and because there was less government policy emphasis on small firm start-ups, consistent with the evidence suggesting relatively lower inflow rates to self-employment in Germany than in the UK.

On the other hand it also seems likely that those people who did enter self-employment in Germany during this period, may *on average* have been better placed to survive in self-employment than their UK counterparts - because many of them would have been required to be qualified/trained in the relevant occupation, because they may have had their proposed activities more tightly scrutinised by a lending institution, because, having entered self-employment, they faced a wider range of central/local government-funded small business support and advice, and possibly also because those of them entering more regulated sectors (such as *Handwerk*) may also have enjoyed a more protected, less crowded market for their goods/services. This is consistent with the evidence that those entering self-employment in Germany were more likely to have come from dependent employment than from unemployment and economic inactivity (and the former group are likely to be better off in terms of both financial and relevant human capital), and

[12] The multiplicity of laws and regulations affecting such activities include the *Handwerksordnung*, the *Gewerbeordnung*, and a variety of *Arbeitsschutzgesetze*, amongst others.

with the evidence that outflows are apparently less responsive to recent inflows in Germany than in the UK.

5.2.7 Attitudinal change

Has there been a change in attitudes and/or preferences among the workforce with regard to "working for oneself" rather than for an employer, and are there differences between the UK and Germany in this respect, which might have contributed to the observed differences in self-employment trends? Clearly, given the difficulty of measuring "soft" concepts such as individual attitudes and perceptions, there is little direct evidence on this question. *A priori*, we might expect to find such a change having occurred to a greater extent in the UK than in Germany. It is undeniably the case, for example, that under the Thatcher government from 1979, considerable emphasis was placed on fostering and supporting the notion of an "enterprise culture". In the light of this emphasis, therefore, we might expect any resulting attitudinal change in the workforce to be more favourable than previously towards the option of being self-employed.

The only statistically representative evidence on this question for the UK, however, does not support such an expectation. The evidence, which is drawn from the annual British Social Attitude Surveys from 1983 to 1989 (*Blanchflower and Oswald 1990*), suggests that there was no "Thatcher-inspired blossoming of entrepreneurial spirit" over this period. The proportion of survey respondents who had seriously considered the possibility of becoming self-employed remained low and almost constant throughout the period (between 15 and 17 per cent of the sample).

There are apparently no comparable data for Germany. Despite considerable discussion of the growth in "alternative" self-employment (*Vonderach 1980, Kaiser 1987*) among (mainly young) people dissatisfied with conventional, hierarchical and capitalistic employment relationships, the empirical evidence of such developments is largely confined to case studies of co-operatives and other small-scale organisations in the "alternative scene" in Germany. There is no quantitative evidence to suggest that these activities represent a major change in attitudes in favour of self-employment among an important part of the workforce.

In any event, given the UK evidence, it would seem that it is extremely unlikely that attitudinal change is a major part of the explanation of the differential self-employment trends in the two countries. If even in the UK, under the influence of the Thatcher government and the so-called "enterprise culture" there has been no observable shift in workforce attitudes towards self-employment, then it is clear that even if there has been some shift in this direction in Germany, this cannot explain the *faster* growth of self-employment in the UK.

5.3 Concluding remarks

We have examined a variety of inter-related factors which might contribute to the very different recent trends in self-employment in the UK and Germany. The evidence suggests that no single factor can explain these differences. The profile of the self-employed in the two countries is very similar, but in both countries the self-employed are an extremely heterogeneous group, and it is likely that the different types of self-employed people are subject to very different influences. Many of the factors considered above have played some role (albeit at different times and to different extents) in explaining recent developments in self-employment. Most of the factors were at work in both countries, however, and what seems to distinguish the UK's experience from that of Germany, is the simultaneous conjunction during the 1980s of many of these factors in a direction favourable to self-employment growth.

Thus the faster growth of UK self-employment seems to be at least partly due to *cyclical factors* (with a deeper recession in the early 1980s, and stronger economic growth after the recession than in Germany). *Structural change* and *demographic change*, whilst generally acting in a direction favourable to self-employment growth in both countries, contribute little to an explanation of the *differential* self-employment growth in the two countries, and the latter would appear to be associated with more rapid growth of self-employment propensities *within* individual sectors or demographic categories in the UK than in Germany. This in turn may have been partly the result of the *changing behaviour of large firms and employers* (the evidence here is mixed, but there are more specific examples of the greater of use of self-employed labour by employers in the UK than in Germany - e.g. in the construction industry, or as a result of privatisation/contracting-out in the public sectors). Differences in the *institutional environment* (with entry

into self-employment often tending to be more regulated in Germany than in the UK), together with differences in the *emphasis of public policy* towards the self-employed and small businesses (with UK policy more slanted towards start-up support), are also likely to have contributed to the greater dynamism of self-employment in the UK than in Germany, but it seems likely that the counterpart of this may be a greater stability of the self-employment sector and rather better survival rates in Germany than in the UK. There is, by contrast, little or no evidence of the UK's self-employment growth having been fuelled by a major *change in workforce attitudes* towards self-employment and "enterprise".

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APPENDIX Self-employment in the former GDR and in the "new *Länder*"

1 Self-employment in the GDR

The GDR's centrally-planned economy led to very different conditions for self-employment from those prevailing in the former Federal Republic. Individual property rights to business capital were severely limited, and the scope for entrepreneurial decision-making was heavily restricted by the constraints of state planning. Raising credit, and the acquisition and disposal of shares in property, real estate and the means of production, were possible only within narrow, state-controlled boundaries. "Self-employment" in the former GDR was not comparable with self-employment under the conditions of a market economy, implying the exercise of a degree of legal and economic autonomy.

Table 1: Self-employment in the GDR, 1955-1989

Year	Total employment (excluding apprentices)	Self-employed*	Self-employment rate+
	Thousands		%
1955	7,722.5	1,579.2	20.4
1960	7,685.6	423.7	5.5
1965	7,675.8	340.1	4.4
1970	7,769.6	268.2	3.4
1975	7,947.6	196.6	2.5
1980	8,225.2	180.0	2.2
1985	8,539.0	176.8	2.1
1986	8,547.6	177.6	2.1
1987	8,570.7	178.5	2.1
1988	8,594.4	181.6	2.1
1989	8,547.3	184.6	2.2

* including unpaid family workers
+ self-employment (incl. family workers) as a percentage of total employment
Source: *Dietrich 1991*

As a form of employment, self-employment became a relatively insignificant activity. The stock of the self-employed (including unpaid family workers) fell from around 1.6 million in 1955 to a mere 185,000 in 1989 (Table 1). Over the same period, total employment (including apprentices/trainees) increased from approximately 8.2 million to some 8.9 million. This latter increase was mainly attributable to the strong increase in female labour force participation. Taken together, then, declining self-employment and growing overall employment resulted in a marked decline in the self-employment rate in the GDR (*Dietrich 1991*, p.7 ff). In 1955 it was as high as 20.4 per cent, falling to some 2.2 per cent in 1989. The self-employment rate has been relatively stable around this low level of about 2 per cent for over 15 years. Nevertheless, there is some evidence that the absolute numbers of the self-employed began to increase slightly towards the end of the 1980s (a possible indication that even in socialist economies there were certain goods and services which could be most efficiently provided through self-employed activities).

As far as gender is concerned (Table 2), the levels of and trends in male and female self-employment rates show relatively insignificant differences. Taking account of the relatively high overall female economic activity rate in the GDR (the activity rates of men and women, at over 80 per cent, were virtually identical - *Dietrich and Funk 1991*, p. 60), the share of women in self-employment was considerably higher than that in the old Federal Republic (in the FRG in 1989 it was around 25 per cent, in contrast to a figure of 40 per cent at the same date in the GDR).

Table 2: Self-employment* in the GDR by sex, 1955 - 1989			
Year	TOTAL	Women	Men
	Self-employment rate by sex (per cent)		
1955	20.4	22.4	18.9
1960	5.5	4.6	6.3
1970	3.5	2.7	4.1
1980	2.2	1.7	2.7
1985	2.1	1.7	2.5
1986	2.1	1.7	2.5
1987	2.1	1.7	2.5
1988	2.1	1.7	2.5
1989	2.2	1.8	2.5

* including unpaid family workers
Source: *Dietrich 1991*

Table 3: Self-employment in the GDR by economic sector, 1955-1989									
Year	TOTAL	Manufac -turing	Crafts	Const- ruction	Agricul -ture	Transport & communication	Distrib- ution	Other prod- uction sectors	Non-produc- tion sectors
	Self-employment rates by economic sector (per cent)								
1955	20.4	0.6	48.5	10.2	59.8	4.0	17.6	6.5	
1960	5.5	0.5	42.7	5.7	2.7	3.1	11.2	4.4	4.3
1970	3.5	0.3	30.3	3.5	0.9	2.0	6.9	1.8	2.6
1980	2.2	0.0	32.7	2.6	0.7	1.4	4.5	0.7	1.5
1985	2.1	0.0	30.8	2.8	0.6	1.3	4.3	0.6	1.5
1986	2.1	0.0	30.7	2.9	0.6	1.3	4.3	0.6	1.5
1987	2.1	0.0	30.6	3.0	0.6	1.2	4.3	0.5	1.5
1988	2.1	0.0	30.7	3.2	0.6	1.3	4.4	0.5	1.5
1989	2.2	0.0	30.9	3.3	0.6	1.3	4.6	0.5	1.5

Source: *Dietrich 1991*

A sectoral breakdown of self-employment in the GDR confirms that self-employment was narrowly confined by political constraints and regulations, but also shows that it was influenced by developments in specific sectors. Particularly notable from Table 3 are the effects of the collectivisation of agriculture, pursued over 50 years, resulting in a massive reduction in self-employment. Similar trends are observable in distribution and services. Manufacturing was never a focus for self-employment in the GDR; in 1955 the self-employment rate was only 0.6 per cent - most recently, since 1972 (the year of the last "wave of appropriations"), this sector became virtually closed to the self-employed. The pattern was very different in the *Handwerk* ("crafts") sector, which effectively functioned as the last bastion of self-employment in the GDR.

2 The development of self-employment in the new *Länder*

The shift from a socialist planned economy to a social market economy removed considerable bureaucratic and institutional constraints on individual economic activity, thereby opening enhanced possibilities for self-employment. Nevertheless, in the new *Länder*, there still exist considerable problems for economic development in general, and for self-employment in particular (see *IAB 1990*, p.7 ff). To a significant extent, these problems remain today, nearly two years after German unification:

- the circulation of money and goods in the new *Länder* remains weakened;

- the liquidity of the economy is still restricted, and together with outstanding debts this is a burden on the payment abilities of businesses. This has consequences for the acquisition of materials and the payment of salaries. In so far as firms partly shift this liquidity problem to their suppliers, businesses with good survival prospects are thus being pushed into bankruptcy, and the development of new businesses is also inhibited;

- the high requirement for investment in the economy of the new *Länder* stands in contrast to the inadequate level of investment activity. Businesses lack the financial means to carry out this investment. At the level of central and local government, the institutional conditions for the establishment of appropriate investment programmes do not yet exist;

- the investment deficiency has not, to date, been compensated for by investment from the "old" *Länder* or from overseas;

- the foreign trade position of the new *Länder* has seriously deteriorated since the currency union. This has particularly affected exports to the traditional purchasing countries in the former Soviet bloc;

- direct effects for the employment of the self-employed are resulting from the necessary removal of existing infrastructural deficits (transport, road-building, railways, post, building renovation), and the requirement for environmental improvement and protection;

- the creation of clear ownership relationships is a *sine qua non* for the financing of production, for private economic activity and for entrepreneurial activity. The insecurity attached to the ownership question has so far been the key obstacle to making commercial land and buildings available for new firm creation.

These factors and their development will be crucial determinants of how (and above all, how fast) self-employment emerges in the new *Länder*. An early clue in this direction is, however, provided by the "Labour Market Monitor", a survey (commissioned by the Institut für Arbeitsmarkt- und Berufsforschung der Bundesanstalt für Arbeit) of 0.1 per cent of the working-age population in the new *Länder*, which has been conducted several times[1] since 1990.

Between the opening of the Berlin Wall in November 1989 and July 1991, the employed workforce in the new *Länder* fell from around 8.9 million to some 7.5 million (Table 4). The number of self-employed people, on the other hand, has more than doubled over the same period, from 125,000 to 278,000. The number of unpaid family workers has remained roughly constant, at around 70,000, whilst major losses in the remaining categories of employment have been seen over this period.

This development has resulted in a significant increase in the self-employment rate in the new *Länder*, from 1.4 per cent to 3.7 per cent over the period November 1989 to July 1991. The following features of this growth are particularly noteworthy:

- the trend towards self-employment has occurred among both men and women, but rather more strongly among the latter;

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[1] Surveys have so far been conducted in November 1990, March 1991, July 1991 and November 1991.

- the share of well-qualified workers among the new entrepreneurs has increased disproportionately fast;
- from a sectoral point of view, it would seem that distribution and services have accounted for a particularly significant part of the self-employment expansion (*Dietrich 1992*, p.5 ff).

Table 4: Total employment* by employment status in the "new *Länder*" 11/89 - 7/91 (grossed up)

Employment status	Thousands			
	11/89	11/90	3/91	7/91
TOTAL EMPLOYMENT, of which	8,874	8,037	7,732	7,459
Apprentices	293	341	349	354
Co-operative members	656	483	402	366
Manual workers	3,145	2,866	2,728	2,585
Non-manual employees	4,277	3,903	3,755	3,618
Self-employed	125	196	236	278
Family workers	67	67	70	71
Employed (not elsewhere specified)	311	181	192	187
NOT IN EMPLOYMENT	1,744	2,581	2,846	3,082
TOTAL	10,618	10,618	10,578	10,541

* grossed up on the basis of data from the "Labour Market Monitor"
Source: *Dietrich 1992*

The "Labour Market Monitor" also provides information on inflows into and outflows from self-employment. Between November 1989 and July 1991 (a 20-month period), at least 310,000 new entrants into self-employment were recorded. It also turns out, that of those who were already self-employed during the GDR period, nearly half abandoned their self-employment during this 20-month period. This is also true, moreover, for a significant proportion of the "new" (post-1989) self-employed.

3 Overview and outlook

Comparing self-employment rates between the "old" and the "new" *Länder*, and also between the old FRG and the UK, suggests the following generalisations.

Although self-employment represented a "system-hostile element" for socialist planned economies, even in these economies certain functions, activities and tasks were best dealt with (to some extent) through self-employment. The self-employment rate in the GDR settled down at about two per cent.

Self-employment had a different meaning (in a qualitative sense) in the socialist economic system of the GDR from its meaning in a social market economy. For a start, the officially sanctioned self-employed activities were hardly comparable with the types of self-employment found in market economies. Furthermore, "grey and black markets" were well developed in the GDR, as a result of the general under-provision of goods and services (*Manz 1990*, p.219). The "self-employed" involved in these markets were, in the GDR as elsewhere, typically under-recorded in official statistics. Without being able to quantify their contribution, it is likely that these groups constitute a significant potential for "new self-employment" in the post-GDR era.

During the transition from a socialist planned economy to a social market economy, self-employment has acquired renewed economic significance. Despite persistently inadequate supporting conditions, the self-

employment rate in the new *Länder* has more than doubled in less than two years, and continues to increase.

Whilst self-employment has grown, the rates of inflow to and outflow from self-employment in eastern Germany have been relatively high in comparison with the western part of the reunited country. As far as flows into and out of self-employment are concerned, the new *Länder*, (in quantitative terms at least) exhibit a pattern rather closer to that seen in the UK in the 1980s, than that of the "old" *Länder*.

Just as self-employment was replaced by dependent employment during the construction of a socialist economic system, a contrary process is now occurring: entrepreneurial initiative is emerging and strengthening, and self-employment is replacing dependent employment to a significant extent.

The German unification treaty envisaged similar living conditions and opportunities in the old and new *Länder*. As far as the establishment and extension of self-employment are concerned, one might posit an equalisation hypothesis, whereby self-employment rates valid for the old *Länder* will also be established in the new *Länder* (*Kaiser 1990*). If we assume that this could be accomplished, *ceteris paribus*, over a ten-year period, then by the year 2000 the number of self-employed in the new *Länder* would need to have increased by some 760,000 to an overall level of 942,000. This would imply a five-fold increase in self-employment since German reunification in October 1990. Against this hypothetical calculation should be set the fact that the conditions which apply to self-employment in the old *Länder* cannot be uniformly transferred to the new *Länder*, at least in the medium term. The historically evolved self-employment structure of western Germany cannot be unconditionally reproduced in eastern Germany. It cannot, for example, be taken for granted that small agricultural businesses, of the type still often to be found in western Germany, can be developed again in the new *Länder*. Indeed, it is likely that many such existing businesses in the old *Länder* would not be set up if they had to be created again from scratch. Equally, however, the creation of a "modern *Mittelstand*" has as a prerequisite not only innovative entrepreneurs, but also a fast-developing economic region, with intact institutions and organisations, functioning markets, efficient communications and transport structures, a diversified enterprise structure, and an adequate demand for goods and services. It follows from all this that whilst the self-employment rate in the east is likely to increase further, it is unlikely in the foreseeable future to reach western German levels.

Irrespective of whichever of these theses is valid (the equalisation thesis or the thesis of persistent regional differentials), it is clear that self-employment in the new *Länder* can be expected to expand. The various support and assistance programmes for new businesses will contribute to this[2], as will the introduction of the west German economic framework, the establishment and development of Chambers of Commerce, Industry and Crafts, and the development of the banking system.

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[2] These programmes include, for example: the "Own capital assistance programme for the support of self-employment"; "Support for information and educational events for entrepreneurs, managers, and new firm founders", "ERP-credit programmes for investment by entrepreneurs and members of the liberal professions"; "Loan guarantees for small and middle-sized enterprises" and "Maintenance allowance for unemployed people to set up in self-employment".