

Self-Employment: Pathway to Prosperity or Poverty?

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Background of the Study

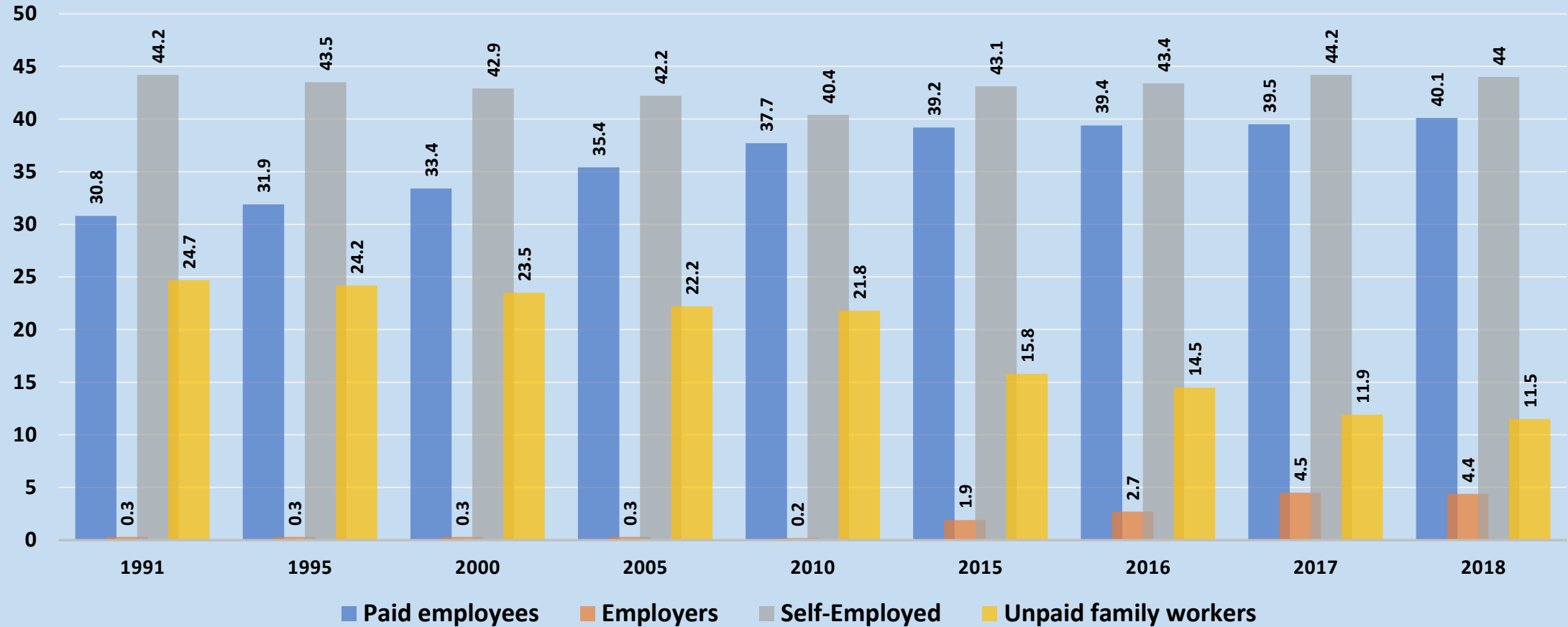
Self-employment has attracted attention because of the argument that

- Earnings from the self-employment are too small to escape from poverty, so self-employed are “**Working Hard but Working Poor**”
 - Self-employment is “**Untapped Entrepreneurial Energy**”
- By reducing entry regulations and improving property rights, “**Self-Employment Can Fuel Economic Growth and Development**”
- If, on the other hand, self-employment means hard, poor labor, then “**Structural Change and Intervention may be Called for**”

Theoretically, This is an Important Policy Issue

Background of the Study: Bangladesh Relevance

Table 1: Working status, by year



Background of the Study: Bangladesh Relevance

- 7FYP undertook strategies to make rural people self-dependent through generating non-farm self-employment; providing vocational training for two million youth;

About 0.6 million will be involved in self-employment

- Targeted groups are socially excluded women, unemployed youth, beggars, transgendered and marginalized people, thereby alleviating poverty, provide a fair income stream and strengthening the rural economy
- World Bank (2018b) estimates suggest that each percentage of GDP growth in **Bangladesh** would increase self-employment by about 0.07 percentage point

Self-Employment increases as Bangladesh achieve higher GDP growth

Background of the Study: Bangladesh Relevance

The overall sustainability and efficacy of self-employment generation programs depend on the earnings of the self-employed:

Do they earn enough to pull themselves out of the poverty?

- The data for Bangladesh shows that between 2005 and 2017, as we move from the least skilled to the most skilled:

It has a U shape for employees

An inverted U, or hump, for the self-employed

Wage Growth	5 th percentile	50 th percentile	95 th percentile
Employees	109	27	36
Self-employed	84	124	19

- Thus, the wage gap between least skilled worker's of the two groups is '**widening**', while gap between moderately skilled workers is '**narrowing**'

Background of the Study: Bangladesh Relevance

Table 4: Centiles of weekly earnings in 2017 by employment status (in BDT)



Background of the Study: Bangladesh Relevance

This differential pattern between the two groups seeks explanation,

Because

Scant earnings from self–employment, combined with sluggish and disproportional real wage growth

“Poses a Fundamental Threat to the Future Reduction of Poverty and Vulnerability”

As a result we studied

- How individuals select into different employments?
- Earnings as well as the wage penalty associated with self–employment
 - Sources and Pattern of real wage growth

Econometric Framework for Analyzing Data

- McFadden (1974) 'Multinomial Logit Model' to estimate the probability of being in three mutually exclusive occupations (paid, self-emp, and unpaid)
- To estimate wage gap and market segmentation we use 'Oaxaca-Blinder' (1973) and 'Quantile Counterfactual' (2013) Decomposition
- To identify the effect of self-selection and purge the selection bias from the wage estimates we use Heckman (1976) method (We use exclusion restrictions)
- To estimate sources and patterns of real wage growth we use Juhn, Murphy and Pierce (1993) method

The Data and Variables

- We use Labor Force Survey, 2005–06 and 2016–17 data from BBS
- LFS's are nationally representative household survey; suitable for sector and industry level analysis
- For consistency, we recode the LFS 2017's region and education variable according to LFS 2005 and pool the data
- Throughout the article, we limit attention to men and women age 15 to 60 with non-negative potential labor market experience

The Data and Variables

- The vector X_{1i} includes productive characteristics of individuals i :

years of schooling, potential labor market experience (= *age - 6 - years of schooling*), marital status, rural location, status as household head, children aged under six, and *the regional unemployment rate*

We assume that children under six, marital status, and religion determine the potential work status but do not directly affect wages

Results and Discussion: Selection of Occupation

- The likelihood of working as an employee increases with an additional year of education both for males and females. This effect is stronger for men

Men Experience: Self-Employed; paid employee; Unpaid Workers
(+) (-) (-)

Women Experience: Self-Employed; paid employee; Unpaid Workers
(+) (-) (+)

This feature is quite distinctive in Bangladesh's labor market since the literature suggest that more experienced workers enter into paid employment

A higher regional unemployment rate reduces the probability of finding paid employment and increases the probability of self-employment. The regional unemployment rate identifies the impact of lower labor demand

Results and Discussion: Wage Differentials

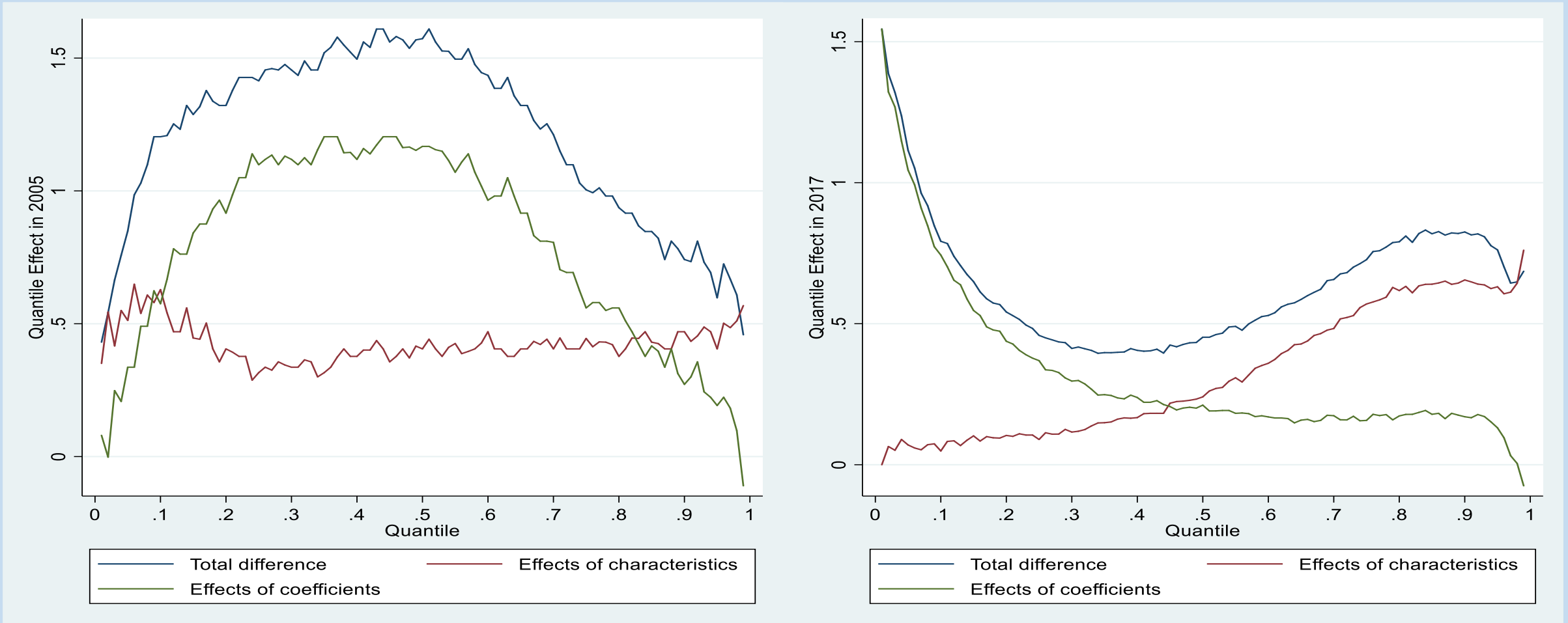
	2005 (A)					2017 (B)			
Level of Education	All	No Education	Secondary	Tertiary		All	No Education	Secondary	Tertiary
<u>Controlling for observables only</u>									
Total Difference	119.90 (0.028)	82.64 (0.043)	82.72 (0.049)	56.22 (0.075)		63.06 (0.012)	26.31 (0.019)	48.36 (0.023)	90.28 (0.108)
Characteristics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

Results and Discussion: Wage Differentials

	2005 (A)					2017 (B)			
Level of Education	All	No Education	Secondary	Tertiary		All	No Education	Secondary	Tertiary
<u>Controlling for observables only</u>									
Total Difference	128.99 (0.028)	100.99 (0.043)	89.59 (0.049)	53.28 (0.107)		67.33 (0.011)	34.39 (0.017)	52.86 (0.021)	91.46 (0.105)
Characteristics effect	36.39 (0.015)	-4.45 (0.021)	6.16 (0.015)	-3.45 (0.036)		28.55 (0.005)	1.89 (0.005)	0.010 (0.006)	0.095 (0.027)
Coefficient effect	92.59 (0.027)	105.44 (0.047)	83.44 (0.049)	56.74 (0.113)		38.78 (0.011)	33.02 (0.018)	52.84 (0.022)	91.47 (0.099)

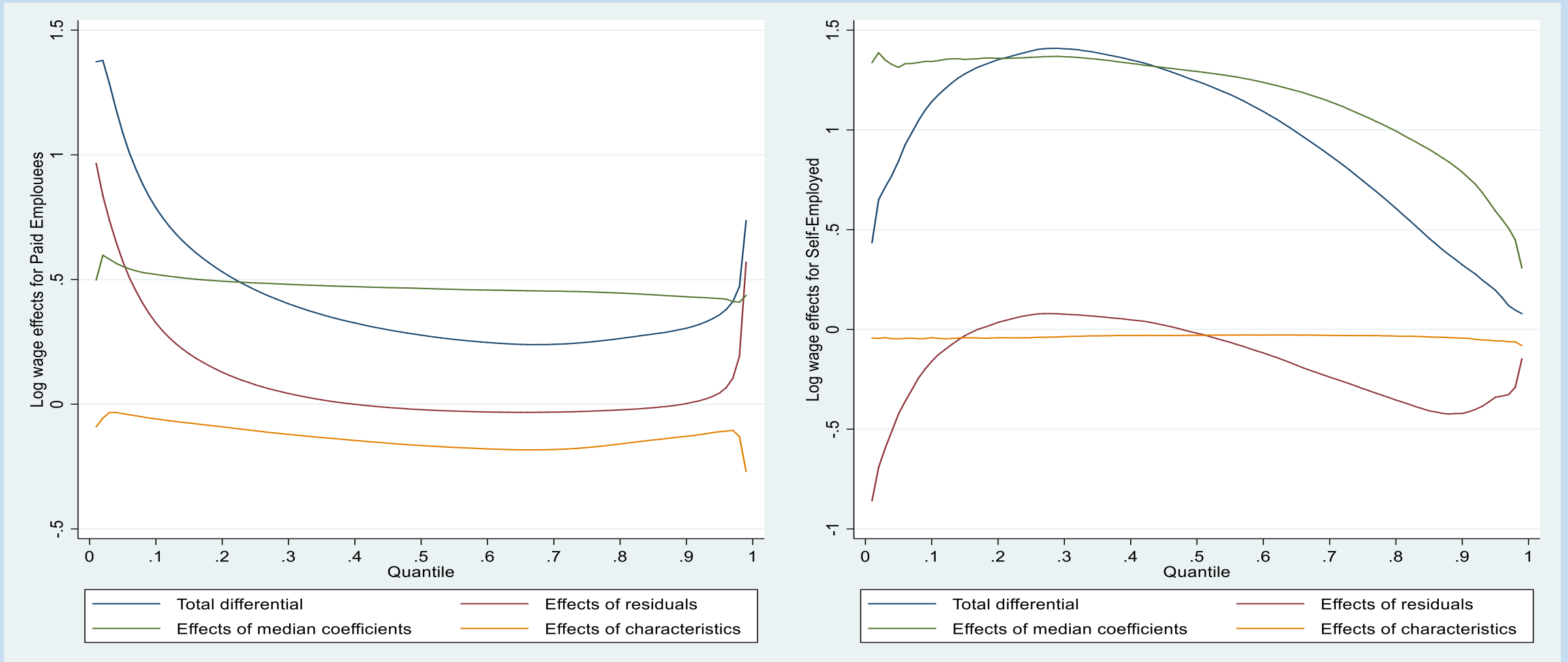
Results and Discussion: Wage Differentials

Figure 1: Quantile decomposition of paid employees and self-employees wage differentials



Results: Sources and Pattern of Real Wage Growth

Figure 2: Estimated wage change by percentile



Results and Discussion: Within Group Inequality

- Enduring higher variance in self-employed wage indicates the higher within-group inequality compared to paid employees (see paper)
- Also, interquartile ranges demonstrate that in both periods within-group inequality is higher for the self-employed

Conclusion: A Disquiet

- Analysis suggests that earning differentials largely depends on workers skills composition and relative position on the earnings distribution
- Between 2005 and 2017, the distributional decomposition shows, least skilled workers pay gap rises from 84.9 percent to 111.5 percent

Therefore,

“Poor Self–Employed are Getting Poorer”, whom,

“We Don’t Want to Leave Behind”

Application: Employment Policy

- GoB using self–employment as an instrument to generate employment opportunity for excluded individuals
- But most excluded individuals’ human capital is below the moderately skilled threshold level
- Thereby, though they will work, they will be:

“Working Hard but Working Poor”

Hence, the strong assumption of

“Giving Employment Opportunity will Pullout the Poor from Poverty will be Worthless”

Such programs will have an

“Insignificant/Adverse Impact in Reducing Poverty and Inequality”

Application: Employment Policy

- Non-uniform wage growth and tiny earnings from self-employment enable us to question about the efficacy of such programs
- Generating self–employment without a sufficient minimum income will be distress
- Our Inferential Analysis brings out:
 - i) A “Guaranteed Income Scheme” (and)
 - ii) “Improving Human Capital” for “Least Skilled Workers”
are necessary to pullout them from the curse of poverty

A Traditional Argument but not a Weakness

- While our benchmark – paid jobs – involves delivery of fair compensation, social protection, a better prospect of development, these benefits are absent in self–employment
- We argue that self–employed can afford many of these benefits from the private market if their income is sufficiently large

Two major lines along which further work needs to be done:

- First, transition dynamics from self-employment to paid employment and vice-versa and impact on earnings
- Second, the simultaneity between falling education and fall in high skilled workers earning from self-employed. This problem can be significant. Hence, a causality analysis upon the entire wage structure is worth separate research

Thank you