



# **European Employment Observatory**

## **EEO Review: Self-employment, 2010**

### **Sweden**

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*This article is the sole responsibility of the author(s).*

## 1. Introduction.

From an international perspective the incidence of self-employment in Sweden is relatively low. According to the Swedish Labour Force Survey, the rate of self-employment was 10 % in 2009. Since the mid 1980s, the share of self-employed men as a percentage of the total adult working population has oscillated around 13 %, the corresponding figure for women being 5 % (see Figure A1 in the Annex). As in many other modern economies, self-employment is therefore less common among women. Compared to wage earners Swedish self-employed workers are older and have on average lower educational attainment and income. Self-employment is also higher in industries such as retail and business and personal services. Another stylised fact is that the majority of Swedish self-employed workers do not have any employees (63 % in 2009) and the share of self-employed workers with employees has remained stable during the last two decades. The incidence of self-employment increased significantly during the severe recession in the early 1990s, indicating that the rate of self-employed workers in Sweden is counter cyclical to the business cycle. Looking at the current economic downturn, it seems that, up to now, the share of self-employment in total employment has remained stable and that the decline in self-employment has been limited<sup>1</sup>.

The Swedish public authorities consider the development of entrepreneurial activity as an engine for innovation, employment and economic growth. During the last two decades encouraging entrepreneurship has been a key goal in the political agenda. Both the previous social-democrat and the current government have tried to foster entrepreneurship, in particular the development of small and medium-sized enterprises (SMEs), by various initiatives.

According to the last Entrepreneurship Survey (European Commission 2010), Sweden scores better than the EU-25 average for most entrepreneurial climate indicators. Sweden scores especially well regarding the image of entrepreneurs: only a minority of Swedish citizens consider that entrepreneurs only think about their own economic interest and exploit other people's work. Although the latent level of entrepreneurship is also, by international standards, low (only one third of Swedes indicate that they would prefer to be self-employed compared to 45 % for the EU-25), the decision to opt for self-employment is, to a larger extent than in other EU Member States, driven by factors such as autonomy and independence, self-fulfilment, the freedom to arrange working time and less by factors such as income prospects, a favourable economic climate and business opportunities.

## 2. Assessment of national Labour Market policies and recovery measures

Since the last decade, successive Swedish governments have taken initiatives to promote entrepreneurship and favour the development of self-employment. These measures include: public and educational campaigns to encourage positive attitudes towards entrepreneurship among Swedish citizens, in particular young people, measures aimed at reducing administrative burdens arising from government regulations<sup>2</sup>, reduction of taxes, measures aimed at easing the participation of SMEs in public procurement, policies intended to

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<sup>1</sup> According to Statistics Sweden (2010), between 2008 and 2009 the number of self-employed workers (aged 20-64 years old) declined by around 5 600 persons (-1.3 %), from 430 000 to 426 000. During the same period the number of dependent employees declined by more than 38 000 persons (-1.0 %).

<sup>2</sup> Since the mid 2000s successive Swedish governments have taken measures to reduce the administrative burden and costs arising from government regulations. In the Budget Bill for 2007, the Government announced that the administrative costs to

increase the diversity of providers (in particular SMEs) in the previously sheltered sectors of welfare services (health care, elderly care, social services and education), measures facilitating access to capital and, last but not least, active labour market policy programmes. Furthermore, in order to facilitate the transition from dependent employment to self-employment, the government has recently launched several reforms to the social security system for self-employed workers.

## **2.1 Increasing access to capital and reforms of the tax system**

Liquidity constraints have been put forward in explaining the low incidence of self-employment and entrepreneurial activity. During the last years, the Government has taken a number of measures to improve access to financing, especially for small enterprises<sup>3</sup>. During the last ten years, several tax reforms<sup>4</sup> have also been implemented in order to foster business activity. In order to stimulate the creation of new SMEs in personal services a tax deduction for household-related services was introduced in 2007. Even though this measure might encourage the creation of new firms, several previous evaluation studies have shown that the net employment impact of a tax reduction on household-related services is limited and the major positive effect is primarily that self-employed workers who previously were part of the black market legalise their business.

Two Swedish studies have analysed whether the decision to become and stay self-employed is constrained by access to credit. The first one, Lindh and Ohlsson (1996), analyses the extent to which windfall gains (lottery winnings and inheritance) increase the likelihood of becoming and staying self-employed. They found that the probability of being self-employed increases when people receive windfall gains, a result consistent with the hypothesis that liquidity constraints influence the decision to become and stay self-employed. A more recent study (Nykvist 2008) also found a positive relationship between wealth and entrepreneurship, for the main part of the wealth distribution which strengthens the previous evidence on significant liquidity constraints in Sweden. However, as stressed by Lindh and Ohlsson (1996), liquidity constraints might be an efficient response to potential moral hazard and adverse selection problems in connection with starting businesses. In other words, public policy should not necessarily address liquidity constraints. Indeed, traditional public policy that tries to mitigate liquidity constraints (loans and loan guarantee schemes) might be associated with significant dead-weight losses and efficiency problems: businesses would have started anyway without any subsidies and some of the businesses should not have been started in the first place (Ohlsson 2004).

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enterprises generated by state regulations will be reduced at least by 25 % by the end of 2010. In 2008, over 290 simplification measures were implemented or finalised.

<sup>3</sup> For example, the Government changed in 2007 the mini loan scheme targeted primarily at SMEs by increasing the ceiling for the maximum mini loan from SEK 50 000 (EUR 5 308) to SEK 100 000 (EUR 10 615). More recently, in 2010, the minimum share capital requirement for private limited liability companies was reduced from SEK 100 000 (EUR 10 615) to SEK 50 000 (EUR 5 308).

<sup>4</sup> Inheritance and gift tax was abolished in 2005 easing the intergenerational transfer of companies. In 2007, wealth tax was also abolished in order to favour the development of venture capital. The corporate tax rate was reduced from 28 % to 26.3 %. The total levy of social security contributions and the payroll tax has also been reduced by one percentage point. The social contributions for the self-employed have been reduced by five percentage points with a ceiling of SEK 10 000 (EUR 1 062) per year. The rules for tax deduction of equipment have been also made more generous.

There is little consensus among Swedish economists on the impact of tax policy on entrepreneurship. Some studies find that higher tax rates lead to a higher incidence of entrepreneurial activity. The rationale is that higher taxes create incentives to switch from dependent employment to self-employment because self-employed workers can more easily avoid and evade taxes. A review of the literature on this issue (see Schuetze and Bruce 2004) shows that higher marginal income tax rates reduce self-employment, whereas higher average income tax rates have the opposite effect.

## **2.2 Increased competition in welfare services**

The current Government has during the last years initiated several measures to improve competition, in particular by opening up previously sheltered sectors to private providers in particular in health care, social services and education<sup>5</sup>. The monopoly on the distribution of pharmaceutical products was also abolished in 2009<sup>6</sup>. Between 2006 and 2009, over SEK 100 million (EUR 11 million) was allocated to measures that enhance entrepreneurship in health care, social services, the pharmaceutical sector and other areas of welfare. While these measures aimed at increased competition go in the right direction, it is too early to measure the impact of these reforms on who provides services to private primary health care centres or on the number of new pharmacies set-up.

## **2.3 Targeted measures toward women and immigrants**

Since the mid 2000s, several measures have been adopted in order to foster female entrepreneurship and reduce the gender gap in self-employment. The implemented measures include advisory services, information dissemination, training advisers, training in entrepreneurship and mentor programmes. According to the Government, a partial follow-up shows that the measures are developing in accordance with the Government's ambitions to increase awareness of entrepreneurship among women. Since 2008, in order to foster entrepreneurship among immigrants the Government has also allocated extra resources (SEK 20 million (EUR 2 million)) in order to offer individually tailored guidance to non-native speakers who want to start and run a business, as well as help for established entrepreneurs to develop their companies. A large share of entrepreneurs with a foreign background have gained access to loans. Between 2007 and 2008, lending to this target group increased by 61 %. The author of this report is not aware of a formal evaluation to assess the efficiency of these measures aimed at supporting immigrant entrepreneurs.

Measures to encourage self-employment have also been justified by the motive that self-employment might be a road out of poverty or unemployment. As shown by Andersson and Wadensjö (2004), the share of self-employment among immigrants in Sweden, in particular non-western immigrants, is higher than native Swedish citizens, but their income is significantly lower than native citizens with similar characteristics. Furthermore, the income

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<sup>5</sup> In January 2009, a new law took effect enhancing the freedom of choice for patients regarding primary healthcare providers and also to ease the possibility for private providers to establish a business.

<sup>6</sup> On 1 July 2009, new legislation re-regulating the pharmacy market came into force. Apoteket AB's monopoly was replaced by a system whereby those who obtain a permit may operate a pharmacy. Around 150 pharmacies will be transferred to a new state-owned company and will be able to have private entrepreneurs as co-owners.

gap between natives and immigrants is particularly high among low and medium income group. It is significantly lower among high income groups who tend not to be self-employed.

#### **2.4 Recovery measures**

In response to the global economic crisis the Government also set up a temporary Act on Deferment of Tax Payments for the year 2009. The objective was to alleviate the liquidity problems faced by companies that were unable to obtain loans on normal terms because of the financial crisis. Employers obtained a respite in paying social security contributions and preliminary taxes for their employees for two months during 2009. Owing to the critical situation in the banking sector in 2009, banks have been unable to meet the increased demand for credit among the country's new companies and SMEs. The Government has therefore made various forms of capital injection (totalling SEK 2 billion (EUR 213 million)). Furthermore, several projects financed with support from EU structural funds, together with national and regional co-financing, have been approved across Sweden. These projects aim at increasing the availability of risk capital for SMEs. The author of this article is not aware that a formal scientific evaluation of the above mentioned measures has been undertaken.

#### **2.5 Active labour market policy**

Since the early 1990s start-up grants for unemployed job seekers are an integrated part of the Swedish Active Labour Market Policy. The main objective of this scheme is to help unemployed jobseekers or persons at risk of unemployment to start up their own company (see the Annex for details). There are few scientific evaluations of the Swedish start-up programme; one exception is Carling and Gustafson (1999) that examined the relative efficiency of start-up grants compared to usual wage subsidy programmes by analysing how long after the end of either programme people re-registered as unemployed. In other words, the authors examined the extent to which the two programmes are successful in providing long term employment. Using longitudinal data, a duration model and controlling for a range of socio-economic variables the authors found that the risk of becoming unemployed was twice as high in the case of wage subsidies. Around 35 % of the self-employed and 60 % of the subsidised employees were unemployed again four years after the programmes ended. However, the authors found that this positive result was only valid for native Swedish workers. The idea that start-up grants support immigrant workers better than other programmes is therefore not confirmed in this study. It should be noted that the authors examined only the relative efficiency of the two programmes and not cost-efficiency. Both wage subsidy programmes and start-up grants may give rise to large dead-weight losses and displacement effect implying that the efficiency of these programmes is limited. Actually, it cannot be ruled out that a large number of participants would have started a company without the financial support and the crowding out effect of several new businesses and the potential distortion of competition might be important. A more recent study (Andersson and Wadensjö 2007) found that male jobseekers who had received a start-up grant performed on average better than unsubsidised jobseekers who set up their own business regarding subsequent income level, number of employees and/or exit rate. The authors stressed, however, that these positive results may be ascribed to a selection effect, i.e. that the case worker selected the candidates most suited to self-employment.

### 3. Quality of self-employment jobs

As far as work-life balance is concerned, the self-employed work significantly longer hours per week than wage-earners<sup>7</sup>, so devote less time to leisure activities. A recent survey (See Anxo et al, 2010) shows even that Swedish self-employed workers have a higher frequency than wage earners of irregular working time, working during the evening and night, as well as at weekends. In respect of earnings, the self-employed have on average a lower annual income and the range in income is larger than among dependent employees<sup>8</sup>.

Several empirical studies have shown that the self-employed are more satisfied with their jobs than dependent employees (see for example Blanchflower, 2004). Recurring factors explaining higher levels of job satisfaction among the self-employed include: enjoying greater independence and autonomy, absence of hierarchy, larger opportunity to choose working hours and higher control over the pace of work. On the other hand, the self-employed perceive their job as more stressful and mentally draining.

In a recent study Andersson (2008) investigated differences in well-being between Swedish dependent employees and self-employed workers. The comparison between the self-employed and wage-earners looked at non-pecuniary aspects of their employment including not only job and life satisfaction but also perceptions of the job as mentally draining and stressful and mental health. Using panel data techniques, Andersson (2008) found that Swedish self-employed workers are more satisfied with their jobs<sup>9</sup> than wage-earners and this is not due to a selection bias of happier people in the self-employed panels. A strong positive correlation between life satisfaction and self-employment was also found, but the author of the study cannot assess whether this outcome is due to a selection bias or if it is a true causal relationship. Other interesting results of this study were that the self-employed are less likely to perceive their job as mentally straining and there is no strong evidence that they are more prone to perceive their job as stressful. However, the author found indications that self-employment might increase mental health problems<sup>10</sup>, in particular sleeplessness and depression.

No research exists yet on the impact of the current economic crisis on the quality of self-employment jobs.<sup>11</sup> During recent years particular attention has been paid to self-employment dynamics and the factors influencing entry and exit rates from self-employment (see for example Anderson & Wadensjö 2007). The flows in and out of self-employment are important; around 30 % of newly started firms disappear after one year of activity and income

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<sup>7</sup> In 2009, the average actual weekly working time for male self-employed workers (20-64 years old) was 40.4 hours compared to 29.7 hours for wage earners; the corresponding figure for women was 31.9 hours and 27.2 hours respectively. Looking only at the self-employed without employees (solo entrepreneurs) the actual weekly working time was 44.9 hours for men and 37.8 hours for women (Statistics Sweden, 2010).

<sup>8</sup> It should however be stressed that self-employed workers often underreport their earnings to the tax authorities (Engström and Holmlund (2009) estimate by around 30 %).

<sup>9</sup> Controlling for a set of socio-economic variables, the number of self-employed workers stating that they are very satisfied with their job was about 15 percentage points higher compared to dependent employees.

<sup>10</sup> In this study mental health problems were defined as a combination of 'being tired', 'having sleeping problems', 'feeling anxious' and 'being depressed', see Andersson (2008).

<sup>11</sup> The actual working week for self-employed people decreased by 1.2 hours between 2008 and 2009 (from 39.2 hours a week to 38 hours). For self-employed workers with employees the corresponding decrease was by half an hour (from 44.1 hours a week to 43.6 hours).

from self-employment is more sensitive to variation in the business cycle than employee wages. The likelihood to become self-employed is highest among unemployed men and lowest among female dependent employees, indicating that push-factors in Sweden remain important.

### **3.1 Reform of social security adapted to accommodate the need for more security for the self-employed**

In the 2010 Budget Bill, the Government announced several reforms to the social security system for the self-employed that will take effect from 1 July 2010. The reforms cover unemployment insurance, sick pay and parental leave. The main objective of these reforms is to create clear and predictable rules and condition for more equal treatment between self-employed and dependent employees. The proposed changes in unemployment insurance are intended to provide more security for the self-employed, making the transition from employment to self-employment safer. To illustrate: a person who has set up a business may still receive unemployment benefit for the first two years after the start of the business based on the income that he or she previously had as a dependent employee. Changes in sick pay will also provide more security for those opting for self-employment<sup>12</sup>. The changes to the parental leave system are also intended to lead to more equality between the self-employed and wage earners. In particular, the amount of compensation for loss of work while taking care of a sick child will be increased for the self-employed. It is the view of the author of this article that all these reforms might affect positively the transition rate from dependent employment into self-employment as well as the well-being of the self-employed.

### **3.2 Undeclared work and tax evasion**

Calculations based on tax audits indicate a strong concentration of undeclared work in small companies. The self-employed and small companies with a wage bill of less than SEK 1 million (EUR 106 090) account for 9 % of overall declared income but for 85 % of the estimated unreported income. A Tax Agency study provides some information on the self-reported labour market status of those performing undeclared work. Undeclared work is most prevalent among students (25 % of the students in the survey said they did undeclared work) and the self-employed (15 %). Tax avoidance appears to be by far the most often cited reason for undeclared work. The tax motive was particularly prevalent amongst men, the self-employed and the well educated (see Anxo 2007 for details).

## **4. Conclusions**

The above reviewed policy measures are undertaken on the common belief that entrepreneurial capacity leads to additional employment opportunities and increased economic growth and productivity. However, one should stress that this may not be the case for self-employment in general and past experience shows that there exists important heterogeneity among the self-employed. On the one hand, there is self-employment with limited entrepreneurial activity or prospects and, on the other hand, there are new businesses set up with high survival rates that prosper and grow. Even though the self-employed seem

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<sup>12</sup> One example is that all self-employed workers will be guaranteed sick leave of at least seven days. Sickness insurance contributions have also been reduced for all self-employed workers and the contribution of those choosing many qualifying days has been reduced the most.

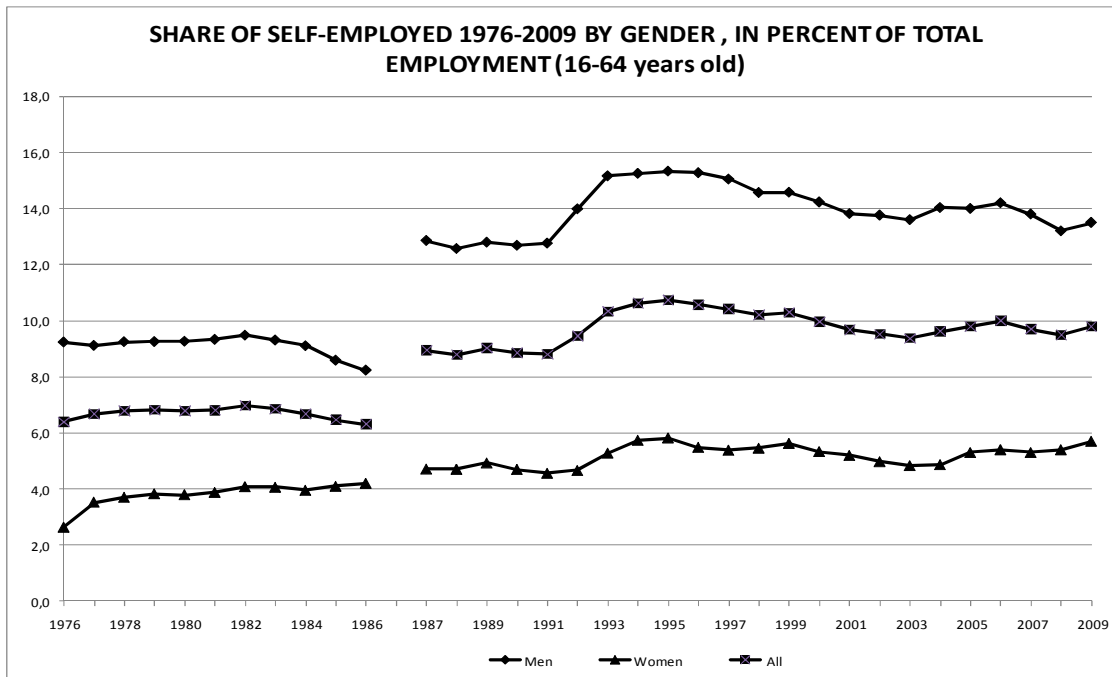
more satisfied with their job than dependent employees, they also report negative aspects: in particular stress and tiredness, long working hours, as well as lower income and higher earnings volatility across the business cycle. Furthermore, it seems that self-employment is not always a way out of poverty or unemployment. To quote Blanchflower (2004): ‘Self-employment: More may not be better’. Obviously, market failures and inefficiency might justify public intervention. Positive externalities of self-employment, including new ideas, products, and employment opportunities, might create higher social returns than private returns. One of the difficulties, however, is to effectively target public interventions.

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## Annex

**Fig. A1. Share of self-employed workers from 1976 to 2009 by gender, as a percentage of total employment (16-64 years old)**

Source: Statistics Sweden (2010).

The break in the time series in 1987 is due a change in the definition of self-employment. From this date, managers who own the company from which they receive a salary started being classified as self-employed.

**Examples: Start-up grants programme**

Launched in 1984, the Swedish Start-up Grants programme<sup>13</sup> became an integrated part of the Swedish Active Labour Market Policy in the early 1990s. The main objective of this scheme is to help unemployed jobseekers or persons at risk of unemployment to start up their own company<sup>14</sup>. To be eligible for such a grant the person has to be registered at the Public Employment Service (PES). In order to receive a grant the proposed business plan has to be approved by the PES. Usually an external consultant helps the case worker at the PES to assess the expected profitability of the proposed business concept, its ability to provide long lasting employment, as well as an assessment of the ability of the applicant to run a business. According to competition regulations, the financial support should not distort competition or crowd out other firms. The financial support offered is equivalent to unemployment benefit<sup>15</sup> and the grant is usually provided for six months. In 2009, 3 480 individuals received a start-

<sup>13</sup> The programme *Starta eget bidrag* (Start-up grants) changed its name to *Stöd vid start av näringsverksamhet* (support to start up a company) in the early 2000s.

<sup>14</sup> Employees living in the so called Regional Aid Zone are also eligible.

<sup>15</sup> The minimum benefit amounts to SEK 320 (EUR 34) and the maximum to SEK 680 (EUR 72) per day. For people not entitled to unemployment benefits the daily grants amount to SEK 223 (EUR 24).

up grant, corresponding to less than 2 % of all participants in demand oriented labour market programmes. Due to the crisis, the number of participants has decreased notably since 2007 when almost 13 000 persons received the start up grant (which was 3.7 % of all participants in demand oriented labour market programmes). According to the Public Employment Office (Arbetsförmedlingen 2010) more than 80 % of the participants were still employed six months after the end of the grant. Start-up grants are in this regard the most successful labour market policy scheme in Sweden.