The Macroeconomic Environment, the Great Recession and Self-Employment in 15 European Countries, 1999-201

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There is plenty of evidence that the 2008 Great Recession has affected European labor markets. For example, the 2016 report prepared for the Committee on Employment and Social Affairs of the European Parliament finds that following the crisis, in some countries job insecurity has significantly increased.

While the report's focus is on precarious employment in general, here we focus on solo self-employment. Previous studies have argued that during crises a reduction in the opportunity cost of paid employment encourages workers to become self-employed, where the return to their human capital becomes relatively higher (see, e.g. Parker 2009). Moreover, economic crises and higher unemployment make it easier to hire workers, thereby enhancing the formation of new enterprises. These forces come in the literature under the name of "recession-push" (see, e.g., Henley 2017). On the other hand, recessions associated with high rates of unemployment entail also significant reductions in income, thereby adversely affecting demand. These factors act to mitigate the recessions-push forces unleashed during an economic crisis. Thus, the net effect on self-employment is ambiguous (as noted, among others, by Arum and Müller, 2004).

In the current paper we examine to what extent the aforementioned forces were at play during the 2008 Great Recession in affecting male solo self-employment. Moreover, we investigate whether the special nature of the crisis, driven mainly by the collapse of the financial system, exerted additional impact on the incidence of male self-employment. More specifically, we focus on the differential effects of both the "standard" business cycle forces and those related to the 2008 crisis *per-se* on workers belonging to different occupational groups, controlling for personal characteristics such as educational level and age.

To answer these research questions, we study the labor market affiliation of men aged 25-64 surveyed in the EU_LFS data set. Workers are classified into four different occupational groups: (i) professionals, (ii) technicians, (iii) clerical and service workers, and (iv) manual workers. The study is restricted to the 15 West European countries that were members of the EU prior to its eastwards expansion in 2004 and 2007 (the so-called EU-15, excluding Luxembourg while adding Switzerland) over a period of 18 years (1999-2017). A large set of country-specific indicators covering economic, institutional, and social characteristics (e.g., macroeconomic fluctuations represented by the yearly changes in GDP per capita growth and changes in the unemployment rate) is appended to the individual data (e. g., education, age, marital status). The 18-year span allows us to follow self-employment trends across the various professional group and their susceptibility to unemployment, economic growth and the Great Recession. We thus have 1,499,432 men from 270 country-year combinations (15 countries X 18 years).

The results indicate that “demand-pool” effects, captured by changes in GDP growth rates, have significant positive effects on self-employment across the different occupational groups, with the exception of professional workers and unskilled workers. Increased unemployment, standing for “supply-push” effects, are operative in increasing self-employment mainly among older workers across all occupational groups. Beyond this effect, the Great Recession significantly increased the incidence of solo self-employment among young skilled workers. In contrast, for high white-collar occupations (professionals and technical workers), the 2008 recession significantly decreased the incidence of self-employment. This result extends to workers with tertiary education in the other occupations. For these workers self-employment did not serve as a safety net and failed to absorb displaced workers during the Great Recession.