

CIRANO note based on an article written by Raquel Fonseca and Simon Lord, December 2015

This paper studies the determinants of self-employment in Quebec and in the rest of Canada by focusing on liquidity constraints, age and aggregate unemployment. The authors use panel data from the Survey of Labour and Income Dynamics (SLID) for the period 1993-2010 and make a descriptive analysis using a random effects probit model to assess the determinants of occupational choice, namely self-employment or salaried work. Three interesting points emerge from their study.

First, self-employed workers in Quebec are affected by liquidity constraints, as in the rest of Canada. This result is new since this hypothesis had not yet been verified for the regions studied here. Then, older Canadian workers tend to be self-employed more than younger workers, most likely to remain active part-time as they are near retirement, or considering semi-retirement. Finally, the aggregate unemployment at the provincial level influences negatively the probability of being self-employed. This indicates that the pull factors dominate over the push factors.

The study has a particular limit, however, due to the authors' choice to use a model with random effects. Indeed, unobserved heterogeneity could in principle play an important role in occupational choice – it captures persistence. The authors have also chosen to omit the persistence of other dimensions such as dependence on the state of the nature or duration by not considering a dynamic model.

The results entail several things for economic policy. First, entrepreneurship programs could be developed or enhanced as a counterweight to liquidity constraints

and to ensure that they do not hinder entrepreneurship. This recommendation is especially relevant in environments where liquidity constraints seem more biting in Quebec and where the province has relatively fewer entrepreneurs than elsewhere in the country. Moreover, in an economic environment where to keep older people in employment is a priority for public finances, self-employment could be put forward as a stepping stone towards retirement, or as a way to stay active on the labour market work while having the opportunity to work fewer hours. Finally, in difficult times, self-employment can be presented as a legitimate alternative to unemployment and employment insurance to boost the labour market. The employment insurance program could be modified to further encourage the return to work through self-employment.

The study is divided into five sections:

- review of the literature on self-employment;
- description of the data and definitions of self-employment;
- main characteristics of the self-employed workers and descriptive statistics;
- assessment of the determinants of occupational choices, either self or paid employment, and comparison of their relative importance in the final choice of type of employment in Quebec and in the rest of Canada;
- overview of results and presentation of their implications for economic policy.

The full study is available on CIRANO's Website at:

<http://cirano.qc.ca/files/publications/2015s-41.pdf>