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Abstract: Indications are that the long-term decline of self-employment has come to a halt in the 1970s in the advanced industrialized economies. In this paper, we challenge the currently popular argument that the recent revival of self-employment represents an effective answer to the problems of slow economic growth and unemployment. Our time-series regression analysis of aggregate self-employment rates in eight major OECD countries from the early 1950s to 1987 suggests that rising self-employment may be a response to deficiencies in labour markets rather than a sign of economic vitality.

THE DECLINE AND RISE OF SELF-EMPLOYMENT

Dieter Bögenhold and Udo Staber

Introduction

Research in industrial sociology and the sociology of work has generally proceeded on the assumption that employment in large organizations is either more pervasive or more important than economic activities in small workplace settings. Industrial sociologists have tended to focus their attention on large-scale firms in the 'core' sector of the economy and have downplayed the study of 'simple' organizational units in the 'periphery' sector. Sociologists of stratification have generally ignored issues of self-employment. Marxist sociologists have tended to consider small firms and self-employed workers an historically regressive and anachronistic class and, instead, preferred to study the 'labour process' in complex organizations. Workplace size has figured more prominently in organization theory, but researchers in that discipline have treated 'size' mainly as an independent variable, and they have rarely studied its determinants.

In recent years, however, small business and self-employment have become a topic of considerable debate in academic and public policy circles. The attention currently paid to small economic units is partly motivated by the findings of a series of studies showing a superior job creation performance of small firms relative to that of large corporations since the 1970s (Storey 1983; Birch 1987). Indications are that also the historical decline

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of self-employment has come to a halt in the 1970s in the advanced industrialized countries (Bechhofer and Elliott 1985; OECD 1986). There seems to be a general agreement that the self-employed may be playing an increasingly important role in the restructuring of industry. Some observers have gone as far as to suggest that small business and self-employment are the cure-all for social problems, that: 'the example set by entrepreneurs offers a solution to the institutional, attitudinal and cultural ills of present-day Western societies', or that: 'small businesses are the seedcorn of our future prosperity' (quoted in Rainnie 1985: 146). In this vein, the recent resurgence of self-employment is often interpreted as a sign of macro-economic vitality.

Our objective in this paper is to guard against unreflective optimism. Not all small economic units are innovative and flexible, many self-employed workers operate in marginal areas of economic activity, they generally suffer from high business failure rates and job instability and few of the newly founded small firms contribute significantly to job growth. The recent rise of self-employment may be a symptom of labour market deficiencies, rather than the result of fundamental changes in the: 'advanced industrial economies that [have] made self-employment more attractive and/or competitive' (Blau 1987: 447).

This paper is organized as follows. We begin with a brief discussion of the 'petty bourgeoisie' as a heterogeneous class category to distinguish between several analytically distinct class locations within self-employment. Following a review of previous empirical research on the cyclical nature of self-employment, we present the results of a time-series analysis of self-employment rates in eight major OECD countries from the early 1950s to 1987 to show that the long-term decline of self-employment has come to a halt and to suggest that the recent revival of self-employment may be, in part, a reflection of declining (good) employment opportunities in the waged sector. We conclude this paper with a few remarks about employment creation policy initiatives aimed at the self-employed.

Self-Employment as a Class Category

Most social class characterizations of the self-employed or the 'petty bourgeoisie' assign them to a more or less homogeneous class category on the basis of their employment status. Wright (1978), for example, defines the self-employed as persons who own their own means of production and employ no one, other than perhaps unpaid family members. The self-employed are ideal-typically assumed to have complete autonomy in the labour process.

This approach to characterizing self-employment is not without problems. Similar to the category of wage and salary employment, the empirical

category of self-employment includes individuals who work in a variety of employment situations which may differ considerably from the ideal type described above (Dale 1986). What emerges from a closer look at the self-employed is that attempts to give a generic character to this category are simplifications or plainly mistaken. Scase and Goffee (1980: 23–24) distinguish four types of self-employment: (a) the self-employed who work for themselves and formally employ no labour; (b) small employers who work alongside the workers they employ and manage their business; (c) owner–controllers who do not work alongside their employees but are solely and singularly responsible for the administration and management of their business; (d) owner–directors who control their business with formal managerial hierarchies.

This typology suggests a rather wide spectrum of socio-economic positions and speaks against the common usage of 'petty bourgeoisie' as an all-encompassing label for the self-employed. It may even be necessary to add a fifth type to Scase and Goffee's (1980) classification or to distinguish between two sub-classes of type (a). The category of self-employed persons who work for themselves and formally employ no labour includes two analytically distinct market and organizational positions. The first group includes persons, such as self-employed farmers, craftspersons and independent professionals who own their means of production and control their labour process but whose incomes and life chances are largely determined by anonymous market forces. The second group includes persons, such as certain kinds of freelancers and homeworkers, who have no autonomy in the labour process and may not even own their means of production. They operate no real firms and are typically not listed in business directories and yellow pages. They are 'independent' only in a formal and statistical sense and experience many of the disadvantages of wage-employment, without enjoying the rights typically associated with wage-employment.

Scase and Goffee's (1980) type (a), with its two sub-classes, represents the largest group of self-employed persons. In West Germany, for example, 46 per cent of all self-employed have no employees (Statistisches Bundesamt 1988). In the United States about 80 per cent of all sole proprietors employ no workers and about 18 per cent employ fewer than five workers (Haber, Lamas and Lichtenstein 1987). In Britain, no more than a third of the self-employed have any employees and these usually have only a few. Most of the growth in self-employment in Britain after 1981 has been due to an increase in single-person businesses (Hakim 1988a). Thus, the majority of self-employed persons operate small firms (many of which are independent organizations only in a formal sense) with no employees or with the help of unpaid family members or friends. Nonetheless, one would be mistaken in the assumption that this group constitutes a socio-economically homogeneous category or includes only peripheral workers.

A convenient way to stake out the variety of self-employment situations

is to identify (heuristically) two opposing 'logics' or recruitment channels into self-employment (Bögenhold 1985): a logic based on autonomy and a logic based on economic necessity. The former logic describes persons who prior to becoming self-employed occupied organizational and occupational positions offering high earnings, job security, opportunities for advancement and so on. Their decision to become 'their own boss' is motivated mainly by a desire for self-direction in the labour process. This type of self-employed worker has many of the characteristics of the 'opportunistic entrepreneur' described by Smith (1967). He/she has a high degree of 'cultural capital', obtained through lengthy schooling and socialization, fostering social skills and a long-term orientation. The motivation to become self-employed is based less on economic necessity than the desire to leave a stifling or otherwise unsatisfactory work situation. This ideal type describes the kind of 'spinoff entrepreneur' who is the subject of many 'success stories' described in popular entrepreneurship magazines: well-educated, self-determined, independent and willing to take risks.

The opposing logic describes persons who prior to self-employment had very limited chances to succeed as wage-employees in the labour market. Their decision to become self-employed is driven mainly by economic necessity, unemployment or redundancy. Self-employment is often the only means for them to participate in the economy. Lack of education and skills, as well as discrimination, limit their opportunities to succeed in the mainstream economy, forcing them to consider other options. Many end up taking poorly-paid jobs in peripheral firms, characterized by a high degree of job insecurity and no opportunities for advancement. For others, self-employment is an attractive alternative to low income and unstable employment in marginal businesses. Thus, social and economic marginality may be a strong driving force motivating people to set up their own business (Stanworth and Curran 1973). Not surprisingly, such firms tend to be founded primarily in industries with low barriers to entry (eg repair services, handicraft), thus adding to already intense competition in industries where profit opportunities are limited and failure rates are high.

In between these two extreme recruitment channels into self-employment exist a variety of combinations of opportunities and constraints motivating individuals to 'become their own boss'. Individual motives are diverse and influenced by particular constellations of social ideals, income preferences, formal qualifications and economic opportunities and constraints. The 'petty bourgeoisie' includes individuals who, given their social origin and material circumstances, are better described as 'grand bourgeois'. But it also includes self-employed persons who operate at the fringes of the economy and who are among the most vulnerable economic participants. We argue below that the recent revival of self-employment in the advanced industrialized economies be seen against the background of persistent labour market problems, driving many individuals into self-employment out of economic necessity.

Self-Employment as a Counter-Cyclical Response

The renaissance of self-employment challenges the classical Marxist prediction that in the course of capitalist development the class of small employers would eventually disappear with the destruction of simple commodity production and the centralization and concentration of capital. Marx and Engels predicted in their Communist Manifesto in 1848 that:

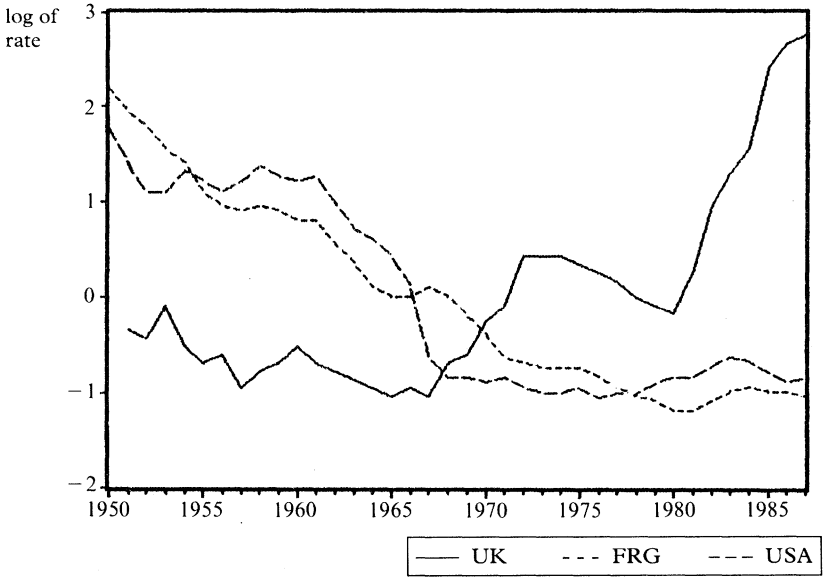
> the lower strata of the middle class – the small tradespeople, shopkeepers, and retired tradesmen generally, the handicraftsmen and peasants – all these sink gradually into the proletariat, partly because their diminutive capital does not suffice for the scale on which Modern Industry is carried on, and is swamped in the competition with large capitalists, partly because their specialised skill is rendered worthless by new methods of production (Marx and Engels, 1976: 491–2).

In the 'logic' of early Marxist thinking, the small self-employed (the 'petty bourgeoisie') would have no future, as they would not only be domesticated by big business but destroyed as well.

Self-employment has indeed eroded substantially over the long term, but it has not disappeared. In Britain, for example, the number of people who are self-employed in their main job stood at around 12 per cent of all employment in the mid-1980s (Hakim 1988a). In Canada self-employment represented 14 per cent of all employment in 1987. Not only has the 'petty bourgeoisie' not disappeared after a hundred years or so of capitalist development, there are also indications that its erosion has been reversed in some countries (OECD 1986). The United States and West Germany are two examples of countries where the decline in self-employment has bottomed out in the 1970s, while in Britain the non-farm self-employment rate has risen almost continuously since the late 1960s (Figure 1). In the United Kingdom the number of self-employed workers (including unpaid family members) in the non-agricultural sector, as a proportion of all persons active in the sector, has risen from almost 6 per cent in the mid-1960s to over 10 per cent in 1987. Other countries, such as Canada and Italy (not shown in Figure 1), have seen a similar rise of self-employment in recent years (OECD 1986). What is remarkable about recent developments is that the resurgence of self-employment has begun in all countries at about the same time. The revival of self-employment roughly coincides with a period of economic stress beginning in the mid-1970s, characterized by slow economic growth (relative to post-World War II standards), rising levels of unemployment and part-time employment, and the spread of various forms of contingent and substandard employment.

The resurgence of self-employment has been interpreted by some observers as a response to declining wage-employment opportunities (Steinmetz and Wright 1989). Boissevain (1981: 12) concluded that rising self-employment rates during the 1970s were: 'related to the current

Figure 1 Non-Agricultural Self-Employment Rate* in the United Kingdom, Fed. Rep. of Germany, and United States, 1950–1987



*Self-employment rate is defined as the number of own account workers and unpaid family workers in non-farm activities, as a proportion of all non-agricultural workers.

economic recession. It seems logical that some of the persons made redundant should use the skills and capital they have accumulated, including any redundancy pay, to try to set up on their own.' Also the German Chamber of Commerce (DIHT 1978) noted that the rising inclination among many people to become self-employed is less the result of reduced risks and improved opportunities than a reaction to worsening conditions in the labour market.

About a third of the self-employed surveyed in Britain had involuntarily or, at least, reluctantly entered self-employment between 1983 and 1987 (Hakim 1988b). Some of them had been unable to obtain a wage job, while about 10 per cent cited redundancy from their last job as the reason for becoming self-employed. Storey and Johnson (1987) report research showing that between one quarter and one half of all new businesses are founded by individuals who are unemployed or likely to lose their job immediately prior to starting a business. Evans and Leighton (1989), in a cross-sectional study of young white men in the United States, found that unemployed workers are more likely to enter self-employment and that the probability of self-employment is higher for individuals with relatively more unemployment experience.

On a broad historical scale self-employment has always, to some extent, played a safety valve function during times of high unemployment and slow economic growth. In Germany, for example, total employment declined from the late 1920s to the mid-1930s, while the number of self-employed rose. A similar 'crisis-induced' increase in self-employment at that time has also been reported for other countries, including the United States, France, England and Belgium (Eichengreen and Hatton 1988). Unfortunately, available statistics give only a static picture of the composition of self-employment and conceal the extent of replacement that takes place within this category. Rising numbers of self-employed may reflect not only higher entry rates but also mask increased failure rates. Bögenhold (1987) reports that in West Germany in recent years about 300,000 persons have started their own business and almost as many have been terminated every year. Most of these firms are one-person businesses. Hughes (1990) found that the increase in the stock of businesses (especially the smallest firms) in Britain since 1980 has been the result of an increase in registrations, rather than a decline in deregistrations.

Several empirical studies have examined the cyclical nature of self-employment and estimated the effects of unemployment rates and business cycles on self-employment rates. Bregger (1963) studied changes in non-agricultural self-employment and wage and salary employment in the United States over four economic cycles between 1948 and 1962. He found that during economic upturns the self-employment rate tended to decline slightly or remain constant, while wage and salary employment grew substantially. The reverse relationships held during cyclical downturns. Bregger interpreted these observations as evidence that self-employment is a micro-level response by workers to the loss of wage-employment. Ray's (1975) time-series regression analysis showed a strong and positive effect of the aggregate unemployment rate on the non-farm self-employment rate in the United States for the period from 1948 to 1973. Thus, Bregger's (1963) and Ray's (1975) findings, as well as those of Fain (1980) and Becker (1984) for later years, support the argument that self-employment moves counter-cylically.

Empirical research on self-employment trends at the industry level is rare. Linder (1983) studied self-employment in the United States construction sector. He found a strong and positive correlation between the rate of self-employment and the unemployment rate for the period from 1948 to 1975, but the estimated relationship was no longer statistically significant for the years from 1975 to 1979.

Steinmetz and Wright (1989), in a time-series analysis of aggregate self-employment rates in the United States, found evidence supporting the argument that self-employment moves counter-cyclically with unemployment, but their estimates suggest that this relationship has declined over time. Their analysis extends only to 1984, and so it is not clear whether:

'there appears to be a significant and *sustained* [emphasis ours] reversal in the decline of the petty bourgeoisie in the past decade or so in the United States' (p. 998). Highfield and Smiley (1987) studied changes in the rate of new business incorporations in the United States for the period from 1947 to 1984 and found that incorporations tended to increase in times of rising unemployment and declining real growth. Hudson (1989) also found a positive effect of unemployment rates on the number of company births in the United States from 1951 to 1983. The results of both studies are thus consistent with the hypothesis that depressed market conditions 'push' individuals into self-employment.

Findings on the relationship between the business cycle and self-employment in countries other than the United States are mixed (OECD 1986). In some countries, self-employment behaved counter-cyclically (as measured by the ratio of actual to trend GNP or GDP), in countries the estimated self-employment rate was insensitive to the business cycle. Unfortunately, the time series examined in this OECD study began no earlier than 1964 (for some countries as late as 1975) and ended in 1984. Hudson (1987), in a time-series analysis of company births in Britain for the period 1952 to 1984, found that new company registrations tended to increase in times of slack labour markets (as measured by levels of unemployment and job vacancies). He interpreted this finding as evidence that: 'new firms are not being born in response to a healthy climate for enterprise but because a slack labour market encourages the unemployed to try their hand at entrepreneurial activity' (p. 57).

Previous research, then, offers some evidence that self-employment is a counter-cyclical response to existing wage-employment opportunities, but it is unclear if the positive relationship between self-employment and unemployment that has been observed for most of the post World War II period in the United States and, to some extent, Britain is generalizable to other countries. Below, we test the hypothesized counter-cyclical nature of self-employment by estimating the effect of unemployment and economic growth on the aggregate non-agricultural self-employment rates in eight OECD countries from the early 1950s to 1987.

Empirical Estimation and Results

Time-series data on self-employment were collected on the basis of data availability for eight OECD countries (Belgium, Canada, Federal Republic of Germany, France, Italy, Sweden, United Kingdom and United States) for the period from the early 1950s to 1987 (OECD Labour Force Statistics various years). The dependent variable, self-employment rate, is defined in the present analysis as the number of employers and persons working on their own account, including unpaid family workers,[1] as a proportion of all persons

active in non-agricultural industries. Annual aggregate unemployment rates were collected from OECD Labour Force Statistics, and the data on annual real GNP growth rates came from International Monetary Fund statistics.

We first estimated models using ordinary least squares (OLS) procedures and then tested for the presence of autocorrelation, a frequent problem with time-series data. Although the presence of serial correlation does not bias the OLS estimates, it significantly understates the standard errors of estimates. Thus, the usual tests of significance are no longer valid, and the significance of the coefficients is overstated (Kennedy 1985). Because the results of most OLS estimates showed evidence of significant autocorrelation,[2] we re-estimated the models with generalized least squares (GLS) methods, using the iterative Cochrane-Orcutt procedure (Kennedy 1985). Examination of the residuals for the GLS estimations shown in Table 1, as well as their associated Durbin-Watson statistic, suggests that the first-order autoregressive assumption is appropriate.

Following Steinmetz and Wright (1989), we begin by estimating a baseline model which includes only a time trend variable to examine the argument that the long-term decline of self-employment has come to a halt or has been reversed. We test for the presence of a parabolic pattern in self-employment rates by estimating the effects of time (measured in years) and time squared. We expect the coefficient of the linear term of time to be negative and the coefficient of the squared term to be positive.

The results for the baseline model strongly confirm previous arguments that the long-term decline of self-employment has come to a halt in advanced industrialized economies (Table 1). For all countries included in this study, the estimated coefficient of the linear term of time (X_1), is negative, suggesting a long-term process of decline. The positive coefficient of the quadratic term (X_1^2) indicates that self-employment trends followed a U-shaped pattern, first declining and then increasing. The estimated coefficients are statistically significant, and the calculation of inflection points shows that the decline of self-employment bottomed out in all countries during the period of observation. Thus, the results of the formal statistical analysis support Steinmetz and Wright's (1989) findings for the United States and confirm graphical representations of self-employment trends in other countries (OECD 1986).

The effects of unemployment and GNP growth were estimated in models which omitted the time variables.[3] To remove the trend component in self-employment rates we first regressed the self-employment rate on time and then regressed the residuals from these estimations on unemployment rate and GNP growth. This method permits an estimation of parameter effects independent of time trends (Mosteller and Tukey 1977).

The results (Table 1) show a strong and positive relationship between the unemployment rate (X_2) and the self-employment rate in all countries, with the exception of Belgium and Sweden, where the estimated coefficients are

Table 1 Regressions of Non-Agricultural Self-Employment Rate (With Unpaid Family Workers) on Independent Variables. (Intercept Not Shown; Standard Errors in Parentheses)

Country	X_1	X_1^2	X_2	X_3
Belgium	−0.443**	0.008**	0.037	−0.059
	(0.094)	(0.002)	(0.023)	(0.035)
Canada	−0.422**	0.007**	0.062**	−0.029
	(0.044)	(0.001)	(0.021)	(0.022)
France	−0.598**	0.009**	0.039**	−0.033*
	(0.033)	(0.001)	(0.010)	(0.013)
West Germany	−0.368**	0.005**	0.035*	−0.026**
	(0.031)	(0.001)	(0.016)	(0.008)
Italy	−0.854**	0.021**	0.071*	−0.107**
	(0.079	(0.002)	(0.031)	(0.032)
Sweden	−0.479**	0.011**	0.186	−0.065*
	(0.072)	(0.002)	(0.147)	(0.031)
United Kingdom	−0.163**	0.007**	0.045**	−0.012
	(0.053)	(0.001)	(0.013)	(0.022)
United States	−0.284**	0.004*	0.069*	−0.028
	(0.079)	(0.002)	(0.033)	(0.016)

*$p < 0.05$, two-tailed
**$p < 0.01$, two-tailed
X_1 = time trend
X_2 = unemployment rate
X_3 = real GNP growth rate

All estimates are for the period 1950–87 in models with X_1 and X_1^2, and for the period 1953–87 in models with X_2 and X_3, except for Sweden (1962–87). For an explanation of modelling, see text.

positive but statistically weak ($p < 0.10$). This finding is so strong and uniform across different countries with diverse labour market policies and economic circumstances that it is difficult to ignore, at the macro-level, the labour market as a primary mechanism governing changes in the level of self-employment. This finding should, nevertheless, be interpreted with some caution. Available aggregate statistics of self-employment are best used as a crude measure of macro-level change (OECD 1986; Hakim 1988b). They provide a poor basis for explaining movements into and out of self-employment at the micro-level due to measurement problems[4] and the effects of unobserved explanatory variables (eg human capital, credit availability, earnings differential between self- and paid employment). The results of this analysis do not demonstrate that unemployed workers enter self-employment. They suggest that in times of high unemployment self-employment rates tend to increase. Self-employment rates may rise because

high levels of unemployment discourage potential entrants to the labour market from seeking waged jobs or because an increased number of early retirees start their own business.

The estimated effect of real GNP growth on self-employment rates is less consistent. For all countries shown in Table 1 the estimated coefficient of X_3 is negative, as expected, but is is statistically significant ($p < 0.05$) in only half of the cases. This finding thus permits only a tentative conclusion: self-employment rates are not strongly affected by fluctuations in economic growth, but they appear to move counter-cyclically.

Steinmetz and Wright (1989) speculated that the recent revival of self-employment may not be so much the result of lacking wage-employment opportunities per se than a: 'structural response to declining opportunities for *good* [emphasis ours] jobs in the industrial economy' (p. 1008). Although direct evidence on the quality of 'new jobs' is not available, it is generally agreed that many of the jobs that have been created in recent years have emerged in low-paying activites, often in the service sector, where barriers to entry are low, profit opportunities are limited and jobs are often part-time or temporary (Harrington and Levinson 1985; Loveman and Tilly 1988). The fact that in many OECD countries the earnings distribution widened since the late 1970s, while real wages stagnated, is usually interpreted as an indication that the proportion of low-paying jobs increased (OECD 1989).

It would be wrong to assume that all self-employed workers operate in precarious employment situations. As we argued above, the self-employed do not constitute a homogeneous category of workers with respect to earnings, employment stability, and autonomy in the labour process. It is interesting to note, however, that the recent revival of self-employment has also roughly coincided with the spread of so-called substandard forms of employment. Forms of employment, such as casual and temporary employment, are substandard to the extent to which they lack the continuity, stability, income, and social security that are typically associated with 'normal' employment. In the United States average annual employment in the temporary help industry more than doubled between 1978 and 1985, three times the rate of growth for the service sector in general (Carey and Hazelbaker 1986). British studies also report a more or less rapid (depending upon operational definition and sampling frame) increase in casual and temporary employment since 1979 (Dale and Bamford 1988). Although temporary or casual work is not necessarily substandard or precarious, the very fact of being only marginally attached to an employer makes substandard conditions of low pay, job insecurity, few opportunities for advancement and so on more likely to occur. The 1984 British Labour Force Survey (Dale and Bamford 1988) showed that more than 13 per cent of the casual workers and 16 per cent of the contract workers were self-employed, compared to only 11 per cent of 'permanent' workers.

While contingent workers have always been used by some employers as a buffer aginst market uncertainties, substandard forms of employment have become more prevalent in recent years, as employers have sought greater manpower flexibility and opportunities for cost reduction at a time of intensified market competition (Hill, Blyton and Gorham 1989). While product markets have become more turbulent and uncertain, relatively slack labour markets have afforded many employers the opportunity to realize their desire for greater manpower flexibility by expanding their use of 'peripheral' workers, including short-duration hires, homeworkers and self-employed freelances. Many large companies have been experimenting with strategies of fragmentation and decentralization to delegate production activities to supplier firms and subcontractors. Such strategies have the effect of shifting many of the risks of flexible adjustment to small firms, but they also create opportunities for small units by opening new market niches to which small specialist firms are better adapted than large diversified corporations (Staber and Aldrich 1989). Often, however, subcontractors enjoy little economic discretion, and they depend on decisions made by their large customer firms which may dictate prices and standards more or less arbitrarily. Sometimes the ties to large corporations are so strong that self-employed workers are best considered employees of the corporation with which they 'trade', as in the case of many British homeworkers (Hakim 1988a). It is not unusual for employers in some industries, such as trucking, construction, and retailing, to dismiss employees and then to engage their services as formally independent but de facto tightly controlled self-employed subcontractors. Self-employment, in this case, is precarious and has all the characteristics of substandard employment. The self-employed worker is subject to hierarchical control, but lacks the rights associated with the 'standard' employee status (eg paid vacation, sick leave, regular hours). Many of these 'irregular' self-employed persons are being forced into this form of employment because alternative job opportunities are not available. Their precise number is not known, but anecdotal evidence suggests that this category has been growing in recent years, especially in the service sector (Mayer 1989).

Conclusion

Changes in the rate of self-employment in diverse countries are always the result of a variety of specific developments, including management strategies, structural changes in the economy, government policies and technological changes. Our objective in this paper was not to explain the various effects of these developments, but to examine the role which unemployment and economic growth have played in the decline and rise of self-employment in advanced industrialized countries during the post

World War II era. The results of our analysis indicate that, at the macro-level, self-employment tends to increase in times of high unemployment and slow economic growth.

Some observers view the recent revival of self-employment as a sign of economic vitality, contributing to employment growth and industrial dynamism, and thus they echo the hopes of many policy makers interested in job creation. The British government, for example, stated that the: 'prime aim of the Department of Employment is to encourage the development of an enterprise economy. The way to reduce unemployment is through more businesses, more self-employment and greater wealth creation, all leading to more jobs' (quoted in Storey and Johnson 1987: 3). Similarly, the West German government has viewed the formation of small firms as an important source of new ideas and impulses to maintain the economy's competitiveness and productivity (Bundesregierung 1986).

If the argument that an increased rate of business formations creates more jobs were empirically correct one would expect to find a positive relationship between the self-employment rate and indicators of macro-economic well-being, ceteris paribus. Instead, our empirical findings suggest the opposite relationship. Rising rates of self-employment are more likely a reflection of labour market deficiencies than a development contributing to their solution. Not only has the rate of new business foundings increased in recent years, but failure rates have risen as well (Hudson 1987). Reservations should also be expressed over the quality of jobs created in the wake of resurgent self-employment. A significant proportion of self-employed workers survive in marginal areas of economic activity where profit opportunities are limited. Their economic fate is often intimately tied to the performance of large corporations with which they maintain exchange relations. Many of the businesses established by newly unemployed workers are in service industries where entry barriers are low, but where competition is so intense that the effect of new foundings is simply to displace existing firms (Storey and Johnson 1987).

We are not proposing that all individuals who form their own business fail to create new jobs or otherwise contribute to the economy. Such businesses, however, constitute a small minority. The available evidence suggests that self-employment assistance programs tend to benefit mostly those among the unemployed who are least in need of assistance, while the businesses started with government support generally do not contribute to aggregate employment growth (Bendick and Egan 1987). Storey and Johnson (1987) concluded from their study of the employment effects of small businesses in several OECD countries that at most 4 per cent of newly established small firms generate a significant number of net new jobs. Similar findings were obtained in a sample study of small businesses in California (Teitz *et al.* 1981). Recent surveys in Britain have indicated that the large majority of self-employed do not employ workers and that

the proportion of one-person businesses has been increasing in recent years. 'So it cannot be assumed that the self-employed are invariably entrepreneurs who are building businesses that will eventually employ more people than themselves' (Hakim 1988b: 430).

To the extent that in times of slack labour markets an increased number of individuals move into self-employment and enter mostly highly competitive industries where barriers to entry are low and business failure rates are high, public policies aimed at encouraging additional mobility into self-employment as the 'answer' to the problems of mass unemployment are seriously flawed. Blanket public assistance given to anyone wishing to start a business may simply accelerate the economic peripheralization of many of the self-employed. Potential entrepreneurs should not be discriminated against by public measures, but at the same time they should also not be coaxed into a precarious market and employment situation. If, despite economic problems, the number of businesses continues to grow in such crowded industries as restaurants and retailing, this growth is then often not the result of actors having discovered an entrepreneurial 'golden future', but occurs because of the absence of better employment opportunities in the corporate sector.

In conclusion, the long-term decline of self-employment seems to have come to a halt in most of the advanced industrialized countries, but this observation alone should not be taken as prima facie evidence that the 'future of work' lies unequivocally in small economic units. For the self-employed, being 'petty bourgeois' does not necessarily imply employment stability and autonomy in the labour process, and where it does, self-direction is often closely circumscribed by external dependencies and a tendency toward economic marginalization.

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Notes

1. We include unpaid family workers to maximize the time-series data available for the analysis and to recognize the importance of family labour to many self-employed.
2. The presence of significant autocorrelation was indicated because the estimated Durbin-Watson statistic was lower than the upper bound of the appropriate criterion value at the 5 per cent level of significance (Johnston 1972).

3. We also estimated models which included unemployment and GNP growth and controlled for the effect of time by including a linear an curvilinear trend variable. However, the high collinearity between time trend and the other regressors made it impossible to estimate their independent effects.
4. For example, some self-employed are really employees who are registered as self-employed to avoid or evade taxation, while some employees are really the self-employed owners of incorporated businesses. As we explained above, self-employment is a heterogeneous category, but data limitations do not permit a differentiated analysis in this paper.

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