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DO ENTREPRENEURS IN BELARUS EARN LESS?

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Introduction

It is a well-established fact that self-employed usually has lower labor income than employees. There is also an explanation to this fact: self-employed gain additional utility from being independent and their own bosses, and hence they can reach the same utility level (as employees) with less income. But there are reasons to believe that this fact should not necessarily hold for Belarus. On the one hand, Belarusian self-employed people face various obstacles, which raises the cost of entry into self-employment. In general complicated registration and taxation procedures, low property rights protection, control and fees, large number of required documents, licensing, price regulation, unequal conditions for doing business in comparison to state enterprises, administrative intervention are the main difficulties the entrepreneurs have to deal with. On the other hand, cost of entry into employment is relatively low in Belarus, given the low level of unemployment - 0.8%. Given those high costs of self-employment and relative easiness of entering employment we can expect that the income difference between employees and self-employed in Belarus is lower than in other countries. A quick look at the data, however, does not support this view: in Belarus the average income of self-employed is 1.7 times lower than the income of an average employee. This difference is higher than in the United States, where self-employed gain income 1.55 times lower than employees (Hamilton, 2000), or in Turkey where the wages of paid-employees were much higher than the earnings of the self-employed people taking into account the same potential influencing factors (Tansel, 2000).

The goal of this study is two investigate this issue deeper, namely, to answer the question: can the observed income differences be explained by differences in observable characteristics of individuals, such as age, education, gender and experience.

Research question and hypotheses

This study is going to answer the following question:

What percentage of the observed income differential between employees and self-employed in Belarus can be explained by the observed differences in individual characteristics? And are characteristics such as education, gender and age equally important for the income of employees and self-employed.

To answer the question we will decompose the income differential into the part that can be explained by differences in observable characteristics, and the part that cannot be explained and is the result of discrimination and unobservable gains, such as utility from independence. The hypothesis is that the unexplained part of the differential should be less than normally found in other countries, because of the additional costs of being self-employed in Belarus.

Literature Review

The question of wage gap and inequality is widely explored and mostly asked in terms of differences due to the gender of the workers. Ganguli and Terrell (2005) addressed that question for the case of Ukraine. The authors used the dataset, covering the 1986, 1991 and 2003 years. The obtained results showed that the wage gap is higher in the top half of the distribution in comparison to the bottom half. The reason of the gap decreasing tendency in the bottom half of the distribution is the increase of the minimum wage, that occurred in 2003 making women benefit more than men from it. Later on Semykina and Linz addressed the same question for the cases of Russia, Armenia and Kazakhstan. However, their main focus was made on the investigation of the personality importance, which was measured by the external, which is more likely for women, and internal locus of control, as a factor causing gender wage inequality. The results showed that the workers with the internal locus of control are more likely to receive higher salary. They concluded that the personality is more important factor in terms of wages than education and experience in all three countries.

As for the difference in wages between paid employees and self-employed people, Hamilton (2000) is one of the studies that analyzed that question. He came up with the conclusion that monetary benefits are not the main driving force that motivates people to work on their own. Even though the earnings and the growth of earnings are lower for the self-employed people, the idea of being a boss reweighs the drawbacks in terms of money and leads them to the entrepreneurship. Lofstrom (2009) raised the question of whether it's better to be self-employed in case you are a low skilled worker. It appeared that the return to self-employment is different depending on the gender of the worker. Low-skilled women earn less in case they are working on themselves, which is explained by the absence of previous labor experience. As for the low-skilled male workers, the situation is opposite.

To our knowledge, this study is the first one to address the question of income differentials between self-employed and employees in Belarus.

Data and Methodology

This study will be based on the data from the Belarusian Household Survey on Incomes and Expenditures for the time period from 1996 to 2007 and will include information about the level of wages, number of working hours, education, experience, age, whether the respondent is self-employed or is working on someone else and other personal characteristic factors.

In order to evaluate whether there is a wage gap between self-employed and employed people the augmented version of Mincerian earnings equation (Mincer, 1974) will be used. We are going to use census data, and sample selection may arise due to the fact that some people refused to give income information. Hence, we'll use Heckman correction method (Heckman, 1979) in order to test and correct for this bias. Finally, we'll do the Oaxaca decomposition (Oaxaca, 1973) of income differences between self-employed and employed people in order to get what is causing the differences in salary. The main goal of such decomposition is to find out what share of the inequality is explained by for example various endowments and what is due to the discrimination and other unobserved factors.

Discussion of Preliminary Results

The preliminary analysis of 2007 data that showed that despite the similarity in educational level and age, the earnings of the self-employed people are around 1.7 times lower in comparison to paid-employed people. However, that means that indeed there are some non-monetary factors influencing people's choice towards self-employment.

The structural composition of the potential Belarusian labour force is presented in the Table 1 and shows the following picture. According to the Belarusian Household Survey on Incomes and Expenditures, the share of the self-employed is around 9%, employees form around 85% and the rest are unemployed. The share of females is around 52% for the whole population, and 54% for employees. As for the people working on their own and unemployed, the picture differs significantly on average, so that only 36% and 34% of them correspondingly are females. The average age doesn't change much depending on the category of the potential labor force and is around 40 years. It just decreases to 36.5 years if we are talking about the unemployed part. As for the educational level, the secondary specialized education or vocational schools are mostly common for the population (the education is measured by categories from 1 to 7, where 1 means complete higher education and 7 means incomplete primary school).

Table 1 – The Belarusian labor force structural composition in 2007

	All	Self-employed	Paid-employed	Unemployed
% in total	100	8.92	84.75	6.35
% of female	51.4	36.33	54.28	34.17
Average age	40.32 (11.74)	40.57 (10.52)	40.57 (11.82)	36.61 (11.63)
Average education	2.55 (1.15)	2.87 (1.16)	2.48 (1.14)	3.02 (1.09)
Average income	410586.8 (313491.5)	267193.9 (298330)	449782.2 (305196.7)	87992.8 (163014.3)

However, if we are talking about high education, around 22% of the total potential labor force obtained such a degree, which include just 14% of the self-employed, 24% of the employees and around 9% of the unemployed people. Finally, the income level is also very different depending on the status of the person. The average declared level of income in 2007 was around 410 thousand BLR per month. However, if we look at income by categories, we see that the average monthly wage was around 450 thousand BLR, while the income of the self-employed person was just about 267 thousand BLR (taking into account that the standard deviation of the earnings was pretty much the same around 300 thousand for both categories of workers), and the unemployed obtained about 88 thousand BLR. Thus, the average monthly wage was about 1.7 times larger than the income of the person working on her own.

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