

YOUTH: DOES UNEMPLOYMENT LEAD TO SELF-EMPLOYMENT?

Jelena FRANJKOVIĆ, mag.oec., Assistant
Josip Juraj Strossmayer University of Osijek,
Faculty of Economics in Osijek

jelenaf@efos.hr

Dario ŠEBALJ, mag.oec., Assistant
Josip Juraj Strossmayer University of Osijek,
Faculty of Economics in Osijek

dsebalj@efos.hr

Ana ŽIVKOVIĆ, mag.oec., Assistant
Josip Juraj Strossmayer University of Osijek,
Faculty of Economics in Osijek

azivkovi@efos.hr

Abstract

Crisis on the labour market is widely dispersed all over European Union. A great boost for employment increase could be self-employment, although young people are not prone to engage in such activities. This paper focuses on youth interest in self-employment within EU countries, with special emphasis on Croatia. The main issue studies the youth unemployment impact on youth self-employment. It is examined the extent of self-employment of all EU members paying attention on differences between Nordic and Eastern European countries. Accordingly, push and pull factors are mentioned in a term of motivation aspects.

Keywords: *youth unemployment, youth self-employment, push and pull factors, EU member states, Croatia*

JEL Classification: J1, J13, J21

INTRODUCTION

Even though testing own limits and exploring wastelands of passionate work seems to be challenging, courage for the self-employment among young people is more the exception than the rule. However, when there are no free vacancies in the public, neither the private sectors, and when youth does not see perspective future careers, self-employment could be a great solution.

Theoretically, from macro view it is expected that self-employment represents economic growth. Obviously, the higher level of self-employment increases a total employment level, but the question is whether youth self-employment is encouraged by high youth unemployment. This study should provide the answer for observed EU countries putting emphasis on Croatian labour market.

If there is any significant correlation between those two variables, it would be interesting to find out a source of motivation: do young people have strong intrinsic desire for self-employment or is it only a way out due to economic crisis. According to Williams (2004, p. 330), young individuals who choose self-employment might be those who are already less likely to complete schooling and who have lower earnings potential. Therefore, micro view observes push and pull factors which are explaining aforementioned correlation: if the correlation is stronger, the push factors are dominant.

The expectations lead us to assumptions that Western European countries have the highest rate of youth self-employment among European Union member states by virtue of better conditions, and that increase in youth unemployment affects increase in youth self-employment.

LITERATURE REVIEW

Self-employment is mostly result of two opposing sides – push and pull factors. Pull factors are represented by entrepreneurs who are credited with stimulating job growth and encouraging innovation, while push factors are represented by entrepreneurs who choose self-employment as a consequence of limited opportunities in the wage sector or become self-employed as an alternative to unemployment (Rissman, 2006, p. 14).

According to Baumol (1990, p. 909), entrepreneurship can be productive, unproductive and destructive, which leads to the idea that entrepreneurship out

of necessity due to unemployment is destructive and destined to fail while opportunity-motivated and innovative entrepreneurship is productive and leads to job creation and economic growth (Constant & Zimmermann, 2014, p. 52). Santarelli and Vivarelli (2007) recognize macro and micro determinants to self-employment entry and non-economic factors as well, while among macro determinants both “progressive” (promising economic perspectives) and “regressive” (fear of unemployment) factors are important. Constant and Zimmermann (2014, p. 53) identify two types of entrepreneurship – individuals who freely choose an independent profession and individuals who are forced to go into self-employment. First ones are the productive innovators who materialize their visions, pulled by the lucrative aspects of self-employment. The next mentioned are the ones who are pushed in self-employment at their own risk because nobody else wants to take the risk to employ them (Constant & Zimmermann, 2014, p. 53).

Unemployment is rarely the main driver of new firm formation, but it often plays a role, which for certain countries has proved to be very significant during economic downturns (Santarelli & Vivarelli, 2007, p. 461). In 2001, the analysis (Global Entrepreneurship Monitor, 2001, p. 4-5) indicated that developing countries generally have a higher prevalence rate of necessity entrepreneurship and that it may have a strong macro-economic function. The only European country among the countries which were the highest ranked in the group of necessity entrepreneurship was Poland, which had become democratic country a few years before Croatia. At the beginning of transition of Croatian economy, the self-employed were exploring the possibilities of new institutional set up, but the reflection upon that period shows that although many new businesses opened, many subsequently failed (Botrić, 2012).

According to Blanchflower (2000, p. 502), for most countries there is a negative relationship between the self-employment rate and the unemployment rate, and from the time series regressions, evidence of positive effects is found only in Iceland and Italy. In the last few years in Spain, large growth in number of self-employed has been registered, and it is well known that Spain has one of the highest youth unemployment rates in Europe, which may have forced many young people to try their hand at self-employment (Hatfield, 2015, p. 15).

The unemployed could use the self-employment option for bypassing the unemployment and, in that case, one would expect self-employment rates to

increase during the downturn and individuals to be pushed into forced self-employment or self-employment out of necessity. However, the success and longevity of a business is rather low during the downturn, which in turn, can also act as a deterrent to self-employment start-ups (Constant & Zimmermann, 2014, pp. 62-63). One of the major problems for self-employers during the downturn are their consumers. They meet the great challenges in creating their loyal and constant market, regardless of whether they offer products or services to industrial or final consumers, because both are reducing their costs, or do not have any budget at all. When it comes to youth employment, Williams (2004, p. 326) finds that most self-employed youth are not “long-term” self-employed, more precisely during only one year.

Some of the individuals who report being self-employed are unpaid family workers (Blanchflower, 2000, p. 478) and the similar situation is in Croatia where the registered youth self-employment is rare, but very often is unpaid work in family business (Matković, 2008, p. 495). Also, people with greater family assets are more likely to be self-employed (Blanchflower, 2004, p. 32).

In the analyse of youth self-employment in the United States, self-employment is quite rare (from 1 to 4 percent) among young workers and these young tend to have lower levels of educational attainment, but they are much more likely to be self-employed in early adulthood (Williams, 2004, p. 334).

METHODOLOGY

For the purpose of this paper Eurostat database has been used in order to gather information about youth employment. The data about youth employment, self-employment and unemployment have been collected, from the year 2005 to 2013. Although the youth category can be observed from different aspects, the ones from 15 to 29 years, both sex and all levels of education have been selected. Data were available for all 28 EU member states.

By using of these collected data, it was possible to calculate the rate of youth self-employment as a relation between the number of self-employed and the number of employed.

With this paper the following hypotheses have been tried to prove:

1. *Western European countries have the highest rates of youth self-employment among EU member states.*

2. Youth unemployment increase affects youth self-employment increase.

To prove the first hypothesis, descriptive statistics has been used and in order to prove the second hypothesis simple linear regression analysis has been used. This analysis has been made for Croatia first. Then it has been researched is there any difference between Nordic and Eastern European countries. In Nordic countries Finland, Denmark, Sweden, Estonia, Latvia and Lithuania were included. In Eastern European countries group were Croatia, Hungary, Greece, Romania and Bulgaria.

RESULTS

Based on information about youth employment and self-employment, the rate of youth self-employment of each EU member state was calculated (see Table 1).

Table 1 The rate of youth self-employment in EU member states

Country	2005	2006	2007	2008	2009	2010	2011	2012	2013
Belgium	6.1	6.6	6.5	6.3	6.6	6.4	6.5	6.9	7.7
Bulgaria	5.2	4.9	4.7	4.5	4.7	5.1	5.0	5.0	5.3
Czech Republic	9.0	8.7	8.6	8.7	9.3	10.2	10.8	10.8	9.9
Denmark	2.2	2.4	2.8	2.6	2.6	2.5	2.3	2.3	2.5
Germany	3.7	3.6	3.5	3.2	3.3	3.1	3.2	3.3	2.9
Estonia	4.2	4.9	4.7	4.7	4.7	4.4	4.5	4.6	4.3
Ireland	4.1	3.8	4.3	4.4	4.0	3.6	3.6	3.2	3.6
Greece	12.9	12.8	12.1	12.2	12.5	13.4	13.6	14.7	15.7
Spain	7.4	6.9	7.0	7.0	6.4	6.2	6.3	7.3	7.8
France	2.6	3.3	3.5	3.7	3.6	4.3	4.3	4.3	4.5
Croatia	10.2	10.3	7.9	6.5	6.5	8.1	8.6	7.8	7.8
Italy	15.5	15.9	15.7	14.6	14.2	15.1	14.3	15.0	15.5
Cyprus	7.2	8.1	9.6	8.9	7.9	6.8	6.5	6.0	7.0
Latvia	3.3	3.4	4.3	4.5	4.7	5.1	5.8	5.0	6.0
Lithuania	7.5	7.3	7.3	5.0	4.2	3.5	4.5	5.3	5.3
Luxembourg	2.2	2.2	3.5	3.0	3.9	2.5	4.5	4.8	4.2
Hungary	7.0	5.7	5.1	4.5	5.0	4.7	4.2	4.7	3.9
Malta	5.7	5.7	7.0	7.1	7.2	5.4	4.9	6.0	7.2
Netherlands	4.1	4.1	4.4	4.6	4.9	5.5	5.5	5.6	6.5
Austria	3.1	3.2	3.2	3.2	3.4	3.6	2.8	3.2	3.2

Poland	9.2	8.9	8.3	8.4	8.7	8.6	8.8	8.7	8.7
Portugal	7.0	6.4	6.4	6.1	6.1	5.7	5.4	5.3	5.4
Romania	11.6	11.4	11.3	11.4	11.5	12.9	10.8	10.7	10.0
Slovenia	2.7	3.1	3.3	2.9	3.8	4.5	4.9	4.9	5.0
Slovakia	8.4	8.7	9.1	9.8	11.9	12.5	11.7	12.3	11.0
Finland	4.7	4.3	4.0	4.7	5.1	4.7	5.1	5.0	4.9
Sweden	2.9	3.1	3.2	3.2	3.6	3.8	3.3	3.6	3.9
United Kingdom	5.3	5.5	5.6	5.8	5.9	6.0	6.7	6.8	6.7

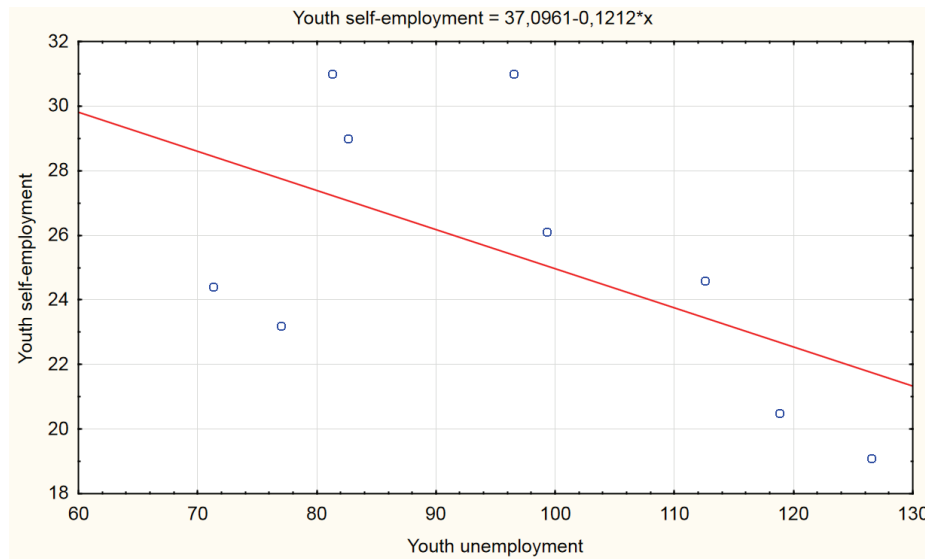
Source: Authors' calculations

The initial assumption was that Western European countries (especially Germany, France, Ireland, UK) have the highest rates of youth self-employment because those countries have better conditions (business incubators, encouraging of self-employment, less bureaucracy, imposts and taxes etc.) for self-employment. Table 1 shows the opposite. The highest youth self-employment rates, in 2013, have the following countries: Greece, Italy, Slovakia, Romania and Czech Republic (between 10 and 16 percent). On the bottom of the list are more developed countries: Denmark, Germany, Austria, Ireland and Sweden (between 2.5 and 4 percent). Croatia has been placed above average on the 8th place (7.8 percent). The main reason of high percent of youth self-employment rate could be in high youth unemployment rate which forces young people into entrepreneurial activity (push factor).

Until recent few years, Croatia has not got quality program to encourage youth to run their own enterprise. According to Williams (2004, p. 323), individual governments have developed programs to assist youth in the formation of new enterprises, through financial assistance or specialized training, in both developed and developing countries such as Germany, Great Britain, Italy, India, Bangladesh, Botswana, Zambia and others, but according to Blanchflower (2004, p.61) and research across the OECD, the probability of being self-employed is higher for men and for older workers compared to youth.

This conclusion opens another question: does youth unemployment increase affects youth self-employment increase?

Graph 1 Scatterplot of „Youth unemployment“ variable against „Youth self-employment“ for Croatia



Source: Authors' calculations

Graph 1 shows scatterplot of independent variable “Youth unemployment” against dependent variable “Youth self-employment” for Croatia. It suggests a negative, very weak correlation. Though, in reality, there are several factors that may affect youth self-employment (such as economic conditions), however, this research is concerned only about the relationship between youth unemployment and youth self-employment. Equation of the regression line can be shown as:

$$y = 37.0961 - 0.1212x$$

Table 2 Regression summary for dependent variable “Youth self-employment” (Croatia)

r	R ²	Adjusted R ²
.55820668	.31159470	.21325108

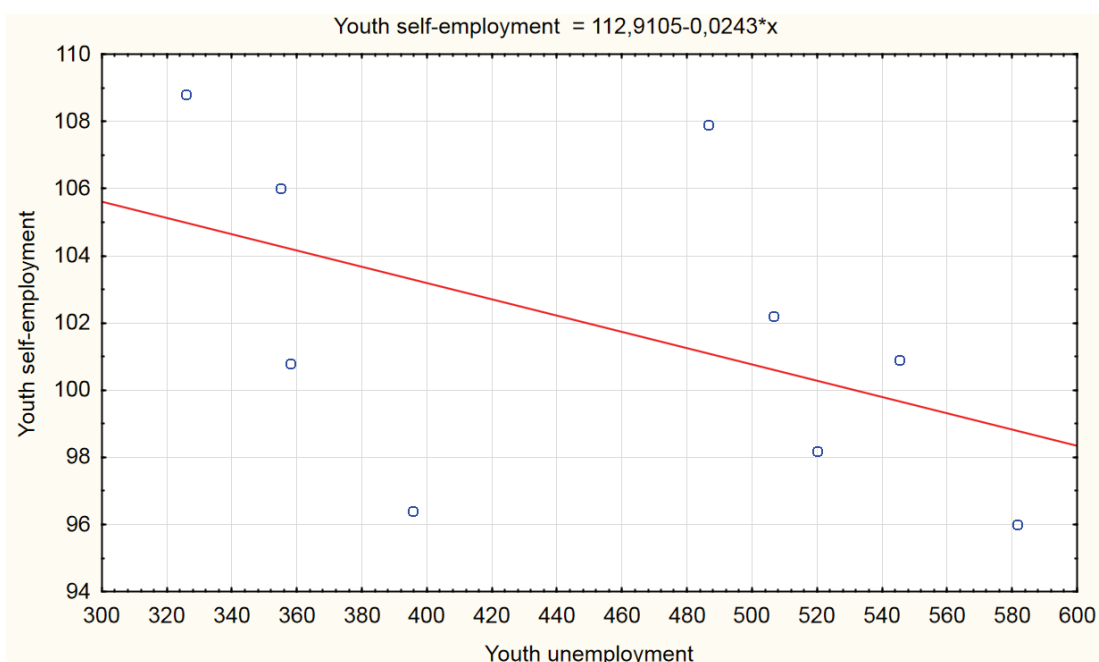
Source: Authors' calculations

According to this data, it can be concluded that there is no strong correlation between those two variables in Croatian example. The increase of youth unemployment does not affect increase of youth self-employment. This conclusion can be explained by the fact that young people in Croatia are afraid of possible failure of business activity. Croatia has a large number of imposts and taxes that increase costs of running a business. In the public, the private sector has a bad reputation due to lower wages than in public sector, inability of charging the invoices, big responsibility of owners etc. Therefore, youth will rather stay

unemployed then try to become self-employed. “The notion that self-employment could alleviate the unemployment problems was also incorporated in the Croatian national employment policies, starting from year 1998, and staying, although modified, within the employment promotion policies throughout the period (Croatian Employment Service, 2010). However, even early evidence has shown that the measures did not encourage a large share of unemployed into self-employment. The most probable reason behind this relative unsuccessfulness of the measure is that starting your own business requires the financial means as well as specific skills, which the unemployment population for the most part lacks (Botrić, 2012).”

Also, the results of croatian regional analysis (Botrić, 2012, p. 1240) show that high regional unemployment is not related to self-employment. Croatian regions where the unemployment is high are not able to stimulate more intensive job creation through self-employment on average, even though there are certain financing programmes available for the unemployed to initiate self-employment projects through the Croatian Employment Service. In order to see do mentality and state regulations affect the possibility of stronger correlation between two mentioned variables, several countries have been grouped in Nordic and Eastern European group. Then, the same analysis has been conducted.

Graph 2 Scatterplot of „Youth unemployment“ variable against „Youth self-employment“ for Nordic countries



Source: Authors' calculations

Graph 2 shows scatterplot of independent variable “Youth unemployment” against dependent variable “Youth self-employment” for Nordic countries. It shows a negative, very weak correlation. Equation of the regression line can be shown as:

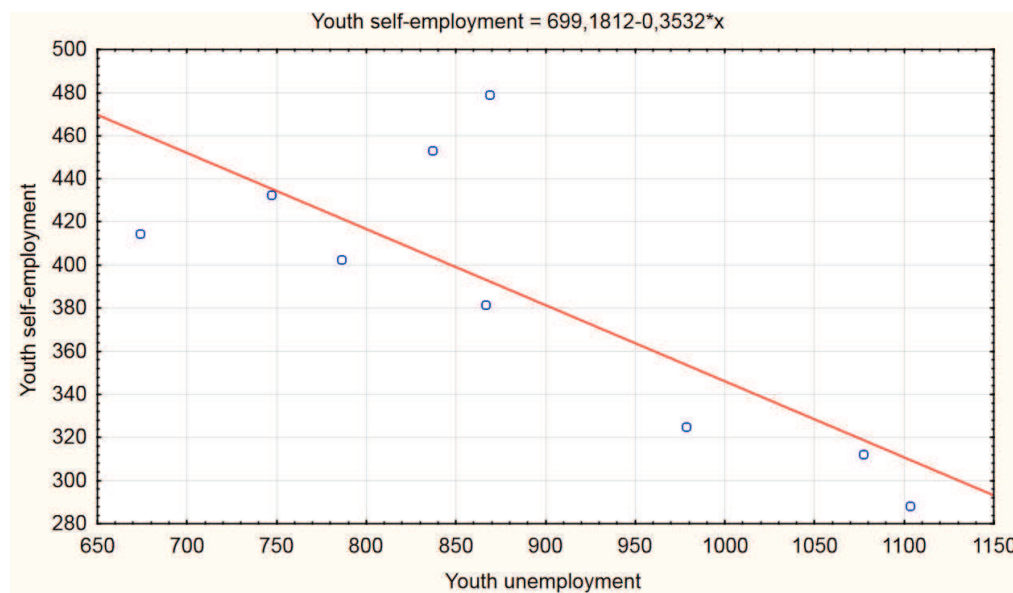
$$y = 112.9105 - 0.0243x$$

Table 3 Regression summary for dependent variable “Youth self-employment” (Nordic countries)

r	R ²	Adjusted R ²
.48260829	.23291076	.12332658

Source: Authors’ calculations

Graph 3 Scatterplot of „Youth unemployment“ variable against „Youth self-employment“ for eastern European countries



Source: Authors’ calculations

Graph 3 shows scatterplot of independent variable “Youth unemployment” against dependent variable “Youth self-employment” for Eastern European countries. It shows a medium strong correlation. Equation of the regression line can be shown as:

$$y = 699.1812 - 0.3532x$$

Table 4 Regression summary for dependent variable “Youth self-employment” (Eastern European countries)

r	R ²	Adjusted R ²
.77589031	.60200577	.54514946

Source: Authors’ calculations

There are big differences in correlation between those two groups of countries. The Nordic countries are more developed and more focused on innovations. Their public and state sector play a major role in the economic prosperity. They have a high-skilled labour and a higher rate of employment. Also, the Nordic countries are very well connected with each other. The reason of the youth self-employment in those countries might be found in their tendency to innovations (pull factors) or because of the financial reasons (push factors). The other key factor is their willingness to accept risks. According to Nordic Entrepreneurship Survey 2015 (2015), the majority of the Nordic entrepreneurs, 62 % of them, consider themselves to be risk-neutral.

On the other side, in the Eastern European countries the push factors affect youth self-employment. The medium strong correlation, which is shown in Table 4, indicates that youth unemployment does affect youth self-employment. Because of the high unemployment rate and often long term unemployment, they are discouraged and usually have only two possibilities: going abroad or taking risk and self-employed themselves.

CONCLUSION

Both proposed hypothesis are rejected: Western European countries do not have the highest rate of youth self-employment among European Union member states; youth unemployment increase does not affect youth self-employment increase. Later assertion is also true for Nordic countries, unlike Eastern European countries, where correlation between youth unemployment and youth self-employment is stronger. This proves that many conditions such as a big role of public and state sector, but also influence of mentality and culture, could be significant for self-employment increase. Nordic self-employed young people are motivated by strong need to express creativity and innovation which represents pull factors. On the other hand, in the Eastern European countries, where unemployment level is higher, push factors are dominant.

Self-employed people are more likely to be satisfied by their job owing to flexible work time, creativity freedom, high organizational discretion, strong motivation due to personal risk and strong enthusiasm which is especially important for young people. Although experience and researches show that young people in generally are not “long-term” self-employed, one thing is certain – if there is any opportunity, it is better even to fail than charge the percentage of unemployment by own passivity. Until Croatian economy expands, any way of youth employment is welcomed.

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