



Heterogeneous self-employment and satisfaction in Latin America



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ABSTRACT

This paper analyzes the relationship between labor status and individual satisfaction in Latin America. Existing evidence for developed countries shows that the self-employed report higher job satisfaction than the employed. The evidence, however, is less conclusive in terms of life-satisfaction. Moreover, for Latin American countries, the evidence shows that self-employed individuals report lower life-satisfaction than employed individuals do. To clarify the effect of self-employment on satisfaction, we use the Latinobarómetro survey 2007 for eighteen Latin American and Caribbean countries, considering the category self-employment as a heterogeneous category. Additionally, we control for the distinction between necessity and opportunity self-employed. Contrary to existing evidence, we find that not all self-employed individuals are more satisfied than employed individuals. Specifically, we find evidence revealing that, compared to workers in paid employment: (i) self-employed professionals are more satisfied than the employed only with their incomes; (ii) business owners are more satisfied with their lives, income and job; (iii) self-employed farmers and fisherman are less satisfied with their jobs and income; and (iv) precarious self-employed workers are as satisfied as the employed with their life but less with job, and for household income results are not conclusive.

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1. Introduction

According to statistics from the International Labor Office, while self-employed individuals represent around 10% of the working population in developed economies,³ they account for a third⁴ of the labor force in Latin American and Caribbean (Latin American hereinafter) countries (CEDLAS and World Bank, 2011; LABORSTA, 2011) and are increasing rapidly (Tokman, 2009).⁵

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³ For instance, 7% in the United States, 11% in Spain, 6% in France, 9% in Belgium, 7% in Austria, 13% in the United Kingdom, etc.

⁴ This rate ranges from 43.3% in the Dominican Republic and 41.2% in Colombia or Paraguay to 25.1% in Costa Rica and 22.4% in Argentina.

⁵ Using data on the urban areas of sixteen Latin America countries, Tokman (2009) finds that the informal economy expanded from 57% to 63.3% of urban employment between 1990 and 2005 because of increases in the informal sector and of the number of precarious workers in formal enterprises.

The usual distinction between self-employed and employed individuals is that the former are not subject to a hierarchy (they are their own bosses) despite recognizing that the self-employed are exposed to higher income volatility than wage earners (Shore, 2011). Additionally, as entrepreneurs, the self-employed enjoy a large degree of independence and self-determination at work. Although this description of self-employment applies in developed and less developed countries, there is a specific feature in Latin American countries, namely that self-employment occupations are typically associated to *informal* employment that goes unreported, leaving the individual unprotected and vulnerable.

In terms of the influence of employment status on satisfaction, it is well established that unemployment makes individuals unhappier. Additionally, a rather robust finding is that self-employment is related to higher job satisfaction (see Blanchflower's studies). However, evidence on a relationship between self-employment and life satisfaction is insufficiently clear (see a survey in Dolan, Peasgood, and White (2008) and Binder and Coad (2012)). Moreover, when considering Latin American countries, the evidence shows that the self-employed are, on average, less satisfied with their life than the employed (see Graham & Felton, 2005, 2006).

This large divergence in the results could be due to the fact that these studies assume different categories and types of jobs. That is, at least in Latin American countries, the categories of *informality* and *self-employment* are too broad to be conclusive. In the same line, a recent study by Binder and Coad (2012) points out that there is an empirically weak association between satisfaction and self-employment, which can be explained by the fact that the self-employed are quite a heterogeneous group. They consider the heterogeneity in terms of how individuals become self-employed. While some individuals would go into self-employment voluntarily, others who are forced into self-employment might not appreciate the self-employed lifestyle. Therefore, recent literature has incorporated the distinction between necessity entrepreneurship and opportunity entrepreneurship or alternatively the degree of voluntariness in the choice of occupation.

We try to contribute to the literature by incorporating another source of heterogeneity to avoid lumping together widely different individuals. We propose a classification of self-employment as a heterogeneous workforce status⁶ including diverse occupational categories, where such categories are featured in different intensity for the effects associated to the preference for independence or absence of hierarchy, and the existence of risk and instability. In particular, we identify four different occupational types using the Latinobarómetro 2007 dataset: professional, business owner, farmer–fisherman, and street peddler⁷ own-account workers. As in recent literature, we also seek to control for the distinction between voluntary vs. necessity self-employment (and/or voluntariness). However, our approach differs in that we control for this distinction in each of the occupations.

To this end, we consider subjective well-being in different dimensions: life, job and household income satisfaction. The reason for including life satisfaction, aside from the inconclusive existing literature about the effect of self-employment on life-satisfaction – is that life satisfaction is a much more global evaluation of individuals' well-being, which includes not only job and income satisfaction, but also a set of other interacting factors (Binder & Coad, 2010, 2011, 2012; Ferrer-i-Carbonell & van Praag, 2003). Since individuals might be able to compensate high evaluations in some domains of life with low achievements in others, high job or income satisfaction might be counterbalanced by lower satisfaction in the family domain, social life, etc.

The idea behind including income satisfaction – besides the fact that there is no income in our dataset – is the importance of this domain in explaining life satisfaction (Ferrer-i-Carbonell & van Praag, 2002; Ferrer-i-Carbonell & Van Praag, 2003). Satisfaction with household income has often been studied in the context of household equivalence scales (see, for example, van Praag & Van der Sar, 1988 or van Praag & Ferrer-i-Carbonell, 2008).

Our contribution is, therefore, to first test whether different self-employment occupations have a different influence on satisfaction of self-employed individuals compared to individuals in paid employment. Secondly, we analyze to what extent the results for life, job and household income satisfaction differ.

Our findings show the importance of analyzing self-employment as a heterogeneous labor market status, at least in Latin American countries. The main finding is that not all self-employed individuals are less satisfied than employed individuals, as predicted by some of the related literature. Our evidence shows firstly that business owners are more satisfied with life, job and income domains than the employed only when controlling for the degree of freedom to choose and occupation.⁸ Secondly, self-employed professionals are more satisfied with their income than employed individuals. Third, farmers and fishermen are only less satisfied with job and income if they have reported a higher guarantee of getting a job. Fourth, precarious self-employed individuals are less satisfied with job and income. The dimensions whose estimated parameter is not significantly different from zero could be interpreted as if self-employed are as satisfied as employed. The intuition is that in occupations where the self-employed report either higher or equal subjective well-being as wage earners, the effect of risk and instability dominates the effect of independence and absence of hierarchy, unless there is free will in the choice of occupation for the case of business owner self-employed individuals. In the results section, we also comment on different and alternative explanations.

⁶ Although we have reported that different occupations classified as *informal* influence individuals' well-being in different ways, we do not explore this possibility due to data constraints. For instance, the Latinobarómetro survey does not contain information about the size of the firm the individual works in nor does it offer information about workers employed in unpaid jobs, business owners, domestic help or workers in small firms with benefits. However, there is recent evidence from some developing countries in favor of our hypothesis. Pagés and Madrigal (2008), for example, find substantial differences in job satisfaction within different types of informal jobs in Honduras, Guatemala and El Salvador.

⁷ This category includes workers such as street vendors, shoeshiners, window cleaners, etc.

⁸ These results must be taken with caution because they are driven by the fact that the *business owner* category in the Latinobarómetro survey does not distinguish between micro-entrepreneurs and owners of larger businesses.

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