

Self-employment in Canada and the United States

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Self-employment has accounted for the majority of net employment growth in Canada in the 1990s, but for almost none in the United States (Manser and Picot, 1997). This marks a change from the 1980s, when it played a similar role in both countries.

Not surprisingly, considerable attention has been paid in recent years to self-employment in Canada, especially to workers' reasons for choosing this option. Have they been "pushed" by lack of full-time paid jobs or "pulled" by the positive benefits of self-employment?¹ Survey data in both countries shed some light on the extent to which many workers may prefer self-employment. Statistics Canada's 1995 Survey of Work Arrangements asked workers why they were self-employed, and most provided positive reasons, as did respondents to the U.S. Current Population Survey.

Employment patterns of different countries may vary for a number of reasons. First, labour supply conditions depend in part on demographic trends (for example, the age and income of a population). Second, institutional arrangements and taxation legislation can influence labour market outcomes. For example, differences in personal or payroll taxes may encourage self-employment (or discourage paid employment) in one country, but not in another. The level of "contracting-out" by firms may also be influenced by taxation or labour laws, thus changing self-employment patterns. Finally, differences in fiscal and monetary policy may influence labour demand and employment. Hence, even if all advanced indus-

trialized countries faced similar shifts in labour demand due to globalization and technological change, employment patterns could vary.

Few studies have compared self-employment in the United States and Canada. Of those, one found that among full-timers in non-agricultural work, the self-employed were older, and more likely to be male and well-educated and to work long hours (Reardon, 1997). In Canada, they were considerably more likely to be in the accommodation and food services industry and less likely to be in finance, insurance and real estate or in miscellaneous services. The study concluded that "[t]he difference in self-employment rates for men appear[ed] to be driven in part by worker characteristics and in part by the selection mechanism at work," and that Canada's far higher immigration rate was an important demographic factor. Differences in personal tax rates in Canada and the United States have also played a role in the divergence of men's self-employment trends during the 1990s (Schuetze, 1998).

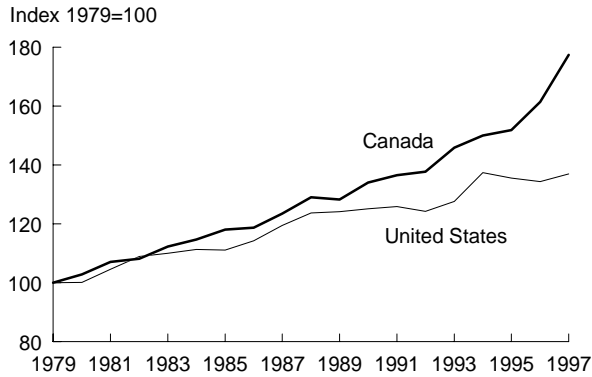
This article looks at the characteristics of the self-employed and at the growth of self-employment in Canada and the United States. Although the countries use different official definitions of self-employment, certain comparable information is available (see *Data sources and definitions*).

An overview of self-employment

The growth of total self-employment was substantial in both Canada and the United States from 1979 to 1997, although much higher in Canada (77% versus 37%, unadjusted for CPS redesign; 25% adjusted) (Chart A). The increase in Canada's self-employment rate (the share of self-employment in total employment) between 1989 and 1997 was striking – from 14% to 18% – after having remained stable during the 1980s. The American rate changed little, registering around 10% over the entire period (Chart B).

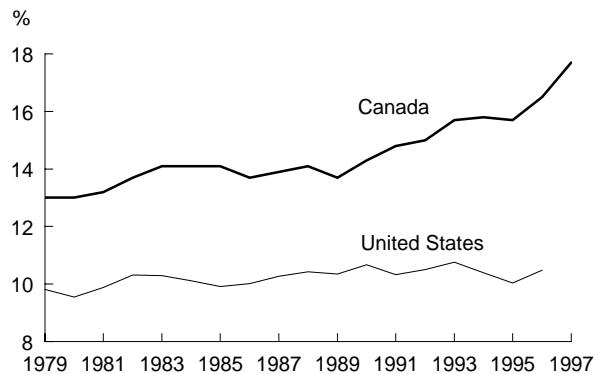
Adapted from an article in Canadian Economic Observer (Statistics Canada, Catalogue no. 11-010-XPB) 12, no. 3 (March 1999). Marilyn Manser is with the U.S. Bureau of Labor Statistics, Washington, D.C. She can be reached at (202) 606-7398. Garnett Picot is with the Business and Labour Market Analysis Division. He can be reached at (613) 951-8214 or picogar@statcan.ca.

Chart A: Self-employment growth accelerated in Canada in the 1990s.



Sources: Labour Force Survey; March U.S. Current Population Survey (CPS) 1979-88; monthly CPS 1989-97

Chart B: The proportion of self-employment has remained fairly constant in the United States.



Sources: Labour Force Survey; March U.S. Current Population Survey

Data sources and definitions

Analysts of U.S. growth often combine the 1980 recession and the more severe 1982 recession. While Canada did experience a mini-recession in 1980, employment peaked in 1981, the year often used as a cyclical peak for annual data. This study treats 1979 to 1989 as one business cycle of recession and expansion for both countries, and 1989 to 1997 as another.

Employment growth was stronger in the United States between 1989 and 1997, up 10% compared with 7% in Canada. But the dramatic difference was in the contribution of self-employment. The extent of this contribution depends on the definition used. In Canada, incorporated working owners (with or without employees) as well as the unincorporated are considered **self-employed**. In the United States, only the unincorporated are considered self-employed; the incorporated self-employed are treated as paid employees. Both definitions are useful.

It is possible to construct both total self-employment (both incorporated and unincorporated) and unincorporated self-employment from the Canadian Labour Force Survey (LFS) for the entire period. For the United States, data are from two sources: the regular monthly Current Population Survey (CPS) and the March supplement to the CPS. Only since 1989 has an official series on incorporated self-employment been produced using the monthly CPS data. In order to examine total self-employment (incorporated plus unincorporated) for the United States back to

1979, this study uses information from the CPS March income supplement (1997 data were not yet available at the time of writing).

While Canadian data and the monthly CPS data refer to the class of worker status in the primary job held during the interview week, the March supplement refers to that of the longest job held over the preceding calendar year. In theory, the number of self-employed from the March data could be either higher or lower than the monthly average data for the corresponding year; in practice, they provide similar pictures.

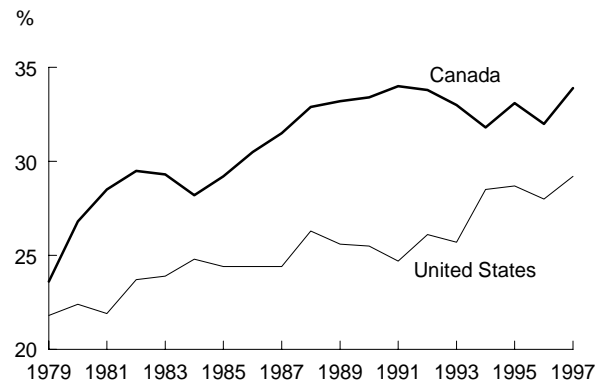
The monthly CPS estimate of self-employment jobs depends on whether or not an adjustment is made to account for the effects of a January 1994 major revision.² Using the unadjusted data increases the estimated growth of self-employment in the 1990s (relative to the adjusted data), since prior to the revision the CPS was undercounting employment, particularly self-employment. Hence, use of the unadjusted data decreases the differences between the United States and Canada. Data on the estimated distribution of jobs by various characteristics probably remain similar. (Data from the March supplement are probably affected to a similar extent but no information is available to construct adjustment factors for them.)

Note: Canadian data exclude 15 year-olds to conform to the American survey.

In Canada especially, the self-employed have been incorporating to a greater extent than before. Their proportion rose from 24% to 33% between 1979 and 1989, and remained stable over the 1990s (Chart C). By contrast, in the United States it grew from 22% to 25% between 1979 and 1989 (March CPS) and from 26% to 29% between 1989 and 1997 (monthly averages unadjusted; from 27% to 29% adjusted).

Between 1989 and 1997, self-employment accounted for about 80% of net employment gain in Canada, but only about 1% in the United States (adjusted monthly data versus 11% unadjusted) (Table 1).³ Unincorporated self-employment by itself (the U.S. definition) contributed about half of net new jobs in Canada over the latest cycle, but virtually none

Chart C: Incorporation among the self-employed increased more in the United States in the 1990s.



Sources: Labour Force Survey; March U.S. Current Population Survey (CPS) 1979-88; monthly CPS 1989-97

Table 1: Contribution of self-employment to total job growth

	Growth		% of total
	Total employment	Self-employment	Growth accounted for by self-employment
	'000		%
Canadian definition			
Canada			
1979-89	2,315	392	16.9
1989-97	904	682	75.4
United States			
1979-89 *	19,638	2,624	13.4
1989-96 *	9,597	1,180	12.3
1989-97 **	12,216	1,402	11.5
1989-97 †	10,662	79	0.7
U.S. definition			
Canada			
1979-89	2,315	199	8.6
1989-97	904	439	48.6
United States			
1979-89 *	19,638	1,585	8.1
1979-89 **	18,518	1,624	8.8
1989-97 **	12,216	505	4.1
1989-97 †	10,662	-246	-2.3

Sources: Labour Force Survey; * March U.S. Current Population Survey (CPS); ** monthly averages, CPS, unadjusted for redesign; † monthly averages, CPS, adjusted for redesign

in the United States (-2% adjusted; 4% unadjusted). The dramatic growth in Canada was unique to the 1990s.

Another striking difference between the decades in Canada is the role played by the self-employed with and without employees. About 60% of net new self-employment jobs created during the 1980s involved entrepreneurs who themselves engaged other employees. The rest were created by own-account workers (that is, entrepreneurs with no employees). During the 1989-97 period, however, fully 90% fit the latter description. This difference would have affected the growth in paid employment. So, the 1990s in Canada produced not only many more self-employed jobs relative to the United States, but also jobs that were different in many ways from those of the 1980s.⁴

Self-employment found everywhere

In the late 1990s, Canadians' relatively greater tendency toward self-employment was widespread. It was observed in all industries and occupations (except management, which was higher in the United States) regardless of workers' education or age.

The industrial concentration of self-employed jobs was similar in the two countries. Self-employment was high in agriculture and construction, and virtually absent from mining and manufacturing. Finance, insurance and real estate, and retail and wholesale trade fell in the middle (Tables 2 and 3).

Table 2: Self-employment rates* for Canada

	1979			1989			1997		
	Both sexes	Men	Women	Both sexes	Men	Women	Both sexes	Men	Women
	%								
Age	13.0	15.2	9.5	13.7	16.9	9.6	17.7	21.1	13.7
16 to 19	7.3	6.0	8.8	5.0	4.3	5.8	8.8	7.8	9.9
20 to 24	4.8	5.9	3.5	4.1	4.9	3.2	5.5	6.2	4.7
25 to 34	10.8	12.4	8.1	10.4	12.5	7.6	12.7	14.8	10.2
35 to 44	15.7	18.2	11.5	15.8	19.7	10.9	18.8	22.0	15.1
45 to 54	18.1	20.6	13.5	19.4	23.3	14.0	21.9	26.5	16.3
55 to 64	19.5	21.9	14.6	23.3	27.1	16.4	29.9	34.1	23.0
65 and over	38.8	43.0	26.6	45.4	54.3	27.6	60.2	65.0	49.4
Industry									
Agriculture	74.6	75.4	72.2	68.8	73.5	58.8	71.7	75.3	64.2
Mining	2.6	2.7	1.5	4.0	4.0	3.5	7.8	7.5	9.2
Manufacturing	2.5	2.9	1.5	4.1	4.6	3.0	5.2	5.3	4.8
Construction	25.7	26.7	15.1	29.2	30.7	16.9	37.3	37.9	32.1
Transportation and public utilities	6.2	7.1	2.7	7.6	9.0	3.5	12.4	14.6	6.3
Wholesale trade	11.5	13.8	4.8	14.9	17.5	8.1	18.6	20.7	13.5
Retail trade	17.5	22.1	12.7	16.0	20.8	11.3	18.7	23.4	13.9
Finance, insurance and real estate	6.1	11.9	2.2	8.9	17.6	3.3	15.8	27.3	8.4
Services	13.0	16.7	10.5	14.3	19.7	11.0	19.4	25.7	15.5
Occupation									
Managerial	6.1	7.1	3.2	14.1	18.4	7.1	13.6	17.7	8.4
Professional and technical	8.5	12.5	4.3	10.4	15.1	6.5	15.9	22.5	10.6
Clerical	2.3	1.3	2.5	2.6	2.6	2.6	4.5	3.6	4.8
Sales	24.0	27.9	18.0	24.5	30.5	17.5	30.6	37.0	23.4
Service	15.4	10.8	19.4	14.7	10.4	18.0	19.6	14.2	23.6
Primary **	58.8	56.1	71.2	56.2	54.5	63.1	59.9	57.7	67.7
Processing, machining and fabricating	5.4	6.0	2.9	6.9	7.1	6.2	9.6	9.5	10.0
Operators and labourers	13.4	13.9	6.6	15.4	16.1	8.4	21.2	21.9	14.5
Education									
Less than Grade 9	20.6	22.2	16.8	21.5	24.3	15.7	25.6	29.1	19.4
Some or completed high school	11.9	13.6	9.4	13.3	15.9	9.9	17.2	19.7	14.1
Some postsecondary or diploma/certificate	10.4	13.1	7.0	11.4	14.6	7.9	16.5	19.6	12.9
University degree	12.1	14.5	7.1	15.0	18.9	9.3	19.7	24.6	13.7
Full-/part-time status									
Full-time workers	12.4	15.0	7.3	13.4	16.7	8.2	17.2	20.7	11.8
Part-time workers†	17.0	18.6	16.4	15.2	19.3	13.5	20.1	24.4	18.3

Source: Labour Force Survey

* The ratio of all self-employed (incorporated or not) to total employment, both of which are available on request.

** Comprises farming; fishing and trapping; forestry; and mining.

† Persons who usually work less than 30 hours per week.

Table 3: Self-employment rates* for the United States

	1979			1989			1996		
	Both sexes	Men	Women	Both sexes	Men	Women	Both sexes	Men	Women
	%								
Age	9.8	13.2	5.5	10.3	13.3	6.9	10.5	13.0	7.6
16 to 19	1.2	1.8	0.6	1.2	1.7	0.7	1.3	1.9	0.8
20 to 24	3.3	4.6	1.8	2.9	3.8	1.8	3.1	3.8	2.3
25 to 34	8.2	10.7	5.0	7.7	9.5	5.7	7.2	8.2	6.0
35 to 44	13.1	17.3	7.8	12.4	15.9	8.4	11.6	14.5	8.4
45 to 54	14.1	18.6	8.0	15.0	19.1	10.2	14.4	17.9	10.5
55 to 64	15.5	20.1	8.7	17.8	22.7	11.6	18.0	22.4	12.8
65 and over	25.1	31.4	15.0	25.9	34.0	14.7	29.1	37.0	18.2
Industry									
Agriculture	44.2	50.9	21.5	42.0	45.7	29.3	42.5	42.2	43.8
Mining	3.7	4.0	1.6	6.8	8.1	0.3	4.4	5.3	0.3
Manufacturing	2.5	3.1	1.1	3.0	3.4	2.3	3.7	3.7	3.7
Construction	20.9	21.9	8.8	21.0	21.6	15.1	22.7	22.9	21.3
Transportation and public utilities	5.1	6.1	2.3	5.1	6.2	2.4	6.9	7.7	4.8
Wholesale trade	12.0	15.0	4.6	12.6	14.8	7.4	13.0	14.4	9.9
Retail trade	11.4	15.1	8.2	9.9	12.6	7.7	9.0	10.6	7.5
Finance, insurance and real estate	9.8	18.1	4.2	10.4	17.6	5.2	11.3	18.0	6.4
Services	10.5	17.3	6.4	11.8	17.6	8.3	11.2	16.4	8.2
Occupation									
Managerial	2.6	29.7	19.4	17.3	22.5	9.9	17.8	22.9	11.7
Professional and technical	9.4	13.3	4.8	14.0	20.8	7.6	13.2	18.7	8.9
Clerical	1.7	1.9	1.7	2.7	1.7	2.9	3.3	1.9	3.7
Sales	15.5	19.5	11.3	16.7	23.2	10.8	15.9	21.7	10.7
Service	5.9	3.8	7.1	7.5	3.7	10.0	6.8	3.6	8.9
Primary **	49.0	56.4	22.1	39.1	40.6	32.0	38.7	37.2	45.3
Processing, machining and fabricating	11.0	11.2	7.7	13.1	13.5	8.7	14.0	14.3	10.6
Operators and labourers	3.8	4.4	2.2	3.4	3.7	2.5	3.7	4.1	2.5
Education									
Less than Grade 9	9.2	11.9	5.0	8.9	10.8	6.1	8.4	10.1	5.7
Some or completed high school	9.2	12.8	5.6	9.8	12.5	6.9	9.9	12.2	7.4
Some postsecondary or diploma/certificate	8.4	11.0	5.1	9.4	12.5	6.1	9.6	11.8	7.4
University degree	13.6	18.0	5.6	13.4	17.2	8.3	13.4	17.1	9.0
Full-/part-time status									
Full-time workers	9.8	13.1	4.5	10.1	13.0	5.9	9.8	12.5	6.0
Part-time workers†	9.9	14.3	7.9	11.3	15.6	9.2	13.2	16.4	11.6

Source: March U.S. Current Population Survey

* The ratio of all self-employed (incorporated or not) to total employment, both of which are available on request.

** Comprises farming; fishing and trapping; forestry; and mining.

† Persons who usually work less than 35 hours per week.

Because of differences in the occupational categories for the two countries, comparisons are difficult, although self-employment appeared to be more concentrated in the managerial category in the United States. Next to primary occupations, management had the highest rate in that country, compared with its next to last position in Canada. Otherwise, the occupational concentration was similar in both countries.

Men were more likely to be self-employed than women. The proportions of male and female workers self-employed in the late 1990s were 13% and 8% in the United States, versus 21% and 14% in Canada.⁵ Men's rate was higher in most industries and occupations, and also in the majority of age and education groups. The main exception was service occupations, in which women were considerably more likely than men to be self-employed. The gap between men and women has narrowed recently, at least in Canada.

With the exception of the very young (age 16 to 19) in Canada, the tendency to be self-employed increased significantly with age in both countries. The self-employment rate was more than twice as great among 55-to-64 year-olds as among 25-to-34 year-olds. However, the self-employed were concentrated among 35-to-44 year-olds, the largest group of workers.

Canada outpaces United States

The most striking difference between Canada and the United States during the 1990s has been the rate of self-employment job creation. Because the growth was small or nil in the latter country, depending on how it is measured, this article focuses on sizeable shifts in the distribution of self-employment. Prior to the CPS redesign, the U.S. data understated employment of women; thus, shifts for men and women are considered separately. Effects of the redesign on other characteristics are expected to be smaller.

Self-employment created a greater proportion of new jobs in Canada than in the United States during the 1990s, but not during the 1980s.

The percentage of self-employment jobs that were full-time declined over the 1990s in both countries, for both men and women. (Part-time jobs, though, were undercounted in the U.S. monthly CPS prior to the redesign.) Over the 1980s, the United States expe-

rienced a small decline in full-time self-employment, whereas Canada saw no change.

In Canada, 42% of self-employment jobs were in services in 1997, up from 34% in 1989. Over the period, about 40% of all net new self-employment jobs were in the generally higher-paying service industries – including business services (28%), such as computer services and management consulting, and education and health (12%). The remaining new service sector jobs (20% of all new self-employment jobs) were largely in the lower-paying personal services, and accommodation and food services. In contrast, the United States saw little change in service jobs for the self-employed (38% of all self-employment in 1996). Moreover, the distribution of such jobs changed in only minor ways. The percentage in retail trade (which includes eating and drinking places in the United States), for instance, fell slightly for both men and women, but was offset by small increases elsewhere. In contrast to the 1990s, the share of self-employment in services increased in both countries during the 1980s – from 31% to 37% in the United States and from 28% to 34% in Canada.

The non-farm goods sector played a relatively modest role in the United States in the 1990s. The share of self-employment jobs in this sector increased marginally over the decade, compared with a 3-point increase in Canada. During the 1980s, also, goods production played a fairly strong role in Canada's self-employment figures.

Even accounting for different classification systems, recent trends in the two countries' occupational characteristics are notably different. During the 1990s in the United States,⁶ the proportion of self-employed workers in management rose, while that of such workers in sales fell slightly. In Canada, the percentage of self-employed workers in professional/technical occupations rose from 13% to 17%. The percentage of those who were managers declined from 13% to 11%. Although their share of jobs was little changed, service occupations accounted for 17% of the new self-employment jobs in Canada.

The share of self-employment (and indeed all) jobs held by more highly educated workers rose during the 1990s in both countries. This is largely because the number of people with lower levels of education was declining, while that of the more highly educated was expanding rapidly. In Canada, the self-employment rate, perhaps a better indicator of differences among

groups, rose across all educational levels. In contrast, it decreased slightly for high school leavers and was essentially unchanged for other groups in the United States. During the 1980s, the self-employment rate rose for all educational groups in Canada, but did so only for those with a high school diploma or some postsecondary schooling in the United States.

In both countries, all age groups reflected the overall trend of self-employment during the 1990s. Self-employment rose in Canada (especially among those over age 55), but changed relatively little in the United States between 1989 and 1996 for most age groups. During the 1980s, only the middle and older age groups increased their self-employment rate in both countries.

In Canada, earnings of own-account self-employed workers remained about 70% of paid workers' throughout the 1990s. Earnings of employers fell relative to those of paid workers.⁷

Discussion

Although the economies of Canada and the United States are closely linked, during the 1990s their labour markets have diverged in a number of ways. The unemployment gap has increased (with lower unemployment in the United States), and income inequality and poverty have become greater issues in the United States than in Canada. In the former, most new jobs have been full-time paid jobs, whereas in Canada most employment growth has been in self-employment and in part-time paid jobs.

Even allowing for differences in the official definition of self-employment, and for changes to

the U.S. Current Population Survey in 1994, self-employment rates have been higher in Canada for some time, a difference that has grown during the 1990s. Self-employment is also more likely to have been full-time in Canada, including new jobs, many in the relatively high-paying business, health and education services. And, while self-employment growth is more likely to have been in management/administration in the United States, it has registered among professional/technical or sales and service jobs in Canada.

Why has job creation been concentrated in self-employment in Canada, and in paid jobs in the United States? Differences in economic conditions could be one possible explanation. While cyclical variation exists in unemployment and in the paid employment-to-population ratio, relatively little variation characterizes the self-employment rate (Lin, Picot and Yates, 1999). Hence, only a weak (and negative) association exists between changes in economic conditions and the self-employment rate in Canada. Analysis based on taxation data provides similar results, as does that of entry to and exit from self-employment. So, while both the "push" and "pull" theories are at work, results suggest that during recessions the "push" does not increase significantly. By extension, the slower economic growth in Canada during the 1990s might also be an unlikely explanation of the much more rapid growth in self-employment. It may be, however, that prolonged periods of slow growth (rather than recession) do encourage greater self-employment.

Several other factors may affect the two countries' self-employment

levels. These include technological change resulting in reduced operating costs and increased production opportunities for small business, especially home-based business; increased contracting-out by employers; U.S. workers' preference for paid work rather than self-employment jobs (in order to take advantage of health benefits); differences in immigration rates and incentives for immigrants to enter self-employment; differences in interest rates affecting the financing of small business; changes in personal income and payroll taxes; and increasing entrepreneurial spirit. Without further analysis it is difficult to see why at least the first two of these factors would play a more prominent role in Canada than in the United States, given the similarities in the economies and demographics.

Perspectives

■ Notes

- 1 For a discussion of the determinants and consequences of self-employment, see Blanchflower and Oswald (1998).
- 2 A data appendix, which is available upon request, provides detailed information on the variable definitions, data sources, and adjustment methodologies. See Polivka and Miller (1998) for information on the methodology used to adjust the monthly CPS estimates for the revision.
- 3 While Canadian growth in self-employment continued to be strong in 1998, that of paid employment was even greater, leaving self-employment's share of the total between 1989 and 1998 at 58%.
- 4 For reasons of data availability, 1996 data are used for the United States, and 1997 data, for Canada. Differences are

significant at the 90% level unless otherwise indicated. Approximate standard errors for the U.S. data in Table 3 (calculated using generalized variance function techniques) are available upon request. Estimated standard errors for Canadian data in Table 2 are also available.

5 One study examined trends in total self-employment using CPS March supplement data for 1974 to 1990 (Devine, 1994). It found a greater increase for women than men in the non-agricultural sector. (Over the 1979-89 period, the proportion of self-employed rose somewhat more in the non-agricultural sector than it did for all industries – from 9.8% to 10.3%, compared with 8.6% to 9.4%.) The study also compared the characteristics of self-employed women with those of women in the wage and salary sector, as well as with those of self-employed men.

6 Changes in the CPS classifications prevent an assessment of occupational shifts during the 1980s.

7 Data corresponding to Tables 2 and 3 for just unincorporated self-employment are available upon request. U.S. data are based on CPS monthly averages.

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