

Review of Radical Political Economics

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Review of Radical Political Economics 2010; 42; 50

DOI: 10.1177/0486613409357180

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Review of Radical Political Economics
42(1) 50–65
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Political Economics
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DOI: 10.1177/0486613409357180
<http://rrpe.sagepub.com>



Gabriel V. Montes-Rojas¹

Abstract

This article analyzes the nature of micro-entrepreneurship in Argentina and relates it to the empirical evidence available for other Latin American countries. It focuses on whether the sector resembles the neoclassical view, characterized by the risk-taking nature of the entrepreneurial activity, or if it is a precarious form of employment of last resort. The evidence confronts the neoclassical view of the micro-entrepreneur sector. It is argued that self-employment should be interpreted as functional to the capital accumulation process and not as a residual activity.

JEL classification: J23, L25

Keywords

micro-firms, self-employment

1. Introduction

Micro-firms account for roughly 50 percent of employment in Latin America and substantially more in Africa and Southeast Asia. The literature that originates with Harris and Todaro (1970) sees the sector as a temporary place for those seeking better jobs in the salaried sector. Harris and Todaro disaggregate urban employment into a modern sector, characterized by high productivity growth and job benefits, and a traditional (or informal) sector.¹ The latter encompasses the micro-entrepreneur or self-employment sector: those individuals working as own-account workers or owners of firms with less than 15 employees. These models typically view the informal sector as being essentially stagnant and unproductive, serving merely as a refuge for the urban unemployed as well as a receiving station for the newly arrived rural migrants. In this view, the micro-entrepreneurship sector is usually associated with “disguised unemployment.” This hypothesis is usually referred to as the “dual” market hypothesis because the salaried and the informal sector are interpreted as separate markets.

¹Different terminologies have been used for this portion of the labor force. Todaro (1969) called it “urban traditional,” Santos (1979) the “lower circuit,” McGee (1971) “protoproletariat,” and Cole and Sanders (1985) “urban subsistence.”

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Date received: February 3, 2007; accepted: November 10, 2008

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The Marxian literature was not particularly interested in this portion of the labor force, provided that it played a small role in class struggle.² Marx and Engels (2002), for example, noted in *The Communist Manifesto*:

The lower middle class, the small manufacturer, the shopkeeper, the artisan, the peasant, all these fight against the bourgeoisie, to save from extinction their existence as fractions of the middle class. They are therefore not revolutionary, but conservative. Nay more, they are reactionary for they try to roll back the wheel of history.

Nevertheless, the importance of this sector in modern capitalist societies produced some work on the topic. Erik Olin Wright identified three criteria for studying class definitions and relations: control over money capital, physical capital, and labor (Wright 1985: 46). Capitalists and workers are defined by perfect polarization along all three dimensions. The petty-bourgeoisie have real control over their immediate labor process and own (to some extent) their money and physical capital. Within this framework, my interest is centered in the lower end of the petty-bourgeoisie, where ownership of own labor is evident (they control *how* and *what* to produce, except for piece work) but the degree of control over their capital is unclear because in many cases they cannot claim ownership over their places of work and other physical capital, while they have limited access to capital markets. Moreover, I consider firms' owners who are also employers of wage-labor, although this may include family workers and unpaid labor.

Wright has a distinctive category for this sector, *small employers*, which occupy a contradictory location between the bourgeoisie and the petty-bourgeoisie. He argues that the main feature of this sector is the "inter-penetration of modes of production" (Wright 1985: 49), in particular, capitalism and simple commodity production, where in the latter there is no exploitation; rather, all surplus is generated by the producer and his/her family (Wright 1978: 79). Poulantzas (1974: ch. 10) argued that this sector was characterized by a transfer of profits to monopoly capital, particularly in the case of small-retailers vis-à-vis big stores of concentrated commercial capital. Then, although no exploitation seems to occur in the sphere of production, there may be exploitation in the sphere of circulation of capital.

Moreover, the capitalist insertion of developing countries in the international division of labor plays an important factor in the characterization of this sector. For instance, Amin (1976) states that

the hypertrophy of certain tertiary activities with low productivity (small-scale retail trade, including itinerant trade, various services, etc.) is a manifestation of concealed unemployment, resulting from the process of marginalization that is specific to the development of peripheral capitalism. (245)

The neoclassical view regarding the role of self-employment in industrialized countries emphasizes the risk-taking, entrepreneurial nature of the sector. In the classic framework proposed by Lucas (1978), individuals are endowed with a given—and known—level of entrepreneurial or managerial ability. Individuals with a sufficiently high level of managerial ability become entrepreneurs, while the rest become wage workers. Jovanovic (1982) added dynamics to the Lucas representation by assuming that individuals have a vague idea about their entrepreneurial skills, and they learn about them by starting a firm. Therefore, in the long run, only the best entrepreneurs survive.

²The Marxian literature distinguishes five classes or semi-classes, and among those the petite bourgeoisie and the self-employed which encompass our subject of analysis.

The neoclassical view interprets the fact that the self-employed receive on average a lower income than salaried workers with the same level of skill as a preference for being independent or being “your own boss” (Blanchflower and Oswald 1998; Blanchflower 2000; Hamilton 2000). Therefore, becoming a micro-entrepreneur is seen as an “optimal, voluntary decision” undertaken by those with sufficiently high entrepreneurial ability who might be willing to trade-off income and stability for an internal locus of control. Wright (1978) also characterizes this sector in terms of their “semi-autonomy” (i.e. control on what and how to produce), but this is conceptually different from the “optimality” professed in neoclassical theory.

Some authors (Maloney 1999, 2004; Bhattacharya 2002) attached this view to micro-firms in developing countries. In this literature, institutional constraints and corruption are responsible for the lack of growth of the sector (De Soto 1989), but individuals optimally choose whether to be in the micro-entrepreneur or the salaried sector. This view is also predominant in both the center-left and right political spectrum. For instance, the president of Ecuador made a campaign promising to make Ecuador a country with “13 million [entire population] entrepreneurs.” The recent Nobel Peace Prize laureate Muhammad Yunus encouraged those efforts to finance micro-firms in developing countries as a successful way to reduce poverty.

I contribute to the understanding of urban self-employment in Latin American countries by analyzing the sector in Argentina, which has one of the most developed salaried sectors in the region but also high rates of informality. I compare these results to findings in other countries in the region and extract important similarities. The evidence rejects the neoclassical view and suggests that the dynamics of self-employment should be analyzed in terms of the capital accumulation process in peripheral countries and in Latin American countries in particular.

2. The Micro-Entrepreneur Sector in Argentina: Where Is the Successful Entrepreneur?

I use the *Encuesta Permanente de Hogares* (EPH), an urban household survey tracking individuals for 2 years, both in May and August, from May 1995 to May 2003. The survey covers most Argentinean metropolitan areas and is the most representative database of urban employment available for this frequency. In addition, I only consider individuals in the 20-65 age range, which makes up the active labor force (in Argentina, retirement age is between 60 and 65, although lower for public employees). The pooled sample consists of 240,968 observations. The appendix provides a complete description of the variables used from the EPH.

2.1. Composition

Table 1 presents basic statistics for the pooled EPH sample, comparing salaried and self-employed workers. Some stylized facts emerge from the table. On average, 27 percent of the labor force is self-employed; they are less educated but older than the salaried population. The evidence in Latin America suggests strong similarities with Argentina. Self-employment rates are higher in the low educated segments of the labor force (contrasting evidence on this for Argentina, Brazil, and Mexico can be found in Maloney 2004). This determines that much of the self-employment sector is drawn from the poorest segments of the labor force. Besides, the self-employment sector shows higher dispersion in its skill composition (age, education) and earnings than the salaried counterpart, which suggests a strong structural segmentation in the sector (see below).

Table 2 shows the distribution of workers by firm size. Observe that about 66 percent have 1 worker (i.e. own-account workers) while 96 percent have fewer than 5 employees. In terms of employment, considering salaried workers employed in micro-firms (non-public firms with less than 16 workers), we find that roughly 67 percent of all workers are associated with the micro-firms

Table 1. Basic Descriptive Statistics

	Self-employed	Salaried
% of working people (self-employed + salaried = 100%)	27.5%	72.5%
Age	43.0 (11.0)	37.9 (11.5)
Years of schooling	10.28 (4.40)	10.74 (4.12)
No schooling	2.12%	1.79%
Primary inc.	9.48%	6.64%
Primary comp.	28.14%	24.49%
High sch. inc.	17.47%	16.72%
High sch. comp.	18.40%	20.29%
Some college	10.02%	17.47%
College	14.37%	12.60%
Hourly income (Pesos 2001, 1 Peso = 1 Dollar)	4.83 (6.92)	4.04 (3.64)
Hourly income annual growth	-4.77% (76.6%)	-1.86%(51.4%)
Percentage of household heads	63.4%	51.4%
Percentage of females	33.2%	41.4%

Note: Pooled EPH data (1995-2002). Standard deviations in parentheses.

Table 2. Self-employment and Salaried by Firm Size

Size	Self-employed	All Salaried	Salaried (non-public sector)
1	65.8%	11.3%	13.5%
2-5	30.2%	21.0%	23.6%
6-15	2.8%	17.3%	17.3%
16-25	0.5%	10.2%	10.1%
26-50	0.4%	11.9%	11.5%
51-100	0.2%	10.8%	9.9%
101-500	0.1%	12.1%	10.2%
501-.	0.0%	5.4%	3.9%
Total	100.0%	100.0%	100.0%

Note: Pooled EPH data (1995-2003).

sector. This fact determines that the minor sector cannot be considered as a minor economic activity. Table 3 presents the distribution of workers in each sector by industry and it shows that about 50 percent of the self-employment sector can be found in three main sectors (retail trade, construction, and repair services).

Average hourly income of the self-employed is 20 percent greater than that of salaried, although the latter has a larger dispersion (see Table 1). However, when controlling for observable skills through least squares methods, observe that wage workers receive on average a higher compensation for their hourly work. This gap is found by running a regression where the dependent variable is the logarithm of real hourly income, and I use as independent variables a dummy variable for salaried (vs. self-employed), years of schooling,³ age, gender, an indicator for household head, a dummy variable for public employees, and city and time dummies. The coefficient of the dummy variable for the salaried is of interest for our purposes, and it reflects the difference in

³As a referee pointed out, education is itself determined by class and other background variables and it may not be a correct measure of individual skills. However, I follow the standard methodology in the literature, and I consider it as an exogenous variable.

Table 3. Self-employment and Salaried by Industry

Industry	Self-employed	Salaried	Total
Primary sector	1.9%	2.0%	1.9%
Food, beverage and tobacco	2.4%	3.2%	3.0%
Textiles, textile products and footwear	2.3%	2.2%	2.2%
Chemical, refined petroleum and nuclear fuel	0.4%	1.5%	1.2%
Metal products, machinery and equipment	2.8%	2.9%	2.8%
Manufacture not elsewhere classified	3.1%	2.8%	2.9%
Electricity, gas and water supply	0.1%	1.6%	1.2%
Construction	16.7%	6.1%	8.9%
Wholesale trade	4.2%	3.7%	3.9%
Retail trade	25.5%	8.0%	12.7%
Restaurants and hotels	2.5%	2.1%	2.2%
Transportation and related services	5.6%	4.6%	4.9%
Financial intermediation	0.3%	2.6%	1.9%
Real estate and rental and leasing	7.7%	3.6%	4.7%
Public administration and military	0.1%	19.0%	13.9%
Teaching	1.5%	12.1%	9.3%
Social services and health	3.3%	7.1%	6.1%
Other social services	2.0%	4.0%	3.5%
Repair services	8.1%	1.5%	3.3%
Households with domestic services	5.5%	8.9%	8.0%
Other personal services	4.1%	0.7%	1.6%
Total	100.0%	100.0%	100.0%

Notes: Pooled EPH data (1995-2003).

income (conditional on observable human capital) between a given base category and salaried workers. Complete regression results appear in the appendix. The regression results show that when comparing the salaried sector to the whole self-employment population, salaried workers have on average 8.3 percent higher hourly pay than the comparable self-employed individuals with the same level of skills. This gap is enlarged when salaried workers are compared to own-account workers (13.8 percent) but reduced when compared with entrepreneurs with at most 5 employees (4.1 percent). Only when compared with entrepreneurs with more than 5 employees, the difference flips sign, showing that these entrepreneurs earn on average 49 percent more than a salaried worker with the same level of observable skills. Provided that the former two categories make up 96 percent of the entrepreneurs' sample, we should conclude that the sector earns conditionally less. That is, after controlling for differences in observable human capital, being self-employed means on average a lower hourly payment, except when compared with owners of firms with more than 5 employees.

The neoclassical view interprets this as the price of "being your own boss." In this view, micro-entrepreneurs receive a non-pecuniary plus for being independent, making his/her own decisions, and having a flexible schedule. Maloney (2004) states that this gap may also arise because of the sub-valuation of formal employment benefits (health insurance, social security). However, the evidence presented here suggests that the "dual" view of the labor market is more appropriate than the neoclassical one. In addition, when we consider full-time workers (individuals who work at least 20 hours per week), on average the self-employed work *ceteris paribus* 4.3 hours per week more than salaried workers. In consequence, it is difficult to associate the fact that they earn less and work more with the preference for a more flexible schedule for the majority of workers in this sector.

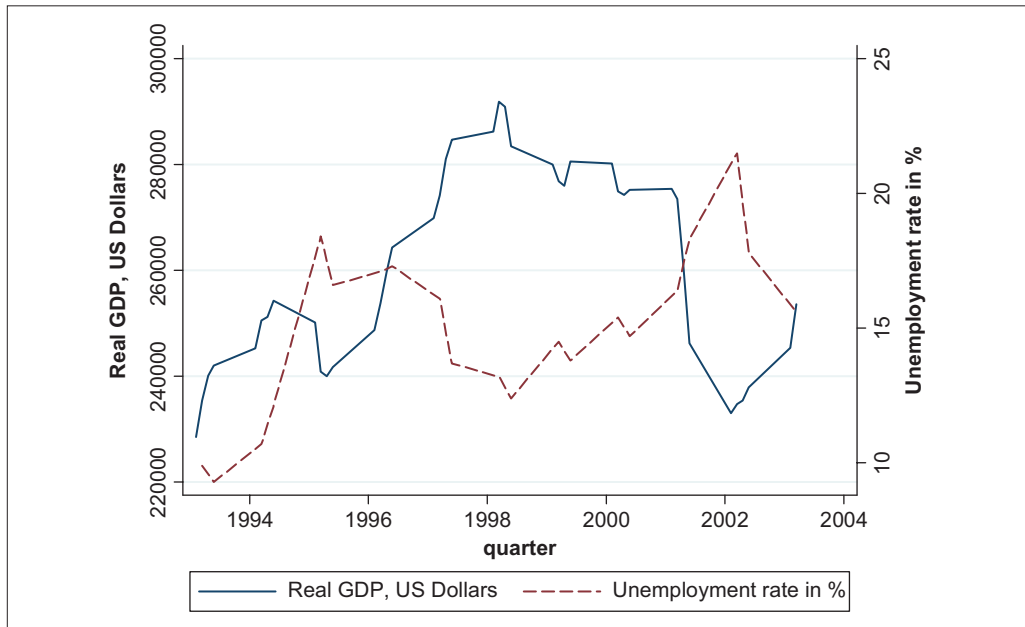


Figure 1. Real GDP and unemployment rate
 Note: INDEC, Argentina's National Statistical Office.

2.2. Dynamics

Do they trade-off lower income for higher income growth? Entrepreneurs have an average annual hourly income growth of -4.8 percent which contrasts with -1.9 percent of salaried workers (see Table 1). Moreover, the former have higher income growth dispersion than the latter, which determines that self-employment is in general a more risky alternative. This difference is also robust to additional controls, showing an average income growth difference of 1.8 percent (2 percent when compared to own-account workers). (Here the dependent variable is annual hourly income growth, and I use the same controls as before. The salaried vs. self-employed difference is obtained by the coefficient estimate of the salaried dummy variable. Regression coefficients are reported in the appendix, Table A1 columns (5)-(8).) The neoclassical argument states that this decision may still be optimal, provided that those individuals willing to take more risks are those in the entrepreneur sector. However, this statement applies to the fact that entrepreneurs are willing to accept higher volatility in their incomes, not to the fact that they accept lower income growth on average. Therefore, we can conclude that in terms of income dynamics, still salaried workers do better than entrepreneurs.

Some evidence on the dynamics of the sector together with the overall performance of the economy will help in characterizing its nature. Figure 1 reports the evolution of real GDP and unemployment for the period 1993-2003. After the 1995 crisis, known as the Tequila Crisis (which impacted in Argentina after the collapse of the Mexican economy), the economy recovers until 1998, when it starts one of the most dramatic falls in income and living conditions. The crash of the *Argentínazo* strikes with a clear spike in the unemployment rate and a considerable decline in GDP.

Figure 2 reports the evolution of the salaried premium in levels, where this premium is the coefficient estimate of running a regression of income on the same set of covariates used above and presented in Table A1 in the appendix, but in this case for each year separately (complete regression

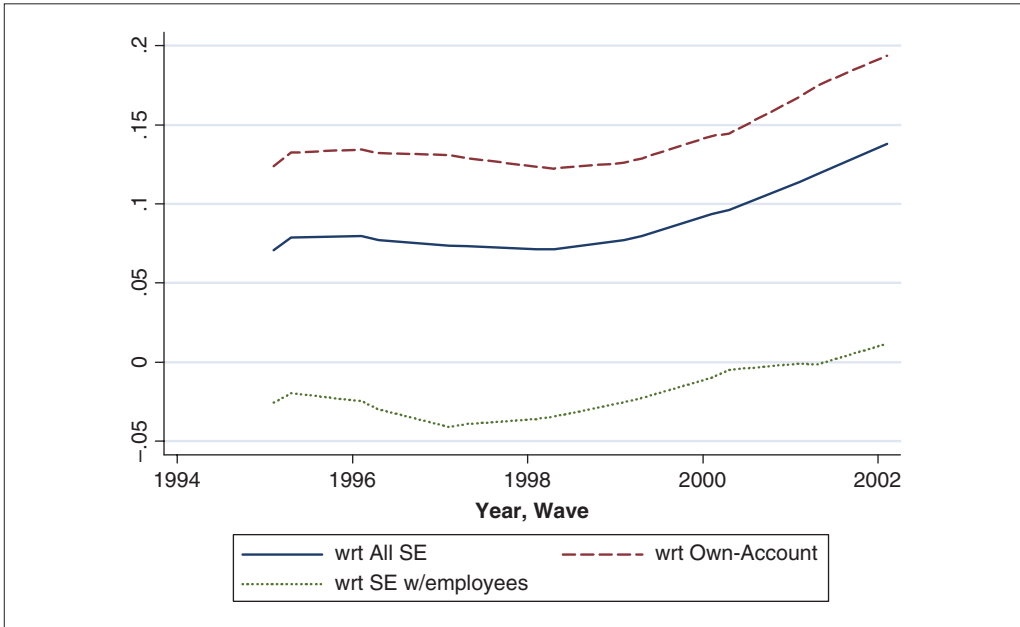


Figure 2. Conditional salaried premiums

Note: Author's calculations using EPH (1995-2003). Conditional Salaried Premiums calculated using the regression model in Table A, columns (1)-(4), for each EPH. wrt All SE uses the sample of all employed individuals (i.e. salaried and self-employed); wrt Own-Account uses the sample of salaried and own-account workers; wrt SE w/employees uses the sample of salaried workers and self-employed with at least one employee.

results are omitted). The figure computes the premiums obtained for comparing salaried workers with the whole self-employment sample (solid line), with self-employed without employees (i.e. own-account workers, dashed line), and with employees (dotted line). The figure shows that the deterioration of the economy improves the relative performance of the salaried workers.

As it is desirable to have a sense of how many individuals change from one labor status to the other, I compute the transition dynamics of moving in or out of the self-employment sector. Table 4A shows the average yearly transitions for the period 1995-2003 for three sectors: self-employment, salaried, and unemployment. For simplicity I exclude individuals out of the labor force. In Table 4A, in the first set of rows, each cell contains the percentage of individuals who started in the sector specified by the label FROM, and who ended up in a sector given by the label TO one year later. Similarly, Table 4A, the second set of rows, shows the percentage from the receiving sector viewpoint. That is, it shows the percentage of individuals in any of the TO labels who were in the corresponding FROM label the year before.

From Table 4A we observe that about 71 percent of self-employed workers stay in the sector while roughly 20 percent go to (and come from) the salaried sector. The remaining 9 percent transition to (and from) unemployment. The salaried sector shows the least mobility among the three sectors: around 85 percent of workers stay from one year to the next. Also note that self-employed workers are 50 percent more likely to be unemployed one year later than salaried workers. Finally, it is worth noting that of those workers who begin as unemployed, the salaried sector absorbs around 40 percent of them, about twice as many individuals as the self-employed sector. Nonetheless, if we acknowledge the relative size of each sector, the unemployed who move to the salaried sector represent 6 percent of salaried workers while the unemployed absorbed by the self-employed represent 13 percent of the self-employed.

Table 4A. Sector Transitions (in %)

		To			
		SE	SAL	U	ALL
From	SE	70.6	20.0	9.4	100
	SAL	7.6	85.0	7.3	100
	U	19.1	38.6	42.4	100
	ALL	23.7	64.4	11.9	100

		To			
		SE	SAL	U	ALL
From	SE	69.7	7.3	18.4	23.4
	SAL	20.9	85.7	39.9	64.9
	U	9.4	7.0	41.8	11.7
	ALL	100	100	100	100

Note: Pooled EPH data (1995-2003). SE: self-employed and firm owners. SAL: salaried. U: unemployed. ALL: SE + SAL + U. The first 4 × 4 sub-table shows the percentage of individuals in a labor status given by each corresponding row (either SE, SAL, U, or ALL) that appear the following year in a corresponding column labor status. The second 4 × 4 sub-table shows the percentage of individuals in a labor status given by each corresponding column (either SE, SAL, U, or ALL) that were the previous year in a corresponding row labor status.

Table 4B. Firm Dynamics (in %)

		To					
		Own-account	1 to 4 Employees	5 to 14 Employees	15 to 24 Employees	> 25 Employees	All Firm Sizes
From	Own-account	81.8	16.9	0.5	0.1	0.7	100
	1 to 4 employees	30.8	64.3	3.8	0.4	0.7	100
	5 to 14 employees	9.9	35.3	47.3	4.1	3.5	100
	15 to 24 employees	15.6	19.4	17.3	26.3	21.5	100
	> 25 employees	19.2	21.1	11.8	11.2	36.8	100
	All firm sizes	60.5	33.4	3.7	0.7	1.5	100

		To					
		Own-account	1 to 4 Employees	5 to 14 Employees	15 to 24 Employees	> 25 Employees	All Firm Sizes
From	Own-account	81.5	30.2	8.8	8.2	27.7	60.3
	1 to 4 employees	17.2	64.4	34.6	18.5	15.3	33.7
	5 to 14 employees	0.6	4.0	48.5	22.3	8.7	3.8
	15 to 24 employees	0.2	0.4	3.1	25.4	9.5	0.7
	> 25 employees	0.5	1.0	5.1	25.6	38.7	1.6
	All firm sizes	100	100	100	100	100	100

Note: Pooled EPH data (1995-2003). Individuals who start as self-employed and end up as self-employed one year later. The first 6 × 6 sub-table shows the percentage of self-employed with firm size corresponding to a given row that appear the following year in a corresponding column firm size. The first 6 × 6 sub-table shows the percentage of self-employed with firm size corresponding to a given column that were the previous year in a corresponding row firm size.

The following tables explore firm employment dynamics among the self-employed (see Table 4B). They show the transition dynamics in the same way as in Table 4A. In general, we observe that the chances of hiring more employees is lower than the chances of reducing the number of employees, which suggests that we may find few “Bill Gates” among the self-employed. This transition

matrix is similar to studies in Mexico (Fajnzylber, Maloney, and Montes-Rojas 2006; Bosch and Maloney 2006), and it is consistent with the steady state firm distribution in Table 2 with a preponderance of very small firms.

As shown in Fajnzylber, Maloney, and Montes-Rojas (2006) for Mexico and Montes-Rojas and Siga (2009) for Argentina, by analyzing which characteristics are associated with those who become entrepreneurs, we may be able to test whether the sector is in line with the dual or the neoclassical view. Their results suggest that both views can be applied to different segments of the population, implying segmentation in the sector. On the one hand, young uneducated workers are more likely to become self-employed. Moreover, for low education levels, the probability of entry decreases with age, suggesting that low skill workers either achieve some degree of specialization in their salaried jobs or cannot accumulate enough human/financial capital to start a firm. On the other hand, professionals (workers with a complete college education) also have a high propensity to enter. In addition, this segment of the population has an increasing age-entry profile, consistent with the neoclassical liquidity constraints literature (Evans and Leighton 1989; Evans and Jovanovic 1989) where individuals choose optimally the right time to start a micro-business. Moreover, the probability of entrepreneur failure (as measured by the transition to the salaried sector) has an inverted U shape, implying that both high and low skill individuals are more likely to remain entrepreneurs.

The characteristics of those who change their labor status are informative about the nature of those transitions. Figure 3 plots the proportion of salaried workers who move from salaried to self-employment (dashed line, denoted Sal to SE), as well as average years of schooling of those moving (solid line). It can be observed that years of expansion (1997-1998) are characterized by less salaried workers becoming self-employed and by a low average level of education for those moving, while the 2000-2002 crisis is accompanied by an increment in the transitions and a spike in the average years of schooling of those transiting from salaried to self-employment. Moreover, the proportion of those who enter with employees (dotted line) is strictly decreasing over the period of analysis, which means that those who become entrepreneurs do it in increasingly less favorable conditions. Figure 4 studies the transition to self-employment from unemployment (denoted U to SE). As before, the figure shows that as the economy collapses, the proportion of those transiting increases (dashed line), while those who enter have less education (solid line).

Figure 5 shows the reverse transition, i.e. from self-employment to salaried. In this case, years of expansion are associated with a lower proportion of movers than years of recession (dashed line), while the contrary occurs with the average level of education of those transiting (solid line).

These patterns can be interpreted in terms of the segmentation described above. When the economy is booming, individuals with low education are more likely to enter, which determines that the first (uneducated) group predominates in the pool of new entrepreneurs. On the contrary, when the recession hits, the average education level of those entering in the sector rises. The neoclassical approach would see this expansion as individuals with high entrepreneurial ability exploring business opportunities. However, starting a business in a recession should be considered the exception more than the rule.⁴ Additionally, the fact that entry takes place as self-employed with no employees suggests that this entry is not optimal, as the self-employed earn much less than salaried workers. It is more realistic to interpret the anti-cyclical pattern as individuals expelled out of the salaried sector looking for an employment of last resort, or as in the Harris-Todaro model, as disguised unemployment.

An anonymous referee argued that these patterns can be interpreted as the fact that recessions reduce the net desirability of salaried jobs, possibly due to lower pay or benefits or decreased amenities. While it is plausible that capitalists reduce wages and non-wage benefits in recessionary periods, following also the referee suggestion, I show that transitions from salaried jobs to

⁴I am grateful to an anonymous referee for this interpretation.

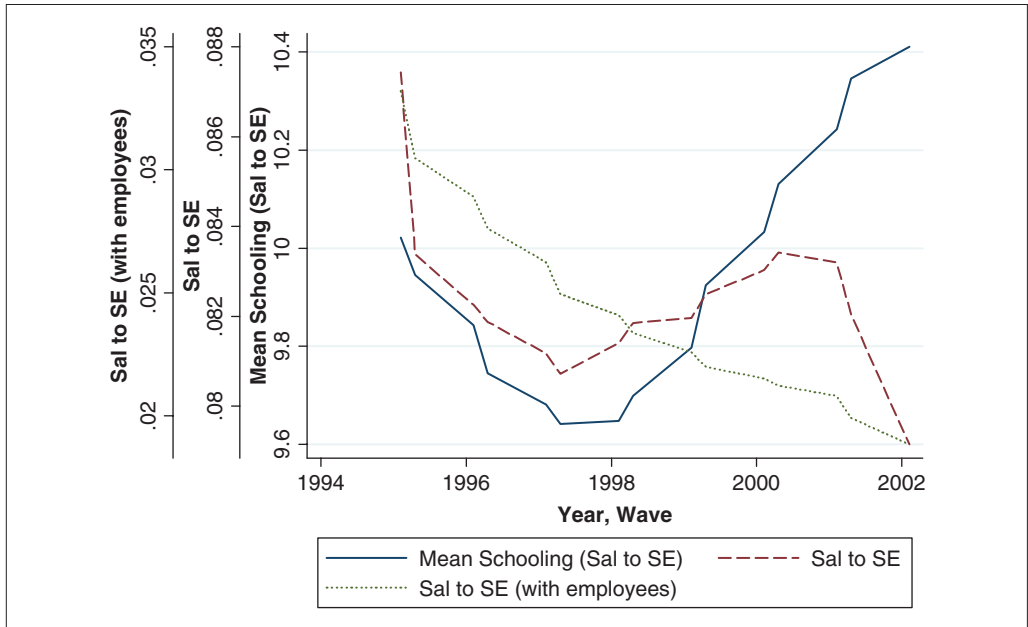


Figure 3.

Note: Author's calculations using EPH (1995-2003). Mean Schooling (Sal to SE): mean schooling level of those individuals who transit from salaried to self-employment. Sal to SE: proportion of individuals who transit from salaried to self-employment. Sal to SE (with employees): proportion of individuals who transit from salaried to self-employment and have at least one employee.

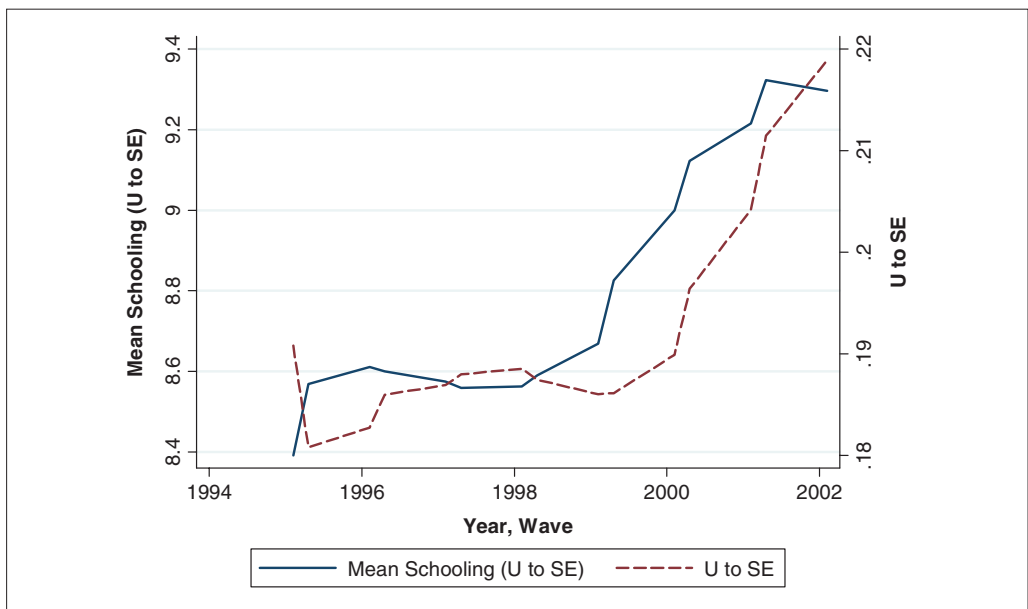


Figure 4.

Note: Author's calculations using EPH (1995-2003). Mean Schooling (U to SE): mean schooling level of those individuals who transit from unemployment to self-employment. U to SE: proportion of individuals who transit from unemployment to self-employment.

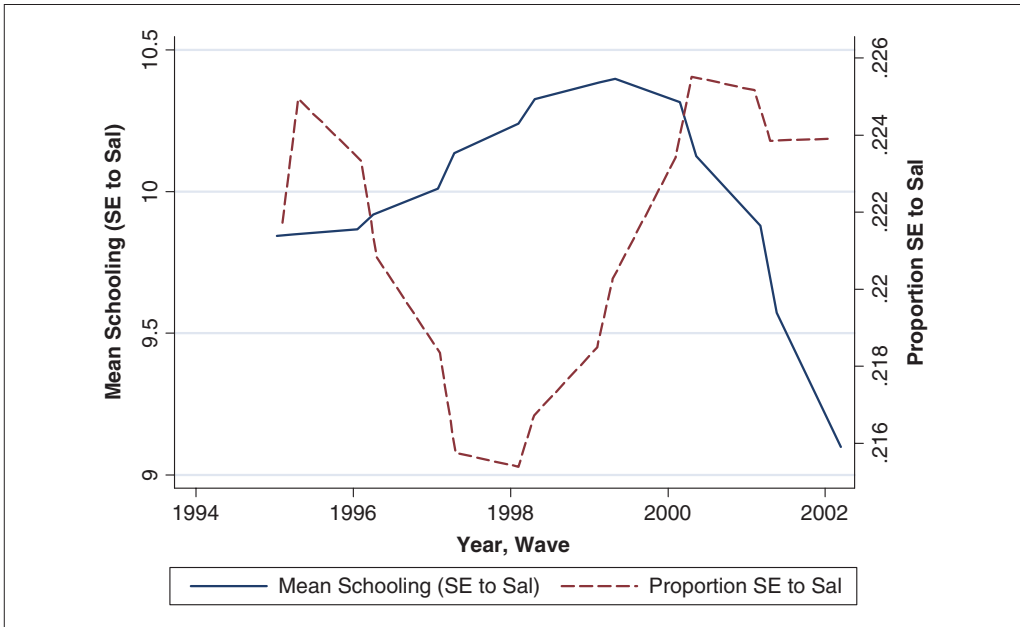


Figure 5.

Note: Author's calculations using EPH (1995-2003). Mean Schooling (SE to Sal): mean schooling level of those individuals who transit from self-employment to salaried. SE to Sal: proportion of individuals who transit from self-employment to salaried.

self-employment are mostly involuntary, that is, associated with job losses rather than reduced benefits. To show this, I take the sample of all salaried workers in the initial period and study yearly transitions to salaried (i.e. remained salaried) or self-employed. I consider a probit model where the dependent variable takes 0 if the individual stays as salaried one year ahead and 1 if he/she becomes self-employed (I exclude the unemployment status). The explanatory variables are the covariates used in the regression analysis above plus a dummy variable that takes the value of 1 if the individual loses his/her job in between surveys and 0 otherwise (this is defined as *Lost Job*). This model appears in Table A2 in the appendix. If the transitions from salaried status to self-employment are involuntary, this should be reflected in a positive coefficient in the *Lost Job* variable. Otherwise, this coefficient should be non-statistically significant. As can be seen in Table A2, this variable appears as positive and statistically significant, implying that those salaried individuals who have lost their jobs have a 7.5 percent higher probability of transiting to self-employment. Note that this value is of the same magnitude as the proportion of salaried workers who transit to self-employment (see Table 4A, $7.6 / (7.6 + 85.0) = 8.2$), which means that individuals who have lost their jobs have almost double the probability of moving to a self-employed position.

3. Self-employment Is Functional to the New Capital Accumulation Process

The neoclassical arguments may not fully frame the successful entrepreneur story; however, they argue, self-employment is still a unique alternative to reduce poverty in Third World countries. Indeed, in many Latin American countries, micro-entrepreneurship serves as a mechanism to alleviate poverty. Doing “changas” (informal help for a payment in cash or species) is generally the

only “job” the poorest segment of the labor force has, and micro-finance projects may have a large impact on those individuals. However, such optimism must be carefully analyzed. Increasing micro-entrepreneurship expands job precariousness and therefore contributes to augmenting exploitation. In Argentina, despite having the most developed salaried sector in the region, the 2001 economic collapse, the *Argentinazo*,⁵ saw the emergence of the most precarious micro-enterprises. As an example, the “cartoneros” (street workers wandering the streets looking for paper and cardboard materials for its resale value) flourished in the big metropolitan areas. Another example was the booming of “kioscos” (kiosks, small shops that sell candies, chocolates) which was a temporary activity financed by severance payments of those workers who lost their jobs. As stated by Economistas de Izquierda (2004):

These informal undertakings are desperate (but dignified) survival schemes engaged in by millions of people hoping to offer some little comfort to their families. Even the best of these initiatives, organized as cooperatives, lack the necessary tools, credits, technology, and trade networks, and are strangled by the competition of big firms.

In general, self-employment rates increase when the economy enters into a recessive phase, while the contrary occurs in expansion phases. Economic crises and the shrinkage of the salaried sector are usually accompanied by a boom in retail shops, street vendors, and restaurants. Shortly after they are created, many micro-enterprises fail. As in other countries in the region, structural adjustment policies contributed to the rise of the self-employment sector (for instance, Itzigsohn (2000) in Costa Rica and the Dominican Republic and Pisani 2003 in Nicaragua show that the introduction of neoliberal policies in line with the Washington Consensus increases the size of the informal economy). The same pattern is found in Mexico. For instance, Pagán and Tijerina-Guajardo (2000) and Roberts (1989) found that the size of the informal sector fluctuated with the overall health of the macroeconomy; that is, when the economy improved (i.e. GDP growth), the size of the informal sector decreased, and vice versa. In Mexico, NAFTA contributed to the deterioration of the labor market which initially promoted tradable industries, characterized by a low participation of the self-employed (see Fiess, Fugazza, and Maloney 2002). However, the emergence of *maquilas* and the tertiarization of many industrial processes contributed to expansion of the micro-entrepreneur sector. In particular, Mexico saw the expansion of those workers working by piece (*a destajo*) in textile and other labor-intensive industries. In this way, large firms are able to share some of the risk involved in their activities by subcontracting large portions of their production processes.

In Argentina, the self-employment sector was not fully integrated into the capital accumulation process, but it served as an important disciplinary force to increase the surplus value rate. Micro-firms that hire new employees do so informally, i.e. without social security or unemployment benefits, and the government avoids strict enforcement of labor laws in micro-enterprises because they already have a small profit margin. Therefore, the expansion of this sector reduced wages. This interpretation differs from the dualist theory of Harris and Todaro (1970), because self-employment is not disconnected from capital accumulation, but it is functional to it. The fact that the relative wages of the salaried to the self-employed were strictly increasing in the period

⁵The 1990s coincided with a process of transition from import substitution industrialization towards one in line with the Washington Consensus. Foreign direct investment contributed to the valorization of the utilities sector (amid privatization of almost all public enterprises), the banking and financial sector, and the traditional export-oriented agricultural sector. In Argentina, this extremist neoliberal cycle concluded in 2001 with an economic, political, and social crisis (see Economistas de Izquierda 2004 and Duménil and Lévy 2006 for excellent historical accounts of this process).

of analysis may suggest that the sector played a significant role in the continuous decline in real wages and working conditions in general. In addition, Montes-Rojas and Siga (2009) show that the relative probability of becoming self-employed vs. salaried is strictly increasing for the duration of the unemployment spell. In other words, self-employment is only an employment of last resort for those who lost their jobs as salaried workers.

4. Conclusions

This paper examines the nature of the self-employment sector in Argentina in order to better understand the features of this sector in middle-income countries. Because of the extreme macro-economic fluctuations that occurred in Argentina in the past 15 years, using data from this country allows us to look at an entire business cycle over a relatively short span of time. During recessions, transition into self-employment becomes very common, a trend that reverses itself in expansionary periods. Results suggest that the vast majority of the self-employed are own-account workers, and if they stay long enough in this sector, most will remain without employees. Moreover, controlling for skill levels, the self-employed earn much less than salaried workers and they face higher income volatility and more negative income growth than salaried workers. These findings support the pessimistic belief that self-employment is a form of disguised unemployment.

To conclude, it is hard to reconcile the dynamics of the self-employment sector in Argentina with those models of voluntary entrepreneurship proposed by mainstream neoclassical theory. Evidence suggests that policy-makers must be particularly cautious when extrapolating mainstream models of worker and firm decisions for emerging economies.

With the rise of neoliberal regimes in the 1990s, the state abandoned any attempt to directly affect the level of employment. Financing micro-enterprises appeared as an *efficient* yet pro-market way of encouraging capitalist development which was framed properly in the neoliberal paradigm. Undoubtedly, programs that improve the performance of micro-firms have a considerable effect in reducing poverty, provided that a large proportion of poor individuals have a micro-business as their only source of income. However, my analysis suggests that the vast majority of individuals who start a micro-business do it only as an alternative of last resort. An economic policy that targets self-employment should take into account this fact. While self-employment can be a good mechanism to alleviate poverty, it may not equally increase productivity and employment. As an example, consider the following case: after an economic recession, workers who have lost their jobs might feel impelled to start their own business activities by means of the severance pay they receive. These micro-firms are likely to be short-lived. Programs targeting those micro-firms might be ineffective because of the nature of the firms. Instead, government aid should be used to alleviate their temporary income loss (e.g. unemployment benefits). This does not mean that the government should abandon training programs for entrepreneurs; rather, it should change the nature of its help.

Appendix

Variables used in the regression analysis:

Real Hourly Wage/Income: Weekly income from the main job, divided by number of hours worked in the main job. Hourly wages are adjusted for inflation.

Annual Difference in Real Hourly Wage/Income: Annual difference between the calculated Real Hourly Wage/Income.

Salaried: Dummy variable for salaried workers.

(continued)

Appendix (continued)

Schooling: Years of formal schooling.

Female: Dummy variable for female workers.

Household Head: Dummy variable for being household head.

Public Employee: Dummy variable for salaried public employees.

Table A1. Regression Results

Dependent Variable	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Log Real Hourly Wage/Income				Annual Difference in Log Real Hourly Wage/Income			
Salaried	0.083*** (0.004)	0.137*** (0.005)	0.041*** (0.006)	-0.490*** (0.014)	0.018*** (0.005)	0.020*** (0.005)	0.003 (0.007)	0.083*** (0.016)
Schooling	-0.001 (0.002)	-0.005*** (0.002)	0.006*** (0.002)	0.006*** (0.002)	-0.001 (0.002)	0.001 (0.002)	-0.001 (0.002)	0.002 (0.002)
Schooling ²	0.004*** (0.000)	0.004*** (0.000)	0.003*** (0.000)	0.003*** (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	-0.000 (0.000)
Age	0.050*** (0.001)	0.051*** (0.001)	0.051*** (0.001)	0.052*** (0.001)	-0.005*** (0.001)	-0.006*** (0.001)	-0.004*** (0.001)	-0.006*** (0.001)
Age ²	-0.049*** (0.001)	-0.051*** (0.001)	-0.049*** (0.001)	-0.051*** (0.001)	0.005*** (0.002)	0.006*** (0.002)	0.004*** (0.002)	0.007*** (0.002)
Female	-0.086*** (0.004)	-0.071*** (0.004)	-0.066*** (0.004)	-0.055*** (0.004)	-0.000 (0.005)	-0.002 (0.005)	0.005 (0.005)	0.004 (0.005)
Household head	0.093*** (0.005)	0.085*** (0.005)	0.087*** (0.005)	0.080*** (0.005)	-0.003 (0.005)	-0.002 (0.005)	0.000 (0.005)	0.001 (0.005)
Public employee	0.260*** (0.004)	0.272*** (0.004)	0.256*** (0.004)	0.263*** (0.004)	0.001 (0.005)	-0.001 (0.005)	0.001 (0.004)	-0.001 (0.004)
Observations	124,009	113,343	101,653	93,808	98,706	90,818	82,655	76,904

Note: Author's calculations using EPH (1995-2003). Standard errors in parentheses. All regressions include dummies for city and wave/year. (1) and (5) All salaried and micro-entrepreneurs. (2) and (6) All salaried and self-employed with no employees. (3) and (7) All salaried and micro-entrepreneurs with 2-5 employees. (4) and (8) All salaried and micro-entrepreneurs with more than 5 employees. *** significant at 1%.

Table A2. Yearly Transitions From Salaried Labor Status—Probit Model (dependent variable: 0 = salaried to salaried, 1 = salaried to self-employment)

Schooling	-0.006 (0.001)	***
Schooling ² / 100	0.042 (0.004)	***
Age	0.004 (0.001)	***
Age ² / 100	-0.004 (0.001)	***
Log hourly wage	-0.002 (0.001)	*
Lost job	0.075 (0.007)	***
Public employee	-0.033 (0.003)	***

(continued)

Table A2. (continued)

Female		-0.030 (0.002)	***
Household head		0.003 (0.002)	
Firm size			
	2 to 5	-0.011 (0.004)	***
	6 to 15	-0.034 (0.003)	***
	16 to 25	-0.041 (0.002)	***
	26 to 50	-0.044 (0.002)	***
	51 to 100	-0.043 (0.002)	***
	101 to 500	-0.050 (0.002)	***
	501 or more	-0.046 (0.002)	***
Observations		71,282	

Note: Author's calculations using EPH (1995-2003). Marginal effect on the probability is reported. Standard errors in parentheses. * significant at 10%; ** significant at 5%; *** significant at 1%. The model includes time, region, and industry dummies. This sample is restricted only to salaried employees who either remain salaried or become self-employed.

Acknowledgments

The author would like to thank three referees, Prof. Hazel Dayton Gunn, and Prof. Don Goldstein for their helpful and constructive comments. All prevailing errors are the author's own responsibility.

Declaration of Conflicting Interests

The author declared no potential conflicts of interest with respect to the authorship and/or publication of this article.

Financial Disclosure/Funding

The author received no financial support for the research and/or authorship of this article.

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Bio

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