

SELF EMPLOYMENT IN AUSTRALIA

Description, Analysis and Policy Issues

by

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Abstract

Most of the data used typically in analyses of self employment refer to unincorporated enterprises, and these numbers suggest strongly that the proportion of the labour force which is owner/managers has remained about constant over the last twenty years or so. However, in Australia there has been a very marked increase in the number of incorporated owner/managers, and there are solid reasons to believe that this trend is related to the increased tax burden on wage and salary earners. Significant caution in the use of published data on the self employed is warranted, including for other countries.

In demographic terms there appear to be important differences in Australia between groups in the factors associated with being (unincorporated) self employed, compared to being a wage and salary earner. Probit analysis of the probability of self employment illustrates important differences in self employment determinants between men and women, particular with respect to the presence of young children, which appears to encourage females to undertake self employment instead of wage and salary employment.

There are a large number of different types of government policy relevant to the self employed. The major scheme aimed at increasing the prospects of success for the prospective self employed, known as NEIS, is one of the few programmes to have been evaluated. There are important reasons to be wary about the result, however, and a different method is explored.

In a somewhat speculative vein we offer a new policy approach to the financing of prospective self employment. Its basis involves the government underwriting some proportion of a loan, with the participant agreeing to repay on the basis of future income or profits. However, the framework is relatively undeveloped and needs critical analysis.

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1 Introduction and Summary

Over the last several decades self employment (or “owner/managers”) has attracted increasing attention in OECD economies. Yet little is known generally about the self employed — their demographic and human capital characteristics, the reasons they have chosen this form of economic activity, and appropriate policies for governments to develop with respect to the group. What follows is a modest attempt to redress these obvious research shortcomings in the Australian context.

We highlight the importance of defining clearly the issues to be addressed in an analysis of self employment. It becomes obvious that for some questions the relevant data are not the same as they are for other inquiries. Take, for example, a question considered in Section 2: Why has the number of owner/managers in Australia increased relative to other forms of employment over the last 20 years or so?

We find that an answer is not likely to be found through analysis of the published self employment figures (which exclude incorporated enterprises), because just about all of the action lies with increases in owner/managers in incorporated enterprises. Some part of this group’s extraordinary growth is probably a result of the persistent increase over the last 20 years in the after-tax disadvantage for workers remaining in the wage and salary sector.

Section 3 examines the demographic characteristics of the incorporated and unincorporated self employed. As well, changes over time in (unincorporated) self employment numbers are examined, with the data implying (weakly) that the business cycle plays a role. The importance of disaggregation is also a theme of this Section in that significant demographic differences are revealed for the two groups. Moreover, there are significant differences in the factors associated with having self employment status, depending on whether or not the enterprise employs other workers.

Section 4 reports the results of regression analysis addressing the choice between unincorporated self employment and wage or salary employment. Two cross-sectional data sets are used — for 1981–82 and 1994–95 — which allows comparisons of relationships over time.

Government policy with respect to self employment is described in Sections 5 and 6. There is a plethora of programs at the Federal, and especially the State, level of government. However, the significant point is that there has been no well developed and integrated government approach towards self employment from either of the major political parties.

The (limited) evaluation of government policy towards the self employed is considered in Section 7. Only one scheme has been examined in any detail, which reflects the general paucity of evaluation processes. While the methodological basis of evaluation has been poor in the past, there has been recent progress in this area. We also offer a different approach for government financial assistance for the prospective self employed.

2 Self Employment: Definitions, Trends and the Role of Incorporation

2.1 Introduction

It is often suggested that there are two important trends in the Australian labour market which have impacted on individuals' labour market choices with respect to self employment. First, the aggregate employment situation since the mid 1970s has generally been adverse, and increasingly so (particularly with respect to male full-time employment). The unemployment rate, which varied between 1 and 2 per cent during the 1950s and 1960s, reached 11 per cent during the recessions of the early 1980s and 1990s, and is currently just above 8 per cent. Against this background, self employment is sometimes seen as a possible employment option for some of the jobless or potential jobless, and thus as a potential source of employment growth (see, for example, Burgess, 1990, Covick, 1984).

Second, low levels of employment growth have adversely affected taxation receipts and increased the need for government expenditure on social security programs. An important component of additional government revenue has been collected primarily as a result of less than full indexation of income tax schedules, with the result being that marginal (and average) income tax rates have increased for most of the Australian workforce. As the proportion of the employed labour force facing high marginal tax rates has increased, the incentive for individuals to seek business structures that provide opportunities for tax minimisation has concomitantly risen. Thus, self employment with incorporation is a logical response to higher income tax rates given that incorporated enterprises have access to a wide range of tax reduction options.

The usual published Australian data on the self employed are not ideal for an analysis of the changing importance of this part of the job market. The major problem is that the statistics define the self employed as those who operate their own economic enterprise or engage independently in a profession or trade (either with or without employees), and with the business not being incorporated. Australia is not alone in restricting the definition of self employment to the unincorporated sector, with this convention being adopted by the United Nations System of National Accounts; for example, Canada, France, Japan, the Netherlands, New Zealand, Norway and the United States use self employment measures defined in this way.¹

The measurement issue can be critical in an interpretation of self employment trends, there being at least two difficulties. First, an understanding of trends can be confounded by shifting proportions of the self employed from unincorporated (counted as self employed) to incorporated sectors (not counted as self employed). During the 1980s and 1990s these changes have been important in Australia.

Second, for some labour market issues it might not matter if owner/managers choose to incorporate, but for others it will be of central importance to distinguish between the two groups. For example, if the characteristics of owner/managers differ significantly between the incorporated and unincorporated sectors then policies and judgments based on the analysis and description of the unincorporated self employed alone could well be inappropriate. The recently available data indicate that there are important systematic differences between these two groups.

¹ Countries generally exclude owner/managers of incorporated business in the measurement of the self employed. If owner/managers of incorporated enterprises were included in the definition of the self employed in the United States the estimate of self employment would increase by about a third. The Australian data are similar. The public use micro data of Canada and the US however, do enable a distinction to be made between incorporated and unincorporated self employment.

The following considers the labour market trends and characteristics of unincorporated and incorporated self employed workers. The description and analysis are based on a limited range of data made available by the Australian Bureau of Statistics (ABS) in the Labour Force Survey (Cat. No. 6203.0), July 1997.

2.2 *Understanding the Importance of Incorporation*

It might be critical to distinguish between owner/managers in the incorporated and unincorporated sectors. Table 1 shows the relative composition of owner/managers at two points in time, 1978 and 1997.

Table 1
Self Employed Incorporated and Unincorporated Enterprises as a Proportion of all Employed: 1978 and 1997 (per cent)

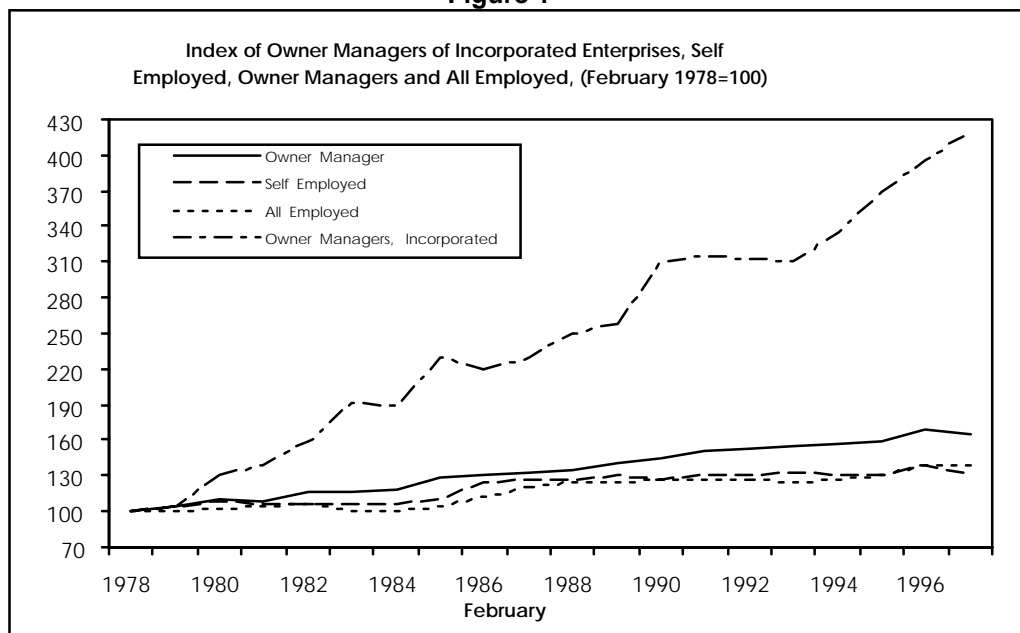
	Owner/Managers of Incorporated Enterprises		Owner/Managers of Unincorporated Enterprises		Total	
	1978	1997	1978	1997	1978	1997
Males	2.3	6.8	16.6	16.2	18.9	23.0
Females	1.0	4.0	11.2	10.8	12.2	14.8
Persons	1.8	5.6	14.7	13.9	16.6	19.4

Source: The Labour Force, ABS, Cat. No. 6203.0.

There are two points from the table. The first is that self employment in unincorporated businesses has become slightly less important in the Australian labour market, with the proportion of this group falling from about 15 to about 14 per cent of the employed labour force between 1978 and 1997. Of more interest is that the proportion of owner/managers in incorporated enterprise has grown very considerably, from around 2 to almost 6 per cent, an increase of nearly three-fold. Putting this differently, in 1997 the incorporated group made up nearly 30 per cent of the total, compared to just over 10 per cent only in 1978.

Some time series data distinguishing these trends are also available in the ABS July 1997 publication, and these are presented in Figure 1. They show that the extraordinary growth in the number and proportion of incorporated owner/managers between 1978 and 1997 reflects on-going and persistent trend increases. Compared to this group, increases in both unincorporated self employed and total employment have been very slight.

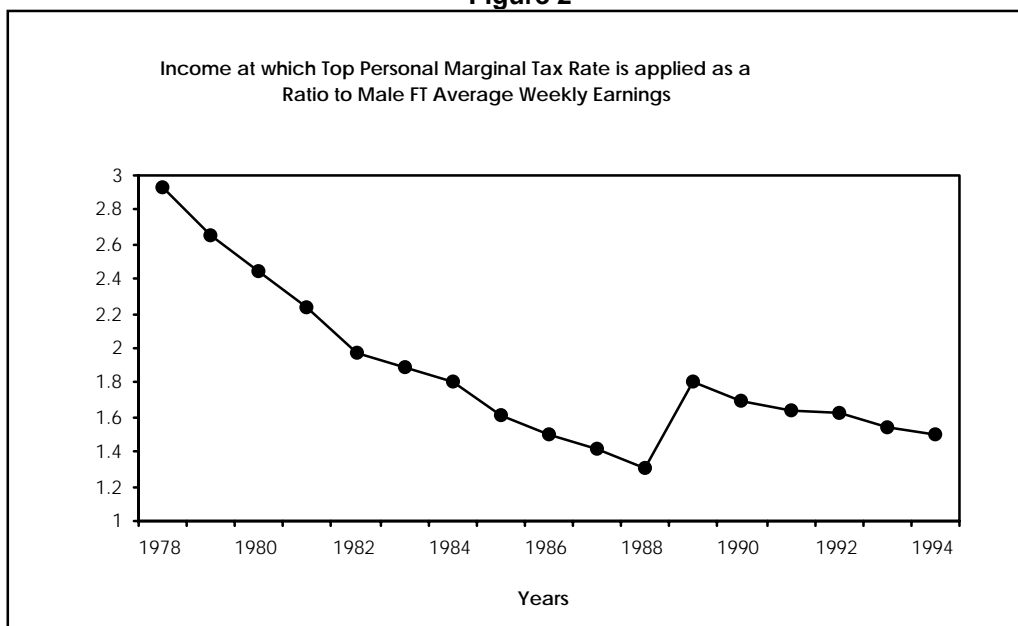
Figure 1



Source: *The Labour Force*, ABS, Cat. No. 6203.0, July 1997.

It is obvious that something quite significant has been happening. Potentially the answer is related to tax arrangements, because whether the self employed incorporate or not will depend in part upon the tax advantages of so doing. An explanation of the compositional changes could well lie in the interaction between tax arrangements and wage inflation, an issue now explored. Some critical data are shown in Figure 2.

Figure 2



Source: *Australian Economic Statistics*, Occasional Paper No. 8, Reserve Bank of Australia, 1996

From Figure 2 it is clear that the income level at which the top marginal tax rate on personal income is applied has fallen significantly, and since 1982 the top marginal tax rate has been applied at income levels less than twice male average weekly earnings. In the mid-1990s those earning just 60 per cent more than average male full-time weekly earnings paid the highest marginal rate, yet in the late 1970s, a person could earn almost 3 times the average before paying the top rate.²

These changes have happened not because Australian governments systematically reduced the income threshold at which the top marginal rate applies, but rather as a result of less-than-full indexation of taxes to wages. That is, as nominal wages increase, and in the absence of changes to the structure of income taxes, all wage and salary earners pay a higher proportion of income in tax. In Australia at present, the top marginal rate of income tax (which begins at \$47,000 per annum) is 47 per cent, whereas the corporate rate is a flat 36 per cent.

The above information is critical to an understanding of the marked move of owner/managers towards incorporation. It is likely to be the case that the increasing proportion of individuals subject to high tax rates has generated pressure for the self employed to incorporate their business activities. Because incorporation has the very significant advantage of much greater flexibility with respect to the paying of tax.³ Clearly, incorporation is more attractive when the tax rate is lower for business than it is for high wage and salary earners, our basic point being that this has become increasingly the case over the last twenty years or so.

There are two important implications from the above. One is that governments potentially undermine the tax base and its revenue potential if insignificant attention is paid to the effect of non-indexation for business formation decisions. Second is a critical measurement point. It is that a focus on the published Australian Labour Force Survey data (which generally only consider the self employed in unincorporated enterprises) implies the likelihood of misinterpretation of self employment trends.

An issue for the OECD is that the UN definition of self employment, adopted by the Australian Statistician and in many other countries, is becoming less useful in analysis of this part of the labour market. Those using unincorporated data should be doing so with circumspection and caution, particularly with respect to international comparative research, given that self employed definitions can change and differ between countries.

3 Characteristics of the Self Employed: Incorporation, Aggregate Data and Cross-Tabulations

3.1 Introduction

The above analysis of the possible connection between higher incorporation of the self employment over the last 20 years or so and tax policy is very aggregative. It is of interest to understand how these changes have differed for particular groups, and some aspects are now addressed. As well, this section examines the demographic characteristics of those recognised in the official data as self employed (that is, excluding incorporated owner/managers). While we have argued above that this self

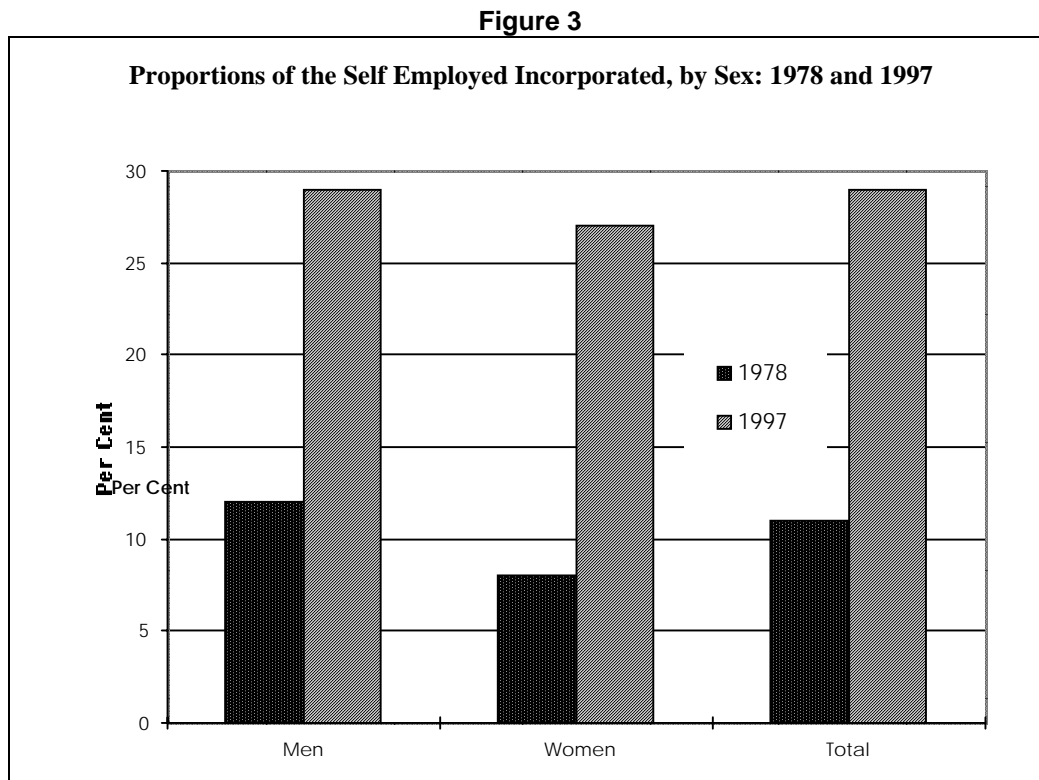
² Although it should be recognised that the top marginal tax rate has fallen somewhat over this period.

³ This works as follows. When the activities of the self employed are incorporated, the business can pay the owner/manager a relatively low wage, who then receives income from the company (which has a large number of legitimate tax advantages).

employment definition is not ideal for many purposes, the associations revealed are of interest, not least for potential comparisons between OECD countries.

3.2 Who are the Incorporated and Unincorporated Self Employed?

Figure 3 shows the gender composition of owner/managers by sector in 1978 and 1997. Of interest is that the increases in the proportion of the self employed who are incorporated have been similar between the sexes.



Source: *The Labour Force*, ABS, Cat. No. 6203.0, July, 1997.

A further distinction between incorporated and unincorporated owner/managers relates to measurable skills. Table 2 shows the associations between types of self employment and education for 1986 and 1997 (the only publicly available data).

Table 2
Distribution of Owner/Managers of Incorporated Enterprises
by Education: 1986 and 1997 (per cent)

	Owner Managers of Incorporated Enterprises		Owner Managers of Unincorporated Enterprises		Total	
	1986 %	1997 %	1986 %	1997 %	1986 %	1997 %
<i>With post school qualifications:</i>						
Degree	13.6	21.0	8.0	11.5	9.0	14.2
Trade Certificate	40.7	37.5	34.9	38.8	36.0	38.4
Other	1.1	6.2	1.5	6.9	1.4	6.7
Total	55.4	64.7	44.4	57.2	46.4	59.3
<i>Without post school qualifications:</i>						
Total	44.6	35.3	55.5	42.5	53.4	40.4
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Labour Force Status and Educational Attainment, ABS, unpublished data.

There are three interesting points. First, owner/managers in the incorporated sector are much better educated than unincorporated owner/managers; for example, in 1997, 21.0 per cent of the incorporated self employed held degrees compared to 11.5 per cent of the unincorporated self employed. Second, the proportion of the self employed with trade certificates is increasing in the unincorporated sector (from about 35 to 39 per cent), and falling in the incorporated sector (from about 41 to 38 per cent). Third, while both self employment groups have increased their education levels over the last two decades, in proportionate terms the increase has been slightly larger for those in incorporated enterprises.

The industrial composition of the self employed in aggregate and with respect to incorporation is presented in Table 3.

The data suggest that in 1997 about half of the self employed were in retail trade, construction or property and business services. These industrial distributions of the self employed seem to be similar in other countries.

In terms of changes in the industrial composition of self employment over about the last 10 years, several points are noteworthy. One is the very large fall (from about 23 to 11 per cent) of the self employed in agriculture, and second is the increase of owner/managers in property and business services (from 9.6 to 14.4 per cent). Changes in incorporation from 1986 to 1997 seem to be relatively high for property and business services, and low in agriculture.

While we have not tested directly the proposition that these industry differences and compositional changes explain the significant move in aggregate towards incorporation, the data from Table 3 suggest that the phenomenon is broadly based. This implies that the tax issues raised in Section 2 are potentially of considerable significance to an

understanding of the substantial increases in the incorporation of the self employed in Australia over the last 20 years or so.

Table 3
Distribution of Owner/Managers of Incorporated Enterprises
by Industry: 1986 and 1997 (per cent)

	Owner Managers of Incorporated Enterprises		Owner Managers of Unincorporated Enterprises		Total	
	1986	1997	1986	1997	1986	1997
	%	%	%	%	%	%
Agriculture	8.5	4.4	26.3	13.3	22.9	10.7
Manufacturing	12.7	11.8	5.2	7.0	6.6	8.4
Construction	16.3	16.6	15.4	17.5	15.5	17.2
Wholesale Trade	11.3	8.4	3.7	3.4	5.1	4.8
Retail Trade	19.2	15.7	20.1	16.0	19.9	15.9
Accommodation, Cafes & Restaurants	2.8	2.9	3.0	3.7	2.9	3.5
Transport	3.6	4.3	5.5	5.3	5.1	5.0
Communication	0.2	0.5	0.4	1.0	0.4	0.8
Finance	4.1	2.7	1.0	0.8	1.6	1.3
Property & Business Services	13.8	20.1	8.6	12.0	9.6	14.4
Education	0.2	0.5	1.0	1.2	0.8	1.0
Health and Community Services	4.0	5.0	3.0	3.8	3.2	4.1
Cultural & Recreational Services	1.5	2.0	2.2	3.4	2.1	3.0
Personal and Other Services	1.3	1.8	4.6	5.1	4.0	4.2
Total (a)	100.0	100.0	100.0	100.0	100.0	100.0

Source: *Labour Force Survey*, ABS Cat. No. 6203.0, July 1997.

A final dimension explored with respect to incorporation status, and how it has changed over time, concerns hours worked. Table 4 shows these break-downs, by sex.

Table 4
Average Weekly Hours Worked: 1986 and 1997

	Males		Females		Persons	
	1986	1997	1986	1997	1986	1997
Owner/Managers of Incorporated Enterprises	51	51	29	31	46	44
Self Employed	48	47	31	30	43	41
Owner/Managers	49	48	31	30	44	42
Non-owner Employees	38	39	30	30	35	35
All Employed	40	41	30	30	36	36

Source: *Labour Force Survey*, ABS, unpublished data.

On average the self employed work more hours per week than others, and this is particularly marked for incorporated owner/managers. Males in this category work an average of 51 hours per week, with males in the unincorporated sector working 47

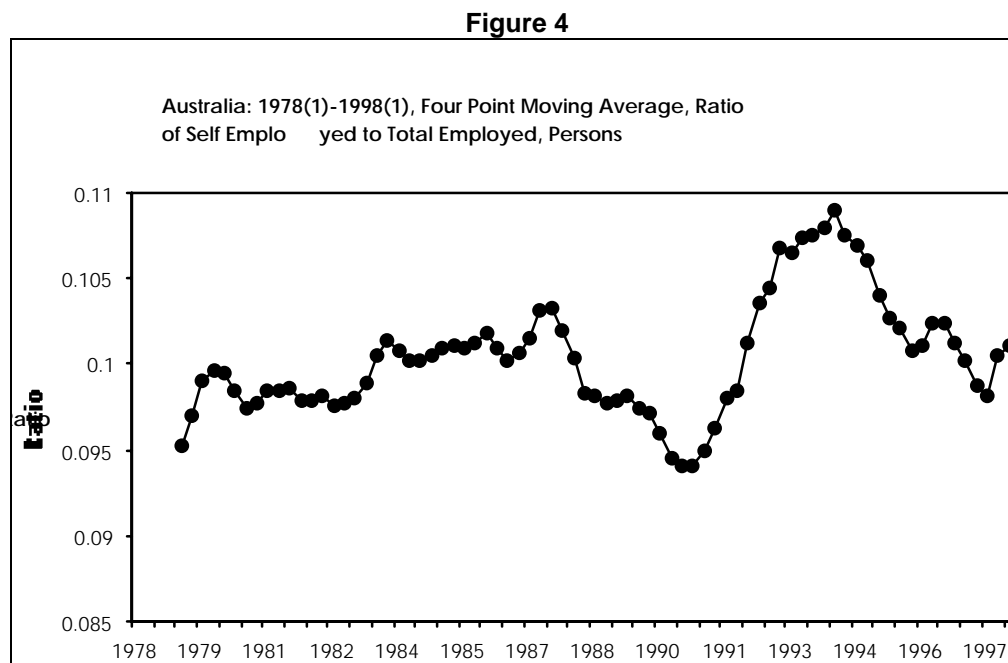
hours. Female hours worked do not vary by employment status, which means that the difference in overall average hours worked between the self employed from the two sectors is attributable to the differences between males. There is clearly an important gender difference in the numbers of hours worked and the extent to which hours differ between employment categories.

3.3 *The Broad Characteristics of the Unincorporated Self Employed*

As has been noted, the data usually used in a description of Australian (and other countries) self employment relate to people in unincorporated enterprises. In this section we examine the aggregate and demographic characteristics of this group. An interesting distinction is whether or not there are other employees in the enterprise, and this breakdown is explored to some extent.

3.3(i) Self Employment and the Business Cycle:

A macroeconomic issue often raised with respect to a person's choice of labour market status is that of alternative job opportunities. It has been observed across OECD countries, and in Australia, that self employment growth in the unincorporated sector has tended to coincide with periods of economic recession. According to Stricker and Sheehan (1981), (unincorporated) self employment is a potential alternative to, or refuge from, unemployment. Of relevance to this issue is the share of total employment of (unincorporated) owner/managers without other employees, presented in Figure 4.



Source: *The Labour Force*, ABS, Cat. No. 6203.3.

From the figure there are three major changes in the proportion of Australian employment which is unincorporated self employment: a decrease from 1987 to 1990; an increase from 1990 to 1993–94; and a decrease from 1994 to 1997. It is of interest to note that the Australian labour market grew very strongly in the first and third of these periods, and stagnated significantly in the second. This implies, but does not establish, that self employment is an alternative to unemployment for some individuals; certainly it seems that more rigorous research along these lines is likely to be fruitful.

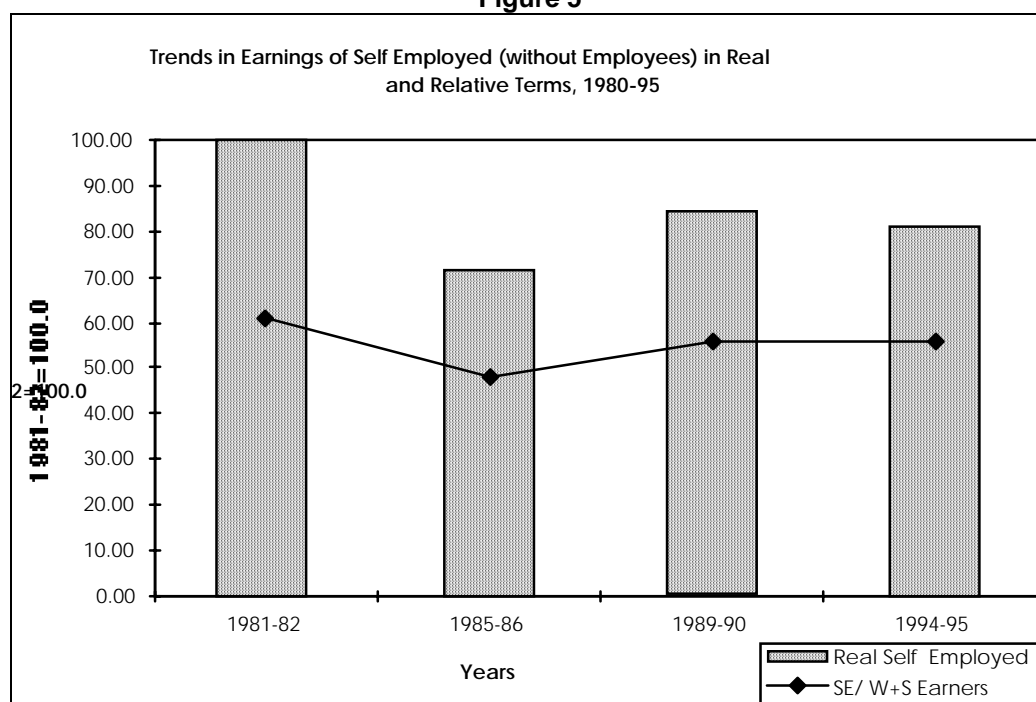
The coincidence of self employment growth and falling total employment brings us back to the UN definition of self employment. In contradistinction to the above findings it seems that growth in the numbers of self employed who are incorporated have tended to coincide with periods of rapid aggregate employment growth. Reference to Figure 1, for example, shows that the strong trend growth in incorporated self employment flattened considerably in the stagnant labour market of 1990–92. This suggests another important difference between the self employed in the incorporated and unincorporated sectors, and is illustrative of the importance of increasing the range of data publicly available so that analysis can be directed towards explaining these different trends.

3.3(ii) (Unincorporated) Self Employment Incomes:

It is likely that the self employed without employees have different incomes to the self employed with employees. However, survey data on income/earnings statistics for the self employed are hard to interpret, for several reasons. One is that in response to a question such as “how much did you earn [in the last period]?”, a self employed person might report the total revenue from the enterprise, which could include returns to capital and/or land, rather than what is attributable to their specific input. A second survey concern relates to the possibility that self employed people might understate their income for taxation reasons.

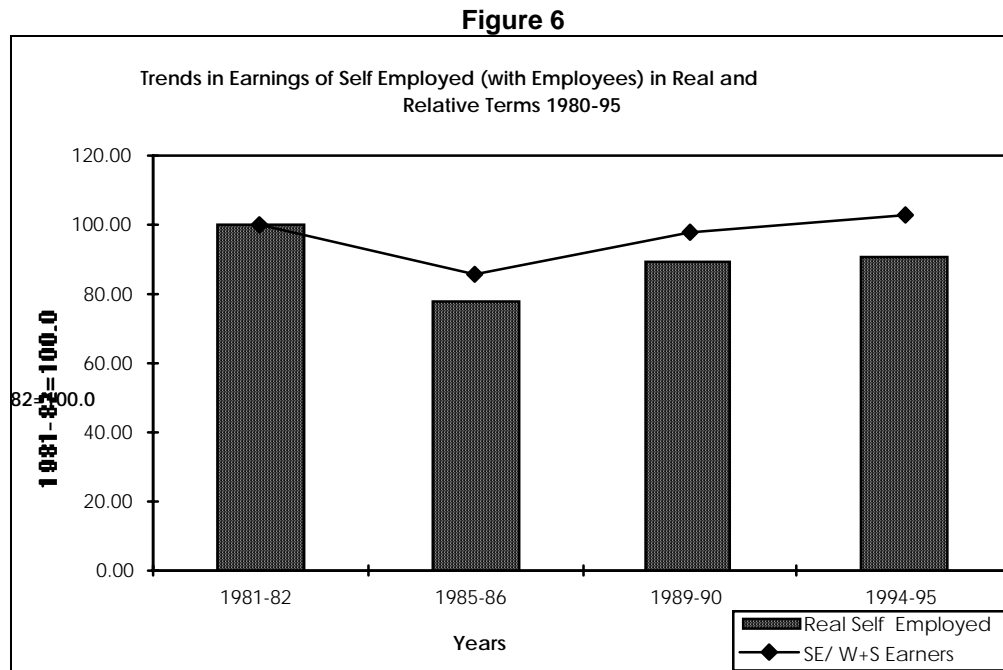
Even given the above measurement issues from survey data, it is of interest to record the reported incomes of those measured as self employed both with and without employees, and to see if these proportions have changed over time. Figures 5 and 6 show these relationships, both in real terms and relative to full-time male wage and salary employees, for four years over the 1980 to 1995 period. The periods reported correspond to the availability of the Australian Bureau of Statistics Household and Income Surveys.

Figure 5



The data from the Figures suggest the following. The real average incomes of the self employed without employees fell by about 30 per cent in the early 1980s and have not recovered much since, and this group has much lower reported incomes than wage and salary employees over the whole period. The self employed with employees seem to have higher average incomes than wage and salary employees, although their relative income changes over time are very similar to the self employed without employees.

Many studies of poverty and living standards use expenditure rather than income data, an approach which has the potential advantage of expenditure being a better indication of true income. Analysis of the 1993–94 Household Expenditure Survey by Bradbury (1997) found that the self employed have significantly lower average incomes than wage earners, and that average expenditures were also lower by 70 and 84 per cent, respectively.



Sources: *Income and Expenditure Household Surveys*, ABS, 1981–95.

Bradbury also found that there is a much smaller difference in poverty measures between the groups if expenditure measures are used, although they still exist: holding demographic characteristics constant, about 13 per cent of the self employed were more likely to be poor. Using weighted expenditures — after adjusting for the possibility that household consumption is being financed directly by the business (eg. vehicle running costs) and shopping variability (lumpy consumption) the gap between the poverty rates narrows to 6 per cent.

The systematic understatement of income by the self employed has important implications for social policy in Australia, where transfers are generally based on some form of incomes test. Indeed the self employed seem to receive higher social security per child than average, possibly because income measurement is the primary targeting mechanism. This result may be unintended given the actual pattern of living standards among the self employed and could reflect that they have a higher rate of home ownership and thus a higher net wealth than other social security recipients (see Bradbury, 1997, p. 386).

3.3(iii) Self Employment and Demographic Variables:

From the Income and Expenditure Household Surveys and other data,⁴ we are able to summarise the major characteristics of the (unincorporated) self employed in Australia. The two groups of the unincorporated self employed, with and without employees, are distinguished when relevant.

Gender

In 1985, the young self employed were disproportionately (71 per cent) male, a pattern similar to that in the US (Blanchflower and Meyer, 1994). In 1994–95 men still dominated both categories of measured self employment, accounting for 63.5 per cent of those with employees, and 68.4 per cent of those without employees. But while this share has been stable since 1981–82 for the category without employees, it has fallen by some six percentage points for the group with employees (from 70.7 per cent). This suggests that the share of women in the group of self-employed with employees has risen by about one-fifth since the early 1980s.

Women's participation in self employment is approximately as high as in the full-time wage and salary group. Women represent about one-third of both of these groups; indeed the only labour force categories dominated by women are part-time work, and the relatively small categories of work which are labelled unpaid and paid in kind, as well as those not in the labour force.

In terms of levels, in the 1990s in Australia about one third of the 1.3 million small business operators (DWRSB, 1998, p. 5), and 47 per cent of home-based businesses operators are women (ABS and OSW, 1998, p. 120). Other survey evidence reported by government agencies suggests that the proportion of women working in their own business is increasing.

Age

International evidence suggests that self-employment is more common among middle-aged groups than among youth. The same seems to be true in Australia. For example, while 35 per cent of the 15–24 age group were in full time employment, only 2.4 per cent were self-employed. Among the next age group (24–35 years), the rates are closer to the overall averages for the work force.

Since 1980 the share of youth (aged 25–34) has fallen for both categories of self employment. Between 1980–81 and 1994–95, the share of self employed youth with employees fell from 25 to about 17 per cent, and in the group without employees, from 29 to 21 per cent.

In 1994–95 individuals with their own business with employees are largely in the 35–44 year age group. About 39 per cent of the self employed without employees are in the 45–64 year age group.

Marital and Family Status

Given the age structure of the self employed it should be expected that most would have family responsibilities, and this preumption is reflected in the data for 1994–95 which show that over three-quarters are in married or *de facto* relationships. A majority (55 per

⁴ In the interests of parsimony we do not present these data. They are available from the authors.

cent) of the self-employed with employees have dependents, as do about 45 per cent of those without employees. Relatively few are single parents.

Place of Birth

The country of birth of the self employed is of interest, not least because of current debates in Australia about immigrant intakes, motivated in part from concerns about immigrant adjustments to the labour market. Self employment and small business have been an important activity for postwar immigrants in Australia, as they have been in a number of other OECD countries.

Self employment is often portrayed as a way for immigrants to establish themselves in the labour market, in part because such an activity might minimise both potential discrimination and the possibility of non-recognition of educational qualifications (see Chapman and Iredale, 1991). In 1991, about one quarter (25.3 per cent) of all male employers in Australia was first generation immigrants, and the figure for women is similar (see Collins, 1990, p. 3).

Overall rates of self employment are only slightly higher for overseas born individuals. However, there is significant variation by region of birth: from about 10 per cent (immigrants from South Asia) up to 25 per cent for immigrants from Europe (Le, 1995, Table 8). This pattern may be explained partly by the fact that larger scale Asian immigration is a relatively recent (post 1970s) phenomenon, whereas the flow of European immigrants started in the 1940s.

Rates of self employment are higher among immigrants who arrived prior to 1971 (23 per cent), whereas those who arrived after 1990 had a low self employment rate (9 per cent) (*ibid*, p. 141). One potential factor affecting self employment rates might be the existence of an enclave market, influenced by, for example, language groupings. Le (1995) suggests that the rates of self employment vary little between those who speak English well, and those who speak none at all, suggesting that the latter are able to function effectively in a self employment context.

Recent analysis has examined the role of self employment in the context of immigrant wage differentials, using household survey data collected in 1982 (Kidd, 1993). It appears that immigrants from non-English speaking countries experience similar wage disadvantages in self employment as they do in wage and salary employment. This might suggest that self employment is not obviously a way to avoid labour market disadvantage. By way of contrast, immigrants from English speaking countries have mean earnings which are slightly higher than the Australian born self employed. These income differences for the self employed between immigrants according to their country of origin are essentially replicated for wage and salary earners (see Beggs and Chapman, 1988).

Region

Data on employment by State suggest that self-employment is fairly equally distributed, with the main exception being with respect to Queensland. Queensland accounts for about 23 per cent of self employment with employees but this State has only about 18 per cent of Australian employment. This can probably be attributed to the role of industrial composition, attributable particularly to Queensland's significant level of tourism.

The location of the self employed between the various capital cities and non-metropolitan areas suggests a surprisingly equal distribution. However, the share of those employed classified as self employed is higher than the national average in non-metropolitan areas, with owner/managers without employees accounting for 12.2 per cent in non-metropolitan areas in 1994–95, compared to the national figure of 8.7 per cent.

Sector of Activity and Occupation

In the OECD generally over the past two decades, self employment has risen in the service sector, and either stagnated or declined in manufacturing. Professional self employed has been growing fastest among various categories in a number of industrial countries. For Australia we report the following.

First, while agriculture is not an important source of employment overall, accounting for only 4.4 per cent of the total, there are high proportions of self employment without employees (47 per cent). As a share of total self employment it has declined somewhat, from 17 per cent in 1980 to 11 per cent in 1994–95. Even so, in the recent period almost one in five of the Australian self employed are in the agricultural sector.

Self employment is also significant in construction, accounting for 35 per cent of employment in the sector, and four out of five owner/managers in construction have no employees. Self employment is relatively less important in the transportation sector, accounting for about 14 per cent of employment.

In manufacturing, which represents about 7.5 per cent of the Australian total, a very small minority of those employed (7 per cent) are self employed. Within services the extent of self-employment varied significantly by sub-sector; for example, wholesale and retail trade, and property, had high levels (about 15 per cent of employment).

The aggregate published data on the industrial composition of self employment are consistent with the econometric findings of Blanchflower and Meyer (1994), who analysed youth (aged 16–25 years) self employment from the Australian Longitudinal Survey. They found that the typical young self employed Australian was male, had a skilled manual occupation, and worked in either agriculture or construction, with significant shares being also found in trade and services. In comparison to wage and salaried workers, the self employed were somewhat more likely to work in skilled trades and about twice as likely as others to have completed an apprenticeship.

Their multivariate analysis revealed that the probability of moving to self employment showed a similar profile: higher for older males who had completed an apprenticeship, were in a basic manual or skilled occupation, and/or were employed in agriculture. The number of years of schooling, marital status and ethnicity did not seem to matter. Blanchflower and Meyer report also that Australian self employment correlations with industry are similar to those found for the US.

It seems that Australians and Americans are more likely to start businesses in agriculture, construction, wholesale and retail trade, and personal services (Blanchflower and Meyer, 1994, p. 16). The main difference reported between the countries is that apprenticeships were relatively important determinants of self employment in Australia. In the next section we report results of multivariate analysis not restricted to youth.

4 The Self Employment Choice: Regression Analysis

4.1 *Background*

Cross-tabulations have the advantage of simplicity. However, some of the conclusions implied above concerning the association of (unincorporated) self employment status with demographic and other variables might be erroneous because of correlations with other significant factors. That is, we can't be confident of these associations unless there are controls for the influence of other forces, and this is why regression analysis is useful.

We report on the variables associated with the self employment/wage and salary job choice. Data for the self employed in the unincorporated sector are used, and the models are estimated for two cross-sections only, using the 1981–82 and 1994–95 data from the Income and Housing Distribution Surveys. The dependent variable takes the value of one if the individual is self employed and zero if a wage and salary earner.

4.2 *Results*

The marginal effects are presented in Table 5. The independent variables fall into three broad groups: location (urban and state of residence), a series of education dummies; and demographic. The last group includes age and age squared, marital status, year of arrival of immigrants, number of dependents, and the age of youngest dependent. The variables and the omitted dummies are described in the Appendices.

The coefficients show the marginal effect on the probability of being self employed compared to being a wage and salary earner, holding all the other characteristics at their average values. Most of the comparisons relate to categorical variables, with the right interpretation thus being the probability of a change in employment status for the relevant dummy variable changing from zero to one. We restrict our attention to the effects that are statistically significant, with the following relationships being noteworthy.

Even given the exclusion of the agricultural sector, urban compared to rural residence has a negative impact on the probability of self employed, in both periods for women and in 1981–82 for men. However, this location effect is generally slight (around 3 per cent). Relative to living in New South Wales, Australia's most populous state, women in the Australian Capital Territory, Queensland, South Australia, Western Australia and Tasmania were slightly (up to 5 per cent) more likely to be self employed in 1981–82, but by 1994–95 none of the State location influences were significant.

Table 5
Marginal Effect of Variables on the Probability of Self Employment

	<u>1981–82</u>			<u>1994–95</u>	
	male	female		male	female
urban	-0.0271**	-0.0394**	urban	-0.0170	-0.0228**
ACT/NT	-0.0489**	-0.0456**	ACT/NT	0.0014	-0.0347**
Vic	-0.0157	0.0011	Vic	0.0248	-0.0054
Qld	0.0187	0.0427**	Qld	0.0257	-0.0030
SA	-0.0070	0.0295**	SA	0.0102	0.0139
WA	-0.0160	0.0242*	WA	0.0188	0.0247
Tas	-0.0385**	-0.0373**	Tas	0.0069	0.0456**
noqual	-0.0175	0.0327**	noqual	0.0337*	0.0094
highsch	-0.0753*	0.0574	vocskill	0.0917**	0.0113
trade	0.0377**	0.0207	postgra	-0.0091	-0.0521**
other	-0.0423	0.0609			
age	0.0234**	0.0082	age	0.0072**	0.0030
agesq	-0.0003**	-0.0001**	agesq	0.0000	0.0000
married	0.0350**	0.0628**	married	0.0273*	0.0153
yoa70	0.0369**	0.0225**	yoa76	0.0292	0.0452**
yoa74	0.0114	-0.0175**	yoa80	0.0526	0.1259**
yoa79	0.0068	-0.0171	yoa90	-0.0224	0.0117
yoa82	-0.0158	0.0143			
dep2	-0.0138	0.0235	dep2	-0.0111	-0.0132
dep4	0.0214	0.0455	dep4	-0.0188	-0.0044
dep5	0.0644	0.0354			
agydep4	0.0366	0.1367**	agydep4	0.0307	0.1288**
agydep9	0.0001	0.0396	agydep9	0.0243	0.0712**
agyde14	0.0087	0.0264	agyde14	0.0234	0.0161
agyde20	0.0124	0.0267			
no of obs	10101	6039		4272	3336

The picture with respect to education is mixed.⁵ For men, consistent with previous studies (Blanchflower and Meyer, 1994), vocational skills are an important positive factor contributing to the probability of self employment. The size of this effect is larger in 1994–95, suggesting a difference of up to 10 per cent.

⁵ Although there are slight differences in the definition of variables due to changes in statistical practices between the two periods.

Again confirming previous studies, age is positively associated with the probability of being self employed (although for males in both periods there is a weak hump-shaped relationship, meaning that as men become older the age effect dissipates to some extent). This is consistent with the possibility that capital constraints are more important for youth.

Being married is significantly associated with the probability of self employment (for both women and men in the early 1980s) and the size of the effect was about twice as large for women. But marital status was not significant in 1991–92 for women, although for men, the association is significant at the 10 per cent level.

The results for migration status and date of arrival suggest that immigrants who arrived prior to 1970 were more likely to be self employed than the native born. This is true for men and women in both periods, but the possible size of this effect overall implies a less than 5 per cent difference in the employment status probability.

The number of dependents is not a significant determinant of self employment compared to wage and salary employment, for either men or women. While the result for women is perhaps surprising, a more expected finding is that having a child under four years of age has a significant and large effect on the probability of women being self employed in both periods: it is of the order of 12–13 per cent. Also significant for women being self employed in the early 1990s was the presence of a child under 9 years of age.

These results might suggest that women with young children interested in paid employment find self employment more attractive to the alternative of wage and salary jobs. This might be because being self employed is a more flexible form of paid labour market activity.

4.3 Regression Analysis Conclusions

The relationship between individual characteristics and the choices made in Australia between (unincorporated) self employment and wage and salary employment have been reported above, for two different cross-sections: 1981–82 and 1994–95. This is of interest for at least two reasons.

One, these associations have not previously been estimated for Australia using the same data source for different periods of time, and they thus reflect self employment and its changes over the last 15 years or so. Two, the results allow comparisons with other OECD countries' relationships between demographic variables and the likelihood of self employment. This should lead to a more informed understanding of the role of policy and institutions as influences on self employment.

5 Government Self Employment Policy

5.1 Introduction

In this part we review the policy framework related to self employment. This encompasses a range of areas, from social security and taxation through to business regulation and industrial relations.

There is a range of policy issues presently on the national agenda that are directly relevant to the self employed. In general, however, these are framed in terms of small

business and micro business, rather than the self employed *per se*.⁶ Some of these have been raised by the conservative Federal government (elected in 1996), in particular with respect to the reform of employment law and measures to assist small business. The latter includes a recent report, “Finding a Balance”, which examines business conduct issues with particular reference to the position of small retail tenants and franchisees, areas of industry in which there have been repeated calls for action against unfair conduct.

There are a plethora of government agencies and lobby groups at both the State and Federal levels undertaking activities relevant to the self employed. While these are generally targeted at “small business”, these often have direct bearing on the policy framework and support programmes for the self employed. Box 1 outlines the nature and activities of just a few of these agencies.

Box 1: Government Agencies and Lobby Groups

This box provides a sense of the types of bodies that exist to represent and/or serve the interests of the self employed.

Governments have established a number of the agencies that are considered to represent the interests of small business, and the members of the agency are often selected by government. For example, the Queensland Government established the Small Business Council of Queensland in fulfilment of an election promise to form “an industry based Small Business Council made up of representatives from industry to advise government on matters of concern to small business”. The role of the Council is to provide advice on small business matters to the Queensland Government through the Minister of Tourism, Small Business and Industry by: (i) identifying issues of concern to small business and proposing policies and programs to address these concerns; (ii) acting as a channel of communication (as distinct from a public lobbyist) between the small business community and the Minister; and (iii) responding to requests from the Minister for advice on the implications for small business of specific policy matters

5.2 *Social Programmes*

The system of social security in Australia differs from most other OECD countries. Programmes which are run (more or less) on social insurance principles in the USA, Canada and much of continental Europe are implemented in Australia on a universal, means-tested basis financed from general taxation revenue. They include unemployment benefits, health care and (minimum) old age pensions. With respect to these programmes there is no distinction made between salaried workers and the self-employed.

⁶ The categories of small or micro business and self employment obviously overlap, but the categories are not synonymous. Differences arise for two reasons: first, by definition, self employed should not be incorporated; and second, there is no limit on the employment size of the operations of the self employed. A recent survey, the 1995 Business Longitudinal Survey, which covered 9,000 employing firms across most sectors, found that 45 per cent of micro businesses are companies, 38 per cent are sole traders or partnerships and about 2 per cent were franchises. The survey defines micro businesses as firms employing fewer than five people.

The main exception concerns retirement savings. In Australia the system of social security for the elderly has undergone significant changes over the last decade with the development of compulsory savings (known as superannuation) for wage and salary earners. Superannuation has been seen as an increasingly important part of income support for the elderly. Employers pay a compulsory minimum, based on a percentage of the wage bill, with respect to each of their employees. As we explain in the next section, the self-employed are generally not considered to be employees, and therefore are outside the scope of these arrangements.

It appears that the self employed are far less likely to be covered by these superannuation arrangements. *Superannuation Australia* (ABS, 1993) reveals that only about 23 per cent of self employed (unincorporated only) women were covered by superannuation in 1992, compared to 86 per cent of female wage or salaried employees (Murphy, 1996). The data suggest also that immigrant groups with particularly high rates of self-employment – women born in the Middle East and North Africa, Vietnam, Italy and Northeast Asia – had very low levels of superannuation. Individuals who have not had superannuation contributions made on their behalf have to depend on the basic government pension for support in old age.

5.3 *Labour law*

Labour law in Australia has historically played an important protective function. The system of employment contracts at common law is overlaid with a complex system of regulation of labour conditions and standards at the state and federal levels. Such rules bind all employers, including the self-employed, with employees. The system is also changing rapidly as a result of initiatives introduced by the conservative Federal Government that was elected in 1995 with an agenda that included wide-ranging reforms of workplace relations. It is beyond the scope of this report to provide a full summary of this system; the analysis here is limited to those aspects most relevant to self-employment, and drawing attention to those issues at the forefront of the current debate.

Labour law is potentially relevant to self-employment in two broad senses. The first relates to whether the protective function of the law, as developed through the common law and statute, extends to individuals who are working on a self employed basis. The second relates to the regulation of the behaviour of the self employed as employers. The first question is more interesting, and important, since three out of four self employed in Australia are not themselves employers.

There is a conventional legal distinction in Australia, as is the case in the United Kingdom, between a contract of service and contract for services; only those engaged in the first have been regarded as employees and, traditionally, only employees have been accorded employment protection at common law and under statute. Such protection derives from a variety of sources: State, Territory and Commonwealth laws, industrial awards and agreements, tribunal decisions and contracts of employment (whether they are written or verbal). These include, for example:

- obligations for the employer – such as, not to unfairly dismiss their employees and to provide redundancy benefits given layoffs, compensation liability, and the provision of a safe workplace;

- union coverage and award provisions imposing minimum rates of pay and controls on working hours and conditions; and

entitlements for the worker - for example, annual holidays, parental leave and sick leave.

A question then is, how does the law determine who is an employee and who is self employed? The term “employee” is not generally defined by legislation, and its meaning is left to common law. The conventional tests developed by the courts are based essentially on the concept of a “right of control” over the manner of performing the work as the hallmark of a “contract of service”. For example, if employees have the right to work for others, and to delegate work, they would be deemed to be working under a contract of service (this practice is apparently common with respect to computer programmers (see Probert and Wajcman, 1988).

However the indicia used by the courts can be manipulated by firms so that workers can be classified as independent contractors or self employed, without the obligations that accompany the employment relationship. Hence there is the phenomenon of the “dependent contractor”. Vandenhoevel and Wooden (1995) have cast light on the frequency and nature of this relationship in Australia. They estimated that of the 7.5 per cent of total self employed in non-farm employment in 1994, about 38 per cent were dependent on a single hiring organisation. This large group of dependent contractors is thus treated by employment and other laws as self employed, but in reality they are much more akin to wage employees.

What is the legal basis for the self employed categorisation? A number of cases establish that merely using the term “independent contractor” will not suffice. There are also cases where judges have looked at the substance of the relationship and deemed a number of truck owner/drivers and shearers to be in the category of employees⁷

Some have argued that this deeming strategy is unsatisfactory (see, for example, Stewart, 1994). In the early 1990s the then Labor Government sought to extend the rights of the self employed via union coverage, but encountered heavy opposition from employer and other groups. The result was that the proposed package was curtailed, and the reforms were limited to clarifying the right of contractors to join Federally recognised unions and the institution of an unfair contracts review procedure.

The latter gave the (Federal) Industrial Relations Commission (that is, the Australian employment court) jurisdiction to review contracts involving an independent contractor on the grounds that the contract was unfair, harsh or against the public interest.⁸ However the review process only operates where the contractor was a member of, or had applied to join, a registered union — which means that the workers who are most vulnerable to deception or exploitation are those who are least likely to be unionised (Stewart 1994, p. 228).⁹

A recent government report (DWRSB, 1998) noted that: “one of the most prominent problems encountered by micro businesses is the multiple definitions of an

⁷ *Re Porter* (1989) 24 IR 179, and *Pitcher v Langford* (1991) 37 IR 38.

⁸ A similar power already existed at the State level in, for example, New South Wales.

⁹ An alternative approach would be to redefine ‘employee’ for statutory purposes with regard to the substance and practical operation of the parties’ relationship, and extend the relevant award and statutory benefits. A number of British legal academics have offered techniques to identify a contract of service. Collins (1990) suggests looking at first, the allocation of the risks of poor performance and unavailability of work; and second, the use of work rules, supervision and opportunities for promotion. In both cases there is obviously a spectrum of possible relationships.

employee...”. While it seems that the Government currently intends to establish a matrix outlining all the definitions of an employee, there seems to be a case for policy to develop further a common definition of an employee.

We have noted that the self employed who are themselves employers are subject to a range of rules and regulations which create minimum entitlements and legal rights for employees, and establish a set of requirements for employers. The current Government recently passed the *Workplace Relations Act 1996* which was aimed to supporting a more flexible system of industrial relations that would be better suited to the needs of small employers. For example, the scope of unfair dismissal laws has now been limited to employees with more than twelve months continuous service in businesses with fewer than 15 employees.

5.4 Taxation

5.4 (i) Current Taxation Arrangements:

Taxation compliance and the associated paperwork are often cited as areas of concern for the self employed, and small business generally. Perceived problems include the number of taxes, the frequency of changes, interpretation difficulties and the compliance burden (see DWRSB, 1998, p. 36). There is evidence that the internal costs of taxation compliance are disproportionately larger for smaller firms (Industry Commission, 1997, p. 61).

At the same time, there is a range of exemptions for small business (and for the self employed), as well as concessional rates in a number of contexts. There are also vehicles for tax minimisation that are available to the self employed but not generally to wage earners, such as trusts. Hence the net effect of all tax provisions on the position of the self employed relative to wage earners and large companies is unclear.

Individuals who work as self employed are liable to pay income tax. Recall that the basic definition of self employment requires that they operate their business on an unincorporated basis. This means that, legally, they are regarded as being one and the same entity as the business. Similarly, a “partnership” is an association of persons carrying on a business and is not treated for tax purposes as a separate legal entity, which is also the case for so-called “sole traders”.

The basic difference between the (unincorporated) self employed and other business structures is that those in the former group pay tax at the personal rate, and not the rate set for corporate income taxation. This distinction underlies the critical issue explored in Section 2 with respect to the factors behind the large growth in the incorporation of the self employed.

As well, the self employed pay what is known as “provisional” taxation on their non-wage income. Provisional tax is based on an estimate of income to be earned in the current financial year and is payable prior to the close of the financial year. The removal of provisional taxation for small business has been the subject of intense lobbying, it being argued that sole traders and partnerships are unfairly treated.¹⁰ The Council of Small Business Organisations of Australia, a peak representative body, argues that they

¹⁰ R. Bastian, Chief Executive of the Council of Small Business Organisations of Australia (COSBOA)

should be considered more like companies than individual taxpayers, and should be treated as such for tax purposes.¹¹

The self employed with employees are subject to additional taxes that are paid by all employers. The most important among these are payroll taxation and superannuation contributions. Payroll taxation is an important revenue source at the State level, although small scale self employed are exempt, with the details differing by State. In New South Wales, for example, under *Pay-Roll Tax Act 1971*, only employers paying wages in total in excess of \$600,000 are liable for payroll tax.

Under the Superannuation Guarantee all employers are required to make minimum levels of superannuation contributions to a superannuation fund for employees, although this can be claimed as a tax deduction. The minimum amount of superannuation support payable is 6 per cent of each employee's earnings base. Employers who do not make the minimum contribution pay a compulsory superannuation charge and lodge a statement with the Tax Office. There are concerns among the self employed with employees that the superannuation process imposes significant administrative burdens, and add to their potential legal liabilities if they act in breach of the legislation.¹²

Whether or not the self employed engage others, they may be liable for what is known as sales tax. Sales tax is a once-only tax on goods that are manufactured or imported into Australia, and is generally paid when a manufacturer or wholesaler sells the goods to a retailer. Currently there are exemptions, for example, with respect to most food and clothing. Also relevant is the Small Business Exemption for sales tax, which is available to businesses which were liable for \$10,000 or less sales tax during the last 12 months and expect to be liable for \$10,000 or less sales tax during the next year.

The timing of payments for sales tax, like provisional taxation, can create working capital and cash flow problems for the self employed. Because sales tax is raised at the time income is earned rather than received, operators have to rely on other sources of cash flow to meet these obligations. Another more general perceived problem is that the various rates and systems of exemptions for wholesale sales tax are too complex.

There is a range of other taxes that are generally applicable to the self employed, just like everyone else in the Australian economy. This includes the Medicare (health) levy, which is a 1.5 per cent tax on an individual's taxable income, and capital gains tax. Again, however, there are some exemptions for the self employed if they fall into the category of small business.¹³ Rollover relief for small business means that the sale of business assets in order to reinvest and expand one's business may be eligible for capital gains tax rollover relief. There are also retirement exemptions where small business assets are sold to fund retirement.

5.4(ii) The 1998 Tax Reform Debate:

The reform of the taxation system is among the most hotly debated topics in Australia at present and is the most significant policy issue for the 1998 Australian election (to be held on 3 October 1998). A major distinction between the political parties is whether or

¹¹ Both major political parties have endorsed the elimination of provisional tax after the October 3 (1998) election.

¹² This may not generally be well understood. See DWRSB (1998) p. 34.

¹³ For example, there have been some changes to the capital gains tax rules for small businesses.

not a broadly-based goods and services tax (GST), proposed by the present Government, should be introduced.

The current Government's preferred package includes a range of reforms, including the reduction of personal income tax rates and the abolition of existing wholesales and sales taxes, to be introduced in 2001. If the current Government is re-elected, the reforms would impact upon the self employed, although the net effect is unclear, and would differ by sector. The important point is that by the time this paper is presented the prospective taxation regime faced by the self employed in Australia might be quite different to current arrangements.

5.5 *Regulatory framework*

The regulatory framework that governs the activities of the self employed has also become an important political issue. The debate is generally seen in terms of the burden imposed on small business by bureaucratic "red tape". A recent Government report (see DWRSB, 1998) noted that Australia's commercial and regulatory structure has "at times been driven by the views and needs of major players ... and this can be detrimental and burdensome to micro businesses" (p. 15–16).

At the same time, of course, regulations can be and have been used to protect and benefit the self employed. This was the case, for example, with respect to the regulation of shopping hours that formerly protected self-employed in the retail sector from hardship due to extended hours of operation in the larger shopping centres. We focus now on the most important and/or controversial aspects.

By way of example, we cite the case study of establishing a business (petrol station and general store) in Tasmania (see DWRSB, 1998, p. 43). As many as 26 licences, permits and approvals were required to meet the regulatory requirements of the different levels of government. In many cases approvals were not once-off, but required on an annual basis. On the other hand, government proposals to deregulate the retail of petrol have been widely opposed by independent operators, who must therefore see the net effect of the regulations in their favour.

In 1997, a taskforce was set up by small business lobby groups to make recommendations about practices related to tax, government regulations and directives that were estimated to cost every small business an average of \$6,000 annually (*The Australian*, 13 July 1998, p. 37). There were a range of complaints which led to recommendations in the resulting "Bell Report", including fewer and simpler taxes, a new peak body to represent small business, more training and better access to government tendering.

6 Support Programmes for the Self Employed

6.1 *Introduction*

There is a range of support programmes available for the self employed. Some of these programmes are generally available to individuals working in the private sector, such as export promotion schemes and will not be reviewed here. There are a number of rural

support programmes, where many of the self employed work; but these are also beyond the scope of this paper, as are initiatives targeted at other specific sectors.¹⁴

There is also a plethora of schemes aimed at “small business” and “micro businesses”, which include incorporated as well as unincorporated activities, and therefore target different though overlapping groups. Other support programmes for the self employed are restricted to more specific target groups, such as the unemployed or indigenous Australians. The types of programmes available range from information and education, through to financial loans and grants.

In this part we focus on the most important programmes for the self employed. It is nevertheless difficult to provide a complete picture given the involvement of the seven State/Territory and Federal governments. An additional difficulty in reporting of this area is that policy has been characterised by the announcement of new schemes and initiatives that are often short-lived.

In general, there is little in the way of direct support for the self employed or small business that is financed and/or delivered at the Federal level, because such programmes have typically, and increasingly, been undertaken by State governments. The role of the Federal government in this sphere has been directed typically towards improving the regulatory environment and information, issues considered above. However, significant government initiatives exist and are now considered.

6.2 Education, Training, Information and Technical Support

There are a number of government programmes in this area at the State and Federal levels. Some are operated directly by government departments, while the delivery of others is contracted out to, for example, local chambers of commerce. A basic objective is to overcome potential information constraints that may be encountered by the self-employed due to such factors as inexperience, lack of knowledge about regulatory and other requirements, and the absence of support networks.

There seems to be a belief at the official level that micro business owners (and the self employed) have generally undervalued management training (see DWRSB, 1998, p. 87). We can see a number of underlying themes: the provision of information to facilitate successful self employment; education and training in business; and technical support to assist the self employed to become competitive. Here we highlight some of the many schemes presently in existence.

The sphere of education, training and information for the self employed appears to be rapidly growing. This is an important way to provide business opportunities and encourage the making of sound business decisions. Lack of management competencies (financial management, cost control, marketing and so on) is the major contributor to business failure in Australia, according to a recent report from the accounting firm Price Waterhouse (1996). Government can and does provide two main types of information to the self employed: programmes and services offered by governments; and details on government requirements (for example, licencing and taxation).

¹⁴ For example, the Government has recently announced a plan to help the purchase of investment equipment in the Textiles, Clothing and Footwear sector, to compensate for the withdrawal of tariff protection.

The possibilities provided by the Internet have led to a significant expansion in access to a range of sources of information on a range of topics, from assistance for business start up and employment regulations, through to more general information about running a business. By keying in their state and/or industry, the self employed can locate specific topics tailored to their area of operation. Box 3 provides a brief summary.

There are also a number of publications and seminars that are designed to help the self-employed. In Queensland, for example, there are programmes to help improve individual knowledge about the business, customers and competitors. The Department's Resource Centre has information to help prospective clients develop a business plan, measure business' performance, and understand trends and opportunities in the relevant industry.

A two hour session at the Centre includes an assessment of needs, access to industry specific information, publications, referrals and brochures. The information available includes: International Business Information Service which comprises information such as business trends, forecasts, success factors and performance and the Financial Management Research Centre which provides bench marking information showing comparisons of like businesses including gross profit, net profit, trading income and expenses. The Department of State Development also conducts monthly seminars on practical management strategies.

Franchising and retail tenancies has been regarded as an area where the self employed have inadequate information and often weak bargaining power. A recent Federal Government initiative has been to develop comprehensive information packages for small business on various fair trading issues, including franchising and retail tenancies. The information packages will be developed specifically for potential and existing small business operators.

The following packages will include information on access to justice, responsibilities under contracts, and starting a business. According to the Government announcement, the information will be easily accessible in a wide range of forms and distributed at a grass roots level. Information kits and information videos will be developed. The information will also be available over the Internet and will be incorporated into college and TAFE course material. The goal of the initiative, according to the Minister for Workplace Relations and Small Business, Peter Reith, is that the Government is to help ensure prospective small business is well informed of its rights and legal obligations when entering into franchising and retail tenancies.

These services are based on the idea that the self-employed lack the contacts and experience necessary to succeed, with the technical support available to the self employed (and small businesses generally) taking several forms. For example, having experienced individuals available for discussion about business ideas and problems, and the availability of assistance in the obtaining of more concrete technical assistance or consultancy services.

The Australian Capital Territory (ACT) *Business Link*, for example, invites the self employed to "...come and share your challenge with us. We are here to help you think, plan, network and succeed so that everyone wins. We will do our best to guide you and introduce you to people who can help. And there is no charge."

Box 2: Information for the Self Employed in Australia on the Net

The federal government Department of Workplace Relations and Small Business recently set up a web site with extensive information for the self-employed, and others (www.business.gov.au). It is a joint effort between the Departments of Small Business and Industry, Science and Tourism, incorporating the three levels of government as well as involving key agencies such as the Australian Taxation Office. This “business entry point” provides access to information on a range of issues, including running a business, taxation and licences and registration. It also includes information about a range of government financial and technical support programmes.

For example, the sub-topics under “Running A Business” include:

- Intending to Start in Business
- Business Planning
- Establishing a Business
- Purchasing a Business
- Relocating a Business
- Employing Staff
- Accessing Finance
- Taxation, Accounting, Compliance
- Business Operations
- Imports/Exports
- Protecting Business Interests
- Expanding and Diversifying a Business; and
- Exiting from a Business

ACT Business Link is managed by the ACT & Region Chamber of Commerce and Industry and is supported by the ACT Government. Equivalent services exist in each of the states from “Small Business Tasmania” that provides a wide range of business information, advice, contacts and referrals”, to the Small Business Advisory Services in the state of New South Wales which runs Business Enterprise Centres to provide information and assistance to start-up and small businesses. NSW also has a programme designed to assist the self employed (small businesses) to expand by subsidising the cost of expert independent consultants to study the activities of an individual business and advise management.

In the northern state of Queensland a free and confidential service is available to assist small business owners in developing a business plan, in addressing management concerns and in identifying opportunities and developing contingency plans. However,

from June 1998 Federal Government assistance for the State-based technical assistance programmes for small businesses ceased. It is thus likely that the scale of such programmes is now being reduced.

Even though there are a number of State government based initiatives, there remain access to information problems, including: lack of awareness that the information exists; the proliferation of information sources that are frequently obscure; and poor of technology. There is presently no equivalent to, for example, the Canadian Government's booklet "Your Guide to Government of Canada Services and Support for Small Business", nor in Australia is there a government "key contacts" directory.

Despite attempts by governments to improve the availability of information, such as the AusIndustry Hotlines, micro businesses' awareness of the services remains limited (see DWPSB, 1998, p. 19). The usefulness of Internet services to the self-employed is obviously contingent upon their having access to the Internet. Recent figures indicate that only 34 per cent of small business (less than 20 employees) has access to the Internet (Yellow Pages Australia, 1997).¹⁵ For those without such access, the services can be accessed via a telephone hotline number as well as a through a number of "shopfront kiosks" where face-to-face contact can be made. One-stop-shops are now being developed to improve access to information and government services. It is nonetheless reasonable to assume that only a minority of the (actual and prospective) self employed would have easy access to, and would utilise, such services.

6.3 *Access to Finance*

6.3(i) Background:

Access to finance is often regarded as an area where the self employed are at a disadvantage, which is as true in Australia as in other countries. In general, access to bank loans is the most important form of external finance for the self-employed. In this section we review issues related to such access, and consider government programmes that address this issue for the self employed.

6.3(ii) Banking Finance:

The self employed principally fund their operations from either debt financing or from internally generated sources. Secured bank loans are the most common form of external formal finance arrangements for small business (see the Wallis Report, 1997, pp. 442–4). The self employed, like small business lending in Australia as elsewhere in the world, generally attract a higher risk premium than lending for home buyers or for large businesses with established track records, cash flow and substantial assets. The Reserve Bank of Australia estimated that the average rate of interest paid by small business was 10 per cent in June 1997, with a range from 7 to 13 per cent.¹⁶

These rates are higher than would be paid by established business or with respect to mortgages, with a recent government report suggesting that many self employed are charged interest rates 5-6 per cent higher than that for home loans (see DWRSB, 1998, p. 49). There are also additional charges for financial services, which are

¹⁵ The same source suggests that for operations with 20–100 employees, internet access levels are closer to 65 per cent.

¹⁶ The Reserve Bank recently established a small business advisory committee (RBA, 1997, p. 3).

disproportionately higher for small loans (see Holmes, Dunstan and Dwyer, 1994, p. 33). Obtaining access to loan finance may also be a problem, particularly in new product areas and for those with limited collateral backing see DWRSB, 1998, p. 52). Business migrants seem to face added problems because of their lack of credit information or track record in Australia. Even when business immigrants do secure finance, there may be concerns about the conduct and disclosure practices of lending parties, with access to appropriate dispute resolution also being a potential problem.

These issues have been recognised by successive governments at the State and Federal level. The latter is presently encouraging the major banks to increase the access of small business, in exchange for broader deregulation of the banking industry. The Government recently decided to support the extension of the Banking Industry Ombudsman Scheme and the Code of Banking Practice to all small business, whether incorporated or unincorporated. The Government also plans to support banks to develop better methods of risk assessment of small business and to re-examine interest rate premiums on small business loans. The Treasury monitors the small business lending market. Federal assistance for small firms includes the Innovation Investment Fund, which is aimed at overcoming the difficulty faced by small high technology firms in obtaining access to equity capital.

Individual State governments have established additional schemes to facilitate access to loan finance. For example, the Small Business Development Corporation of Western Australia has established the Regional Enterprise Funding Scheme (REFS). The scheme offers financial assistance for business start-up or expansion by way of surety to a bank, which enables the bank to lend \$2,000 to \$10,000 to clients who have insufficient collateral to meet the banks lending criteria. The eligibility criteria are: the business plan must demonstrate viability; all other sources of finance have rejected the borrower's proposal; and, demonstrable benefits are to accrue to the region.

6.3(iii) Support for the Unemployed:

High levels of unemployment have characterised the Australian economy for much of the last two decades. Chronic unemployment has become a significant economic and social problem in many regional and metropolitan areas. As we noted at the outset, governments in Australia have looked to self employment as a route out of unemployment, and have provided measures to assist such a transition. In this section we review briefly the support provided to the unemployed in Australia with measures specially designed to promote self employment.

There is a range of measures provided by government to support the unemployed. Income support has been available on a universal, means-tested basis to individuals who do not have a job and are actively seeking work, regardless of their work history.

Beyond income support, there are a number of active labour market programmes, although the number and scope has been curtailed somewhat since the change of the Federal government in 1996. Among these programmes are two which are specifically aimed at enabling the unemployed to become self employed, namely the New Enterprise Incentive Scheme (NEIS) and Self Employment Development (SED). They have the following characteristics.

NEIS is a program which helps eligible unemployed people to establish their own business (Snowdon, 1995). The package of assistance offered under NEIS includes:

- an income support allowance for up to 52 weeks following training, equivalent to the basic adult rate of unemployment benefits;
- training in small business management, business skills and business plan development; and
- business advice and mentor support during the first year of business operation.

Applicants for NEIS must meet the minimum eligibility criteria. Specifically, they must be: officially registered as unemployed; receiving government income support; and be at least 18 years of age but not eligible for the Age Pension while on the program (ie, less than age 65). A business plan is required as part of the assessment for NEIS approval. NEIS places are limited and eligibility alone does not guarantee acceptance into the program.

NEIS has been operating since 1985. Over the 1990s its budget has increased from about \$5 million to around \$110 million in 1996–97. In that year NEIS supported around 5,600 new small businesses (see Productivity Commission 1998).

Under SED unemployed people can apply to undertake the development of self employment with the aim of achieving sustainable employment and financial independence while continuing to receive income support for up to twelve months. Applicants must have been receiving NewStart or Youth Training Allowances for six months immediately prior to applying for SED. To be approved, the proposed activity must be assessed as likely to be commercially viable within 12 months. New Enterprise Incentive Scheme Managing Agents assess applications to undertake Self Employment Development for individual activities. SED is only available to assist in the research and development of a business idea, commercial operation of a business not being allowed.

The schemes canvassed above are operated nationally under the umbrella of the Department of Education, Training and Youth Affairs (DEETYA), which now contracts out the provision of services for the unemployed. There are additional schemes at the State level. For example, the Department of Education, Training and Employment (DETE) in South Australia runs a program called “Self Starter”. It is similar to NEIS in that the objective is to enhance the employment prospects of young people by equipping them with appropriate business skills and providing “start-up” financial assistance and mentor support.¹⁷

6.3(iv) Support for Indigenous Australians:

There are a number of schemes at the state and federal levels that are aimed at assisting indigenous Australians in becoming successfully self-employed. These include measures to provide grants, loan finance at concessional rates and technical support. Here we briefly review some of the major programmes.

The Indigenous Business Incentive Program (IBIP) extends beyond individuals and partners who are self employed, to eligible companies, but is nonetheless a relevant support programme. It offers Establishments Grants up to AUD\$10,000 to eligible individuals, Equity/Security Gap Grants up to 25 per cent of the funding required (to a maximum of \$50,000). In addition, grants can be made under the Community

¹⁷ Successful applicants are eligible for a grant of up to \$3,000, and the scheme is open to 18–25 year olds who are not already operating a business enterprise.

Development Employment Programme based on employment outcomes. As a guide, funds of up to \$30,000 per full time position can be granted. Grant funding may be available to Aboriginal or Torres Strait Islander individuals, who have a sound business proposals and do not (or would not otherwise) meet the criteria for the Business Funding Scheme (described below).

The Enterprise Employment Grants (EEG) scheme can provide one off grants of up to \$10,000 per Aboriginal employee to eligible Aboriginal-owned businesses during the initial establishment phase.

Another example is the Business Funding Scheme provides loans and bank guarantees to assist Aboriginal and Torres Strait Islander people acquire, own and develop commercially successful businesses. The maximum level of funding per application is \$500,000. The loan term will depend on the size of the loan, but will not exceed 10 years. The scheme offers low interest rates to clients, ranging from 1.5% for loans up to \$50,000, up to 6.5 per cent for loans over \$100,000 and up to \$500,000. Applicants are expected to contribute at least 20 per cent equity to the enterprise; provide adequate security to cover the loan for the entire period of the loan; and should also demonstrate that they have an aptitude for the business. The proposed enterprise must be assessed as one which is likely to become or continue to be commercially successful.

7 Assessment of the Current Policy Framework and Support Programmes

7.1 Introduction

This section assesses the current policy and programme framework as it affects the self employed, and offers a tentative suggestion for reform. First, we critically examine the rationale for targeted support of the self employed. Second, we review available evidence on the efficacy of the various programmes. Finally we offer thoughts about alternative approaches that might assist financially the self employed.

7.2 The Rationale for Financial Support for the Self Employed

The desire of policy makers to promote self employment can be traced to a number of factors. First there is a belief, especially evident in the rhetoric of conservative political parties in Australia, that small business is the backbone of the economy and a primary engine of capitalist development. Second, self employment is seen as a primary source of job creation. This belief is not unique to Australia, of course: Davis, Haltiwanger and Schuh (1996) note that “Few ideas about the US economy reap greater homage in public discourse than the belief that small businesses are the fountainhead of job creation” (p. 57). Third, recent government documents have suggested that micro business are a source of employment for traditionally disadvantaged groups, such as youth seeking self employment (see, for example, DWRSB, 1998, p. 5). And finally, self employment might be especially important in regional Australia, where the population is perceived to have been adversely affected by structural economic change in recent decades.

The foregoing are frequently presented as a justification for tax incentives, regulatory policies and other government programmes that favour the small business sector (and, in principle most of the self employed). To what extent are these premises matched by the underlying evidence about the operation of the labour market and economy in Australia?

In support of the assumptions about the employment creation importance of small business, the Government has cited recent figures revealing that net job creation during 1995–96 came primarily from the small business sector (ABS, 1996, p. 7–9). Micro businesses (of which about 39 per cent fall into our definition of self-employment) accounted for about 57 per cent of total employment change over the period. Over the same period, micro businesses also showed relatively fewer job losses: about 16 per cent reduced employment, compared to 35 per cent of small businesses and 23 per cent of large businesses.

Caution is warranted in interpreting these data on job creation. As Davis, Haltiwanger and Schuh (1996) have noted, there are several common mistakes made by commentators in this area:

1. Job destruction rates need also to be taken into account. In the US, job destruction rates decline sharply with firm size (Davis, Haltiwanger and Schuh 1996, Table 4.1). In Australia, over the period 1995–6, micro businesses (fewer than five employees) showed relatively fewer job losses, than big business — but the rate of job destruction was highest for small business (5–19 employees). About 16 per cent of micro-enterprises reduced employment over the period, compared to 35 per cent of small businesses and 23 per cent of large businesses (ABS, *Business Growth and Performance Survey 1995-6*, p. 7–9).
2. The so-called “size distribution fallacy” points out that the share of small business in total employment can rise because firms can migrate between size categories between one year and the next. In the context of self employment, this is relevant in so far as the self employed are former employees whose status has been altered by the employer. For example, where the work done by a group of employees has been contracted out to independent contractors. We have already noted that up to 40 per cent of the self employed should be classed as dependent contractors (Vandenheuvel and Wooden, 1995). Unless these individuals would have otherwise been retrenched altogether, it is somewhat misleading to think of this definitional transformation as “job creation”. More generally the available evidence — eg, Blanchflower and Meyer (1994) — suggests that most transitions to self employment in Australia, like the US, are from wage and salary employment, not from unemployment.
3. Changes in the industry composition of employment at least partly account for changes in the relative shares of self and wage employment, as noted in Section 1. If the relative shares of different types of employment change, that fact alone does not prove greater efficiency of that type of employment.
4. Finally, as pointed out by Borland and Home (1996), we should take job quality into account when assessing the desirability of promoting different types of employment. He notes several reasons to suspect that job quality is lower at smaller firms, including shorter expected duration, less training and lower wages. In Section 1 the evidence suggested that higher rates of poverty among the self employed, even using expenditure rather than income data.

In summary there are a range of reasons for caution in interpreting the claims for support for small business and, by implication, for the self employed. This has at least two implications. First, more in the way of support for the self employed is not necessarily better. Second, it implies the need to carefully review existing and proposed schemes to ensure that taxpayers’ moneys are being efficiently and equitably expended. Unfortunately, there is little convincing evaluation of existing schemes, as is now examined.

7.3 *Evaluation of Self Employment Assistance: A Focus on NEIS*

7.3(i) Background:

The most important point is that there is a general scarcity of information on this topic. For example, it is very difficult to even get an idea of the rough orders of magnitude of public money being used to support the self employed. Information on the cost of the different programmes is generally absent, with a couple of exceptions (in particular NEIS, which has three published evaluations). We have already noted that most of the programme spending is at the State level, so that it is very difficult to obtain a comprehensive picture. One informal estimate is that the amount of money being spent annually to support self employment/small business at the State level is around \$20 million. The important point for research is that almost nothing is known with respect to evaluation, with the exception of the most significant initiative, NEIS.

7.3(ii) Survival Analysis of NEIS:

The two early evaluations of the scheme (DEET, 1992; DEET, 1993) attempted to assess the efficiency of NEIS in terms of survival rates. That is, former NEIS participants were surveyed after the end of program assistance, to ascertain employment status.

The first evaluation (DEET, 1992) reports the results of a telephone survey conducted in 1990 of two groups of former NEIS participants, those involved in the scheme in 1987 and 1988. The proportions of the group surveyed in employment were 85 and 91 per cent respectively, although only 29 and 42 per cent of those surveyed were still operating the original NEIS business. In simple accounting terms (an issue addressed further below) the average cost to the Budget per NEIS participant was around \$25,000 (in 1990 terms), and about \$12,000 was the cost per successful outcome, calculated for participants still operating their NEIS business.

In this first evaluation high proportions of respondents identified both the mentor support and business training components of the scheme as important determinants of success. The early recognition of, and active response to, difficulties was seen to be critical to survival (DEET, 1992, p. 23).

The second evaluation (DEET, 1993), followed a similar survey methodology, but used both phone and mailing techniques, and supplemented these with some specific case studies. The information was collected at the end of 1992, which might be pertinent to interpretation of the findings given the very poor state of the labour market at that time. Two groups were considered: those who had their program assistance stopped three, and twelve, months previously. Table 6 reports the findings.

Table 6
Outcomes for 3 and 12 month Group

	3mth group		12mth group	
	No.	%	No.	%
Total self-employed	415	64	201	54
in a NEIS business	399	61	188	50
in other business	16	3	13	4
Total not self-employed	237	36	174	46
employed	59	9	32	9
unemployed	130	20	116	31
not in the labour force	48	7	26	7
Total Sample	652	100	375	100

Notes: Assumes that participants who could not be contacted were no self-employed and that their labour market status was similar to participants who were contacted but who were not self-employed.

Source: DEET (1993), p. 8.

These data show that for the three month group, 64 and 9 per cent were self employed and employed respectively. For the twelve month group the corresponding figures were 54 and 9 per cent. That is, after NEIS support finishes, roughly 65–75 per cent of participants are in employment.

Both the 1992 and 1993 evaluations of NEIS suggest that these “survival” rates are high compared to those associated with other labour market programs. For example, of individuals who had been on JOBSTART (a targeted wage subsidy scheme), only between 45 and 60 per cent are found to be in employment three months after the subsidy ends (see Committee on Employment Opportunities, 1993). But there are important reasons to be cautious of such comparisons, and reasons to be critical of the use of survival rates only as an indication of the value of NEIS.

7.3(iii) Towards a More Comprehensive Evaluation of NEIS:

The survival analysis of NEIS should make up only a small part of an assessment of its overall costs and benefits. The most important issues ignored with such a focus can be clarified through reference to the following general framework for labour market program evaluation.

The net job-creating effects of programs are conventionally given by equation 1:

$$\text{Net Employment Effect} = \text{Numbers Subsidised} - \text{Deadweight} - \text{Displacement} \quad (1)$$

That is, the total employment effect of a program depends on the number in subsidised jobs, subtracting those subsidised who would have been in employment without the

program (the deadweight loss), and those who would have been in jobs but who are not because they are replaced by the targeted group (the displacement effect).

With respect to self employment programs such as NEIS, deadweight takes the form of those who would have successfully established a business without assistance. Displacement is more complicated, because individuals “displaced” because of the scheme could be considered to be not just direct competitors, but also those experiencing lower demand for their goods and services as a result of a consumption switch towards the production of the NEIS business. Moreover, in some circumstances “displacement” could be negative if some of the unemployed take jobs created by the NEIS program. For example, the 1992 NEIS evaluation (DEET, 1993) revealed that 20 per cent of NEIS “survivors” had employees. On average each NEIS business employed an additional 0.5 of a person (p. 15).

Recognising the above complications is just a beginning to an understanding of how difficult it is to measure self employment program effects. For example, Piggott and Chapman (1995) take issue with the use of equation (1) for labour market program evaluation. They argue that while deadweight and displacement effects are fundamental in understanding the role of programs, the conventional approach is at best a partial, and at worst an incorrect, way of thinking about the issue. The problem is that it takes no account of the dynamics of the process.

That is, what matters is not just deadweight and displacement in the first period, but what happens to both the deadweight and displaced after program assistance stops. To take the example of displacement, it is not particularly interesting to know that an employee or a business is displaced as a result of NEIS. What matters is their employment or business prospects in the longer time as a result of the program. Among other things this requires the modelling of eventual changes in employment/business prospects as a result of their experiencing higher durations of unemployment.

These critical dynamic issues are explored excellently in the Productivity Commission’s (1998) NEIS evaluation. Not only do they take into account many of the dynamic issues raised by Piggott and Chapman, they also attempt to control for the myriad factors pertinent to a comprehensive evaluation of the self employment assistance program, such as: displacement, deadweight, program effectiveness in terms of survival, unemployment benefit savings, and additional tax revenue.

The Productivity Commission adopts also the method used by Piggott and Chapman to illustrate maximum and minimum estimates of the net benefits of programs. This is through the use of upper and lower estimates of the sizes of key parameters so that, for example, the highest cost estimate of a program would use the highest likely displacement, the highest likely deadweight, and the lowest likely effectiveness effects. On the other hand, the lowest cost estimate of a program would impose the lowest likely displacement and deadweight, and the highest likely effectiveness effects.

Through their use of a range of parameters, the Productivity Commission evaluation of NEIS comes up with an upper cost to the budget of \$95,000 per new job created, and a lower cost estimate of -\$2,800. Their best guess is around \$19,000.

The extraordinary difference between the upper and lower estimates of the employment creating costs of NEIS illustrates the most important evaluation point. This is that coming up with confident estimates of the net benefits of such schemes is both

extremely difficult, showing great sensitivity to the boundaries of a large number of parameters. In evaluations less sophisticated than that of the Productivity Commission — for example, those adopting the (conventional) non-dynamic methods — there are even more significant grounds for great caution.

7.4 Towards a Different Financing Mechanism in Self Employment Assistance

For some groups of potential employers there might be a case for government loan assistance to help in the establishment of enterprises. But there are reasons to be critical of seed capital provided either in the form of grants, or as loans to be repaid at set amounts over time.

The problem with grants is that they are regressive in that they imply that subsidies have been given to businesses that succeed. On the other hand, loans paid back according to time are associated with a default risk for prospective borrowers, which might make them relatively unattractive for the risk-averse. A possible solution to these problems is now considered.

Loans that are repaid according to future income (or profits), so-called income contingent loans (ICL), are the essence of the proposed solution. This basis of assistance has already been shown to be a practical solution to higher education financing problems in Australia, with the introduction of the Higher Education Contribution Scheme in 1989 and the AUSTUDY Loans Supplement in 1993 (see Chapman, 1992 and 1997 for discussion and analysis).

Financial resources made available to businesses on the basis of income/profit repayment contingencies have several major advantages over mortgage-type loans. The first is that ICL offer recipients default protection: because there is an income or profit threshold of repayment there is almost no chance of individuals not being able to repay, and thus there is no possibility of bankruptcy. An implication of the provision of finance in this form is that there is no associated risk and no need for borrowers to be concerned about losing access to other credit markets due to the loss of credit worthiness associated with default.

Second, in general, the distributional consequences of ICL are likely to be progressive. Schemes can be designed so that individuals starting businesses that turn out to be successful pay the most, and those whose ventures fail pay the least.

A possible arrangement using ICLs in the context of NEIS is now explored. The government could provide some seed capital for NEIS participants, in the form of an underwriting of some proportion of a commercial loan — say 50 per cent — under particular conditions. Some important issues are as follows.

The concept involves the government providing facilities in which the risk is shared with the private sector. It requires a nominal capital investment from the public sector, with the goal being the development of a sustainable profit to create self-funding programs over time. The shared risk facility support can be financed initially in its entirety by the commercial banking sector — but with guarantee of the government repaying directly, say, 50 per cent of the borrower's obligation. Details of this type of approach are available in Borzi (1994).

In general terms such a scheme might work as follows. First, the borrower would agree to repay the loan contingent on income (or profits). Second, part of the repayment agreement would entail the contract allowing the government to be repaid eventually higher levels of the initial loan in order to cover the losses from those borrowers whose businesses do not succeed. This means essentially that the loan turns into equity for the government. The orders of magnitude could be, for example, three times the original loan.

Third, the loan would be paid back through the tax system. Given the governments access to the individual's tax file number, the government would still be able to track individuals not succeeding initially. That is, since the government has access to the Tax Office with a fair degree of simplicity the loan can be recouped contingent on the future income of all such borrowers. This allows the potential for part of the repayment to be unrelated to the success of the project.

It is relevant in considering a scheme of this sort to note that it would be important to have some of the liability of the loan in commercial hands, to minimise adverse selection. That is, a case can be made that those without access to other financial resources would be those most interested in loans of this type, since successful businesses would in effect be paying very high rates of interest, albeit contingent on profits. As well, having a commercial bank involved means that the usual checking on the progress of the investment would go on to minimise the potential for the moral hazard of borrowers using the money for consumption of in other ill-advised ways.

Conclusion

Self employment in Australia is a relatively unresearched area of the labour market. We have attempted to redress the balance, in several different ways. The first issue raised is that understanding self employment, particularly changes over time, requires considerably care with respect to the data used; this is because of the fundamental issue of incorporation.

Most of the data used typically in analyses of self employment refer to unincorporated enterprises, and these numbers suggest strongly that the proportion of the labour force which is owner/managers has remained about constant over the last twenty years or so. However, there has been a very marked increase in the number of incorporated owner/managers, from about 2 to about 6 per cent of the labour force, since the late 1970s. There are solid reasons to believe that this trend is related to the increased tax burden on wage and salary earners, which is likely to have encouraged incorporation given the taxation advantages of this alternative form of business organisation. As well, there seem to be very different responses of incorporated and unincorporated owner/managers to the business cycle.

The methodological point from the above is the promotion of caution in the use of published data on the self employed - interpretation of trends and causal relationships is very sensitive to the issue of incorporation. This conclusion is not specific to the measurement of the self employed in Australia, since the definition used here is common to most other countries. The concern is widespread.

The benefits of differentiating between different types of self employment is clear also within the unincorporated group. Through analysis of four different cross-sections from

1981/82 to 1994/95 we find, for example, that while owner/managers with employees report incomes that are very similar to wage and salary earners, owner/managers without employees apparently have incomes not much more than about half those of wage and salary earners.

In demographic terms there appear to be important differences between groups in the factors associated with being (unincorporated) self employed, compared to being a wage and salary earner. This is illustrated most convincingly with respect to our probit analysis of the probability of self employment, for cross-sections using 1981/82 and 1994/95 data, analysed separately for men and women. Some of the major findings with respect to the self employment probability are: age is a significant positive determinant for men (peaking in the 40 to 60 year group), but apparently not a factor for women; and the presence of a child aged less than 5 years is a critical positive determinant for women, but not for men. This latter finding implies that there are significant advantages in the flexibility and home-based work of self employment and child-rearing.

There are a large number of different types of government policy relevant to the self employed, and “small business” more generally. Some are related to superannuation, unfair dismissals, and taxation. In this last area there might be significant changes introduced soon, depending on the outcome of the Federal election, held on October 3rd.

There is a plethora of support programmes for the prospective self employed, with many of these concerned with improving access to information, training and finance to a lesser extent. The major scheme aimed at increasing the prospects of success for the prospective self employed, known as NEIS, is one of the few to have been evaluated. The evidence suggests that a relatively high proportion of NEIS participants have positive business and/or employment outcomes as a result of the scheme, but there are important reasons to be wary about these evaluations; a different method is explored.

In a somewhat speculative vein we offer a new policy approach to the financing of prospective self employment. Its basis involves the government underwriting some proportion of a loan, with the participant agreeing to repay on the basis of future income or profits. It is possible for such schemes to be both inexpensive for governments, and attractive to potential participants. However, the framework is relatively undeveloped and needs further critical analysis.

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APPENDICES

Appendix 1
Variable Definition (1982)

Variable	
Location:	
urban	Urban=1, rural=0
Region dummies:	(Base group: New South Wales)
ACT/NT	ACT& Northern Territory
Vic	Victoria
Qld	Queensland
SA	South Australia
WA	Western Australia
Tas	Tasmania
Education dummies:	(Base group: degree)
noqual	no qualifications
highsch	high school
trade	trade certificate
other	others
Demographic variables:	
age	age
agesq	age square
married	married=1 otherwise=0
Immigration status:	(Base group: Australian Born)
yoa70	arrived Australia earlier than 1970
yoa74	arrived 1970-1974
yoa79	arrived 1975-1979
yoa82	arrived 1980-1982
Number of dependents:	Base group: (no dependents)
dep2	Number dependents is 1-2
dep4	Number dependents is 3-4
dep5	More than 5 dependents
Age of youngest dependent:	Base group (no youngest dep)
agygdep4	Age of youngest dep 0-4
agygdep9	Age of youngest dep 5-9
agygde14	Age of youngest dep 10-14
agygde20	Age of youngest dep 15-20

Appendix 2
Variable Definition, 1995

Variable	
Location: urban	Urban=1, rural=0
Region dummies: ACT/NT Vic QLd SA WA Tas	(Base group: New South Wales) ACT& Northern Territory Victoria Queensland South Australia Western Australia Tasmania
Education dummies: noqual vocskill postgrad	(Base group: degree) no qualifications vocational post graduate
Demographic variables: age agesq married	age age square married=1 otherwise=0
Immigration status: yoa76 yoa80 yoa90 yoa94	(Base group: Australian born) arrived Australia earlier than 1976 arrived 1976-1980 arrived 1981-1990 arrived 1990-1994 (this group is combined with yoa90)
Number of dependents: dep2 dep4 dep5	Base group: (no dependents) Number dependents is 1-2 Number dependents is 3-4 More than 5 dependents (this grouped is combined with dep5)
Age of youngest dependent: agygdep4 agygdep9 agygde14	Base group (no youngest dep) Age of youngest dep 0-4 Age of youngest dep 5-9 Age of youngest dep 10-14

Appendix 3
Probit results: Self employed compared to wage and salary earners, 1982.

	Male				Female			
self	Coef.	Robust Std. Err.	z	P> z	Coef.	Robust Std. Err.	z	P> z
urban	-0.11246	0.03556	-3.163	0.002	-0.23567	0.05051	-4.666	0.000
actnt	-0.23087	0.09783	-2.360	0.018	-0.35922	0.13311	-2.699	0.007
vic	-0.06742	0.04541	-1.485	0.138	0.00709	0.06813	0.104	0.917
qld	0.07649	0.04678	1.635	0.102	0.24034	0.06912	3.477	0.001
sa	-0.02964	0.05197	-0.570	0.568	0.17040	0.07331	2.325	0.020
wa	-0.06920	0.05067	-1.366	0.172	0.14161	0.07412	1.911	0.056
tas	-0.17557	0.07216	-2.433	0.015	-0.27643	0.10875	-2.542	0.011
noqual	-0.07371	0.05527	-1.334	0.182	0.21062	0.09919	2.123	0.034
highsch	-0.39093	0.22004	-1.777	0.076	0.29816	0.22145	1.346	0.178
trade	0.15640	0.05394	2.900	0.004	0.12542	0.10313	1.216	0.224
other	-0.19732	0.20976	-0.941	0.347	0.31299	0.22873	1.368	0.171
agemdpt	0.09837	0.00994	9.897	0.000	0.05129	0.01465	3.501	0.000
agesq	-0.00110	0.00012	-8.868	0.000	-0.00041	0.00019	-2.192	0.028
married	0.15181	0.04910	3.092	0.002	0.41627	0.06353	6.552	0.000
yoa70	0.14823	0.03887	3.814	0.000	0.13272	0.05806	2.286	0.022
yoa74	0.04707	0.07511	0.627	0.531	-0.11843	0.11186	-1.059	0.290
yoa79	0.02840	0.09608	0.296	0.768	-0.11534	0.14644	-0.788	0.431
yoa82	-0.06879	0.11445	-0.601	0.548	0.08472	0.16273	0.521	0.603
dep2	-0.05867	0.12582	-0.466	0.641	0.14207	0.16277	0.873	0.383
dep4	0.08703	0.13485	0.645	0.519	0.24882	0.17707	1.405	0.160
dep5	0.24171	0.19969	1.210	0.226	0.19555	0.31859	0.614	0.539
agygdep4	0.14700	0.13646	1.077	0.281	0.63185	0.17869	3.536	0.000
agygdep9	0.00052	0.13885	0.004	0.997	0.22166	0.17988	1.232	0.218
agygde14	0.03594	0.13770	0.261	0.794	0.15330	0.17907	0.856	0.392
agygde20	0.05093	0.11023	0.462	0.644	0.15344	0.14666	1.046	0.295
_cons	-3.05688	0.19017	-16.074	0.000	-3.07932	0.27537	-11.183	0.000
no of obs	10101				6309			
chi2(25)	453.87				465.42			
pseudo R2	0.0533				0.1251			

Appendix 4
Probit results: Self employed compared to wage and salary earners, 1995.

self	Male				Female			
	Coef.	Robust Std. Err.	z	P> z	Coef.	Robust Std. Err.	z	P> z
urban	-0.08714	0.05865	-1.486	0.137	-0.17072	0.07430	-2.298	0.022
actnt	0.00716	0.11554	0.062	0.951	-0.33318	0.15821	-2.106	0.035
vic	0.12318	0.07801	1.579	0.114	-0.04237	0.10597	-0.400	0.689
qld	0.12717	0.08069	1.576	0.115	-0.02386	0.10886	-0.219	0.827
sa	0.05159	0.09843	0.524	0.600	0.10172	0.11975	0.849	0.396
wa	0.09351	0.08770	1.066	0.286	0.17412	0.11156	1.561	0.119
tas	0.03529	0.11117	0.317	0.751	0.29361	0.13256	2.215	0.027
noqual	0.17311	0.08952	1.934	0.053	0.07311	0.10297	0.710	0.478
vocskill	0.44696	0.08736	5.116	0.000	0.08498	0.11184	0.760	0.447
postgrad	-0.04868	0.18445	-0.264	0.792	-0.64091	0.32206	-1.990	0.047
age	0.03760	0.01623	2.317	0.020	0.02342	0.02132	1.099	0.272
agesq	-0.00024	0.00020	-1.189	0.234	-0.00002	0.00028	-0.078	0.938
married	0.14574	0.07877	1.850	0.064	0.12158	0.08776	1.385	0.166
yoa76	0.14120	0.09083	1.554	0.120	0.29139	0.11760	2.478	0.013
yoa80	0.23880	0.19561	1.221	0.222	0.63708	0.23868	2.669	0.008
yoa90	-0.12446	0.12350	-1.008	0.314	0.08564	0.15314	0.559	0.576
dep2	-0.05801	0.10503	-0.552	0.581	-0.10451	0.13559	-0.771	0.441
dep4	-0.10252	0.13064	-0.785	0.433	-0.03484	0.16666	-0.209	0.834
agygdep4	0.14953	0.12280	1.218	0.223	0.68178	0.15937	4.278	0.000
agygdep9	0.11964	0.12314	0.972	0.331	0.43688	0.15230	2.869	0.004
agygde14	0.11496	0.12269	0.937	0.349	0.11672	0.15496	0.753	0.451
_cons	-2.63196	0.31336	-8.399	0.000	-2.46979	0.37870	-6.522	0.000
no of obs	4272				3336			
chi2(25)	172.21				116			
pseudo R2	0.0548				0.0749			