Self-Employment: Pathway to Prosperity or Poverty?

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Introduction

Self–employment has attracted considerable attention because of the argument that earnings from the self-employment are too small to escape from poverty, so the self-employed are 'working hard but working poor'.

This contrasts with an earlier view of self–employment as untapped entrepreneurial energy and by reducing entry regulations and improving property rights, self–employment can fuel economic growth and development.

If, on the other hand, self-employment means hard, poor labor, then structural changes and intervention may be called for.

- Data for Bangladesh shows that between 2005 and 2017, the weekly real wage growth has a U shape for employees but an inverted U, or hump, for the self-employed. Measured by the wages of the 5th, the 50th, and the 95th percentiles, the increases are 109 percent, 27 percent and 36 percent respectively for employees, and by 84 percent, 124 percent, and 19 percent for the self–employed respectively.
- This differential pattern between the two groups seeks explanation, since the scant earnings from self–employment, combined with sluggish and disproportional real wage growth, poses a fundamental threat to the future reduction of poverty and vulnerability.
- Moreover, the overall sustainability and efficacy of self–employment generation programs depend on the earnings of the self-employed; Do they earn enough to pull themselves out of the poverty?

Estimation Methods

- McFadden (1974) Multinomial Logit Model to estimate the probability of being in three mutually exclusive occupations.
- To estimate wage gap and market segmentation we use Oaxaca-Blinder and quantile counterfactual decomposition Chernozhukov *et al.,(2013).*
- To identify the effect of self–selection and purge the selection bias from the wage estimates we use Heckman (1976) method and depend on exclusion restrictions.
- To estimate the pattern and sources of real wage growth we use Juhn, Murphy and Pierce (1993) method.

The Data

We use the Labor Force Survey, 2005–06 and 2016–17, data from the Bangladesh Bureau of Statistics (BBS). LFS's are nationally representative household survey.

	1991	1995	2000	2005	2010	2015	2016	2017	2018
Paid employees	30.8	31.9	33.4	35.4	37.7	39.2	39.4	39.5	40.1
Employers	0.3	0.3	0.3	0.3	0.2	1.9	2.7	4.5	4.4
Self-Employed	44.2	43.5	42.9	42.2	40.4	43.1	43.4	44.2	44
Unpaid family workers	24.7	24.2	23.5	22.2	21.8	15.8	14.5	11.9	11.5
Total	100	100	100	100	100	100	100	100	100

- In 2005, the average weekly wage earned by the paid employees was $18.5 whereas the self–employed earn $6.4. In 2017, the average weekly real wage rose to $21.6 and $10.7 for the paid employees and the self–employed respectively. Paid employees earned about 101 percent more real wage in 2017 and about 187 percent more real wages in 2005 then the self–employed.

Quantile	τ=0.01	τ=0.05	τ=0.15	τ=0.25	τ=0.50	τ=0.75	τ=0.85	τ=0.95	τ=0.99
Self-Employment	107.8	215.7	431.4	560.8	808.8	1078.4	1272.5	1725.5	3127.4
Paid Employment	647.1	754.9	862.7	970.6	1294.1	2156.8	2803.9	3990.2	6578.4

Results

How individual's are selected into multiple potential occupations:

- Individuals are rationed out from paid employment because of market segmentation and pushed to enter self–employment.
- Main reasons: inadequate aggregate demand, and the low human capital

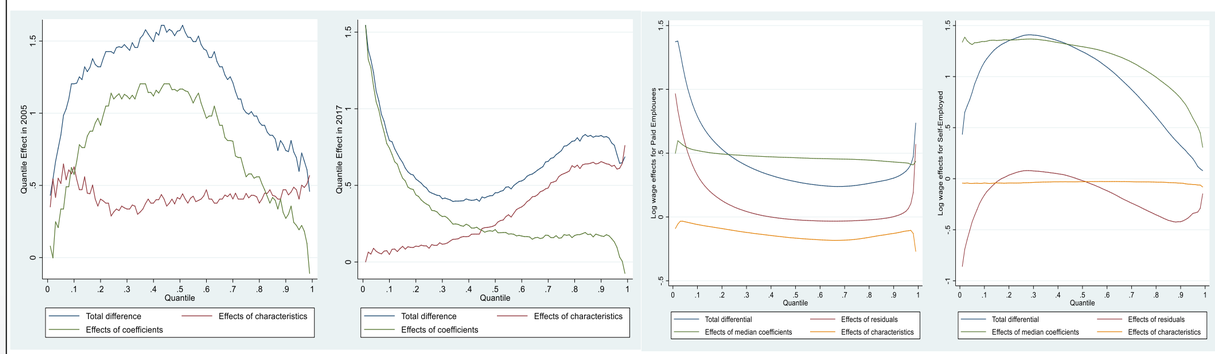
The wage differential between paid jobs and self–employment:

Level of Education	2005 (A) All	2005 (A) No Education	2005 (A) Secondary	2005 (A) Tertiary	2017 (B) All	2017 (B) No Education	2017 (B) Secondary	2017 (B) Tertiary
Controlling for observables only								
Total Difference	119.90	82.64	82.72	56.22	63.06	26.31	48.36	90.28
	(0.028)	(0.043)	(0.049)	(0.075)	(0.012)	(0.019)	(0.023)	(0.108)
Characteristics effect	40.74	-4.42	7.93	7.54	31.57	-0.087	1.37	4.67
	(0.015)	(0.020)	(0.017)	(0.021)	(0.006)	(0.006)	(0.007)	(0.034)
Coefficient effect	79.16	87.06	74.79	48.68	31.49	27.18	46.99	85.60
	(0.027)	(0.047)	(0.049)	(0.077)	(0.013)	(0.019)	(0.024)	(0.106)
Controlling for observables and self–Selection								
Total Difference	61.59	127.60	126.23	-18.09	38.75	-10.64	105.15	369.70
	(0.648)	(0.026)	(1.48)	(5.94)	(0.250)	(0.367)	(0.600)	(2.883)
Characteristics effect	52.63	-3.38	0.008	3.20	17.55	2.27	-5.06	-6.04
	(0.033)	(0.026)	(0.009)	(0.048)	(0.021)	(0.010)	(0.010)	(0.053)
Coefficient effect	30.13	127.98	124.98	-21.32	13.87	-12.59	110.49	375.03
	(0.648)	(0.975)	(1.48)	(1.699)	(0.250)	(0.367)	(0.601)	(0.048)

- Controlling for the full set of workers composition in regression analysis, the average wage gap is 119.9 percent
- We fail to reject the hypothesis that workers with the same level of human capital composition receive different wages depending on the sector where they work

Figure1: Wage differentials in quantile decomposition

Figure 2: Sources of real wage growth



Conclusions

- Currently, the Government of Bangladesh using self–employment as an instrument to generate employment opportunity for women and excluded individuals.
- By contrast, most women's and excluded individuals' human capital is inadequate, thereby, though they will work, they will be the 'working hard but working poor'. Hence, the strong assumption of giving employment opportunity will pullout the poor from poverty will be worthless.
- Moreover, non-uniform wage growth and tiny earnings of self–employment enable us to question about the efficacy of intervention and re-engineering employment generation programs. Since, poor self–employed are getting poorer whom we don't want to leave behind.
- Thus, generating self–employment without a sufficient minimum income will be distress and have an insignificant/adverse impact in reducing poverty and inequality.

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