

Self-employment duration over the business cycle

Economists and policymakers tend to hold one of two prevailing views on self-employment. The first view argues that small businesses—in which the entrepreneurs are self-employed—stimulate job growth and innovation. Policies aimed at encouraging small businesses (and thus, presumably, job growth) are guided by this view. The second view, however, is less sanguine. It argues that self-employment tends to be driven by the lack of opportunities in the wage market. In other words, rather than choose self-employment for its inherent opportunities, persons are compelled to seek self-employment due to limited options elsewhere in the labor market. If the second view is more accurate, one would expect self-employment to *increase* during economic downturns and *decrease* during economic expansions. In a recent study published in the Federal Reserve Bank of Chicago's *Economic Perspectives* (third quarter, 2006), economist Ellen R. Rissman examines data from the BLS *National Longitudinal Survey of Youth 1979* and finds evidence supporting the second view.

Unlike the Current Population Survey (CPS), which provides data on self-employment but tracks respondents only over a short period of time, the National Longitudinal Survey of Youth (NLSY) follows individuals over time. Thus, Rissman was able to look at the frequency and duration of self-employment among a large group of persons over a period of many years (1979–2002). She focuses on the rate of turnover among the self-employed and the factors determining it, especially the role played by aggregate and local economic conditions. On the grounds that women's self-employment decisions are complicated by child-

bearing issues and persons younger than 21 years of age tend to be enrolled in school, Rissman limits her study to men who were aged 21 years and older when the NLSY began in 1979.

Rissman finds that self-employment is quite transitory, with movement from self-employment to wage work common among the respondents. Once employed in the wage sector, however, persons are less likely to return to self-employment. The data show, for example, that from one observation to the next, only 3.4 percent of male respondents moved from wage work to self-employment. At the same time, nearly 36 percent moved from self-employment to wage work between interviews. Rissman also finds that self-employment is a relatively common phenomenon. Although self-employment occurred in only about 7.5 percent of the observations on men, more than a quarter of the respondents indicated they had experienced self-employment at some point during their working lives. The data also show that male respondents are more likely to become self-employed as they get older. But Rissman points out that it would be misleading to think that self-employment is growing over time—the upward trend is driven largely by the aging of the sample population.

One of the more intriguing findings of Rissman's study is that the duration of self-employment tends to be short, with many respondents returning to the wage sector within a year. Still, the longer a person has been self-employed, the more likely he is to stay that way. In addition, after controlling for aggregate and local economic conditions, the length of time that a person is self-employed does not appear to be influenced by educational attainment, marital status, or race. Finally, Rissman concludes that persons are more likely to seek self-employment opportunities during periods of economic contraction and less likely to leave the wage sector during economic expansions.

Services and trade

Although the Federal statistical community has initiatives underway to improve data on service-providing industries, analysts still are challenged to make ingenious use of the data available and make adjustments on the fly to data that do not quite meet their needs. A recent example is an analysis of services trade and employment that appeared in *NBR Analysis* from the National Bureau of Asian Research.

Among the challenges the authors faced was developing a crosswalk between the “service type” categories used to compile trade statistics and the North American Industry Classification System (NAICS) used in employment statistics. Only after finishing that chore could they calculate the export and import penetration rates needed to designate the most trade-sensitive industries.

In the service-providing sector, this exercise revealed 15 export-sensitive industries in which 10 percent or more of revenue came from exports or the export penetration rate was rising by at least 0.4 percentage point per year. The study also listed 11 import-sensitive service industries in which imports of the service accounted for at least 10 percent of total supply or in which the import penetration rate was rising by 0.4 percentage point or more.

Nine industries appeared on both lists, mostly in transportation-related activities. Also in common were software publishers and lessors of intangible assets such as patents, trademarks, and other intellectual property (except copyrights). The noncommon import-sensitive industries were related to insurance, while those on the export sensitive list included investment activities, arts and entertainment, and industrial equipment repair. □