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## **SELF-EMPLOYMENT AS A SOLUTION FOR INCREASING EMPLOYMENT**

### **Abstract:**

In the focus of this paper are self-employment and its role in decreasing unemployment in Albania. Self-employment is very important for the employment of individuals, especially if there aren't other employment opportunities due to the reduction of jobs, due to the lack of specialization or specific education. One of the most sensitive social problems of recent decades in Albania is high levels of emigration due to the unemployment and all measures that can be taken to increase the employment in the country are crucial. The country's economic growth is a direct factor that influences the opening of new enterprises or even the expansion of current enterprises, thus increasing employment. The purpose of this paper is to analyze the impact of self-employment on employment.

To achieve this purpose, is studied the relation between self-employment, economic growth and exports with the level of employment. The relation between employment as a dependent variable and self-employed people, GDP growth rate and export as independent variables is studied through a linear model. After the analysis using the least squares method, in this paper it is concluded that the self-employed have a significant positive relationship with the level of employment in the country.

### **Keywords:**

Self employment, employment, economic growth, GDP, export

**JEL Classification:** J01, E24, F16

## 1. An introduction of the employment situation and opportunities in Albania

The level of employment in a country is directly linked with enterprises. The growth rate of enterprises depends on the performance of the entire economy. An economy that has high growth rates affects the growth rate of businesses, which in turn would be accompanied by high profits and new employment. In recent years, the Albanian government has had increasing attention on vocational education in order to orient individuals towards employment in specific professions and thus increasing the possibility of self-employment. This will reduce unemployment because it gives unemployed people the opportunity of self-employed. The Albanian economy is dominated by small businesses where many people are self-employed.

However, self-employment does not solve the problem of unemployment without support. To reduce the level of unemployment it requires financial and educational support to open and develop new businesses. If we look at the progress of active enterprises in recent years, the growth rate of businesses is low.

**Table 1. The progress of new and active enterprises**

Years	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
New enterprise	10607	14568	14010	19884	13081	16.469	12905	12828	12131	17377	56787	31377	24924	20279
Active enterprise	62162	73672	80077	94533	94953	103038	109039	106837	111083	112537	152288	160679	162452	162835

*Source: Institute of statistics, 2020a*

Business register at the end of 2019 is approximately the same number as active enterprises by the end of 2018. Albanian economy is focused mainly in trade activity. Even the new enterprises opened in 2019 have been mainly in trade activity. The level of employees in big enterprises (with 50 and more employed) is 47.8% out of 48.1% in 2018. Big enterprises represent only 1.2% of total active enterprises (Institute of Statistics 2020b).

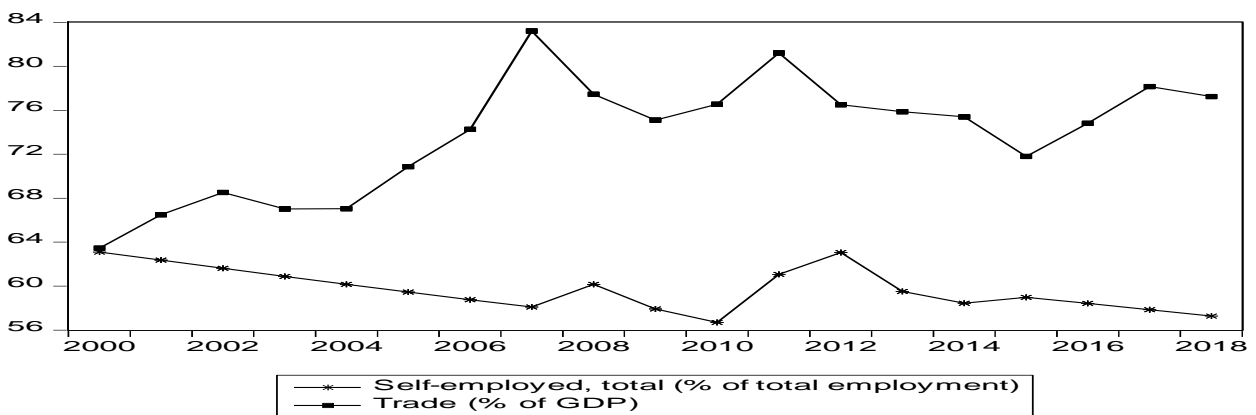
Albania has experienced high level of emigration in the last three decades. It is usual to hear young people talk about emigration, about going to another country where is possible to find a job and to have a better life. However, in the following years of the financial crisis of 2008, as a result of the loss of jobs, many emigrants who remained unemployed in European countries returned to Albania. This situation creates the need for more jobs and the government must use every opportunity to increase employment.

The country's trade balance is negative, so the imports are much bigger than exports. This trade balance shows opportunities for growth of current businesses but also opportunities for opening new businesses because show that demand exists. Negative trade balance indicates the existence of opportunities for activities but also for the employment of people in these potential businesses. If a much more detailed analysis

were been made, it would be seen that almost every sector has a negative trade balance. This strengthens the view that the opening of productive enterprises should be encouraged and this would increase the supply of jobs.

A way to decrease unemployment and encourage employment is self-employment. Through employment in the free professions unemployment can be reduced and boost the country's economy. The economy will be stimulated because both the variety of services and their quality will increase. In the other hand, individuals can open their own small family enterprises and not only become self-employed but also will employ family members. The most typical such businesses are retail or small shops. Opening small businesses to conduct retail trade generally does not require certain specializations or education and it facilitates application to open them. With any exception in general, trade in relation to GDP has increased. This has been the result of economic growth in the country and trade opening as well. Increasing trade offers a good opportunity for employment of individuals in commercial businesses but also a promising opportunity for self-employment. The level of self-employment (self-employed in relation to the total number of employees) had its peak in 2007 when the self-employed were 83% of the total number of employees. After the fluctuations of the level of self-employed, after 2011, this level has come with a gradual decrease. Figure 1 shows the performance of trade and the self-employed.

**Figure 1. Evolution of trade and the level of self employed**



Source of data: World Bank, 2020

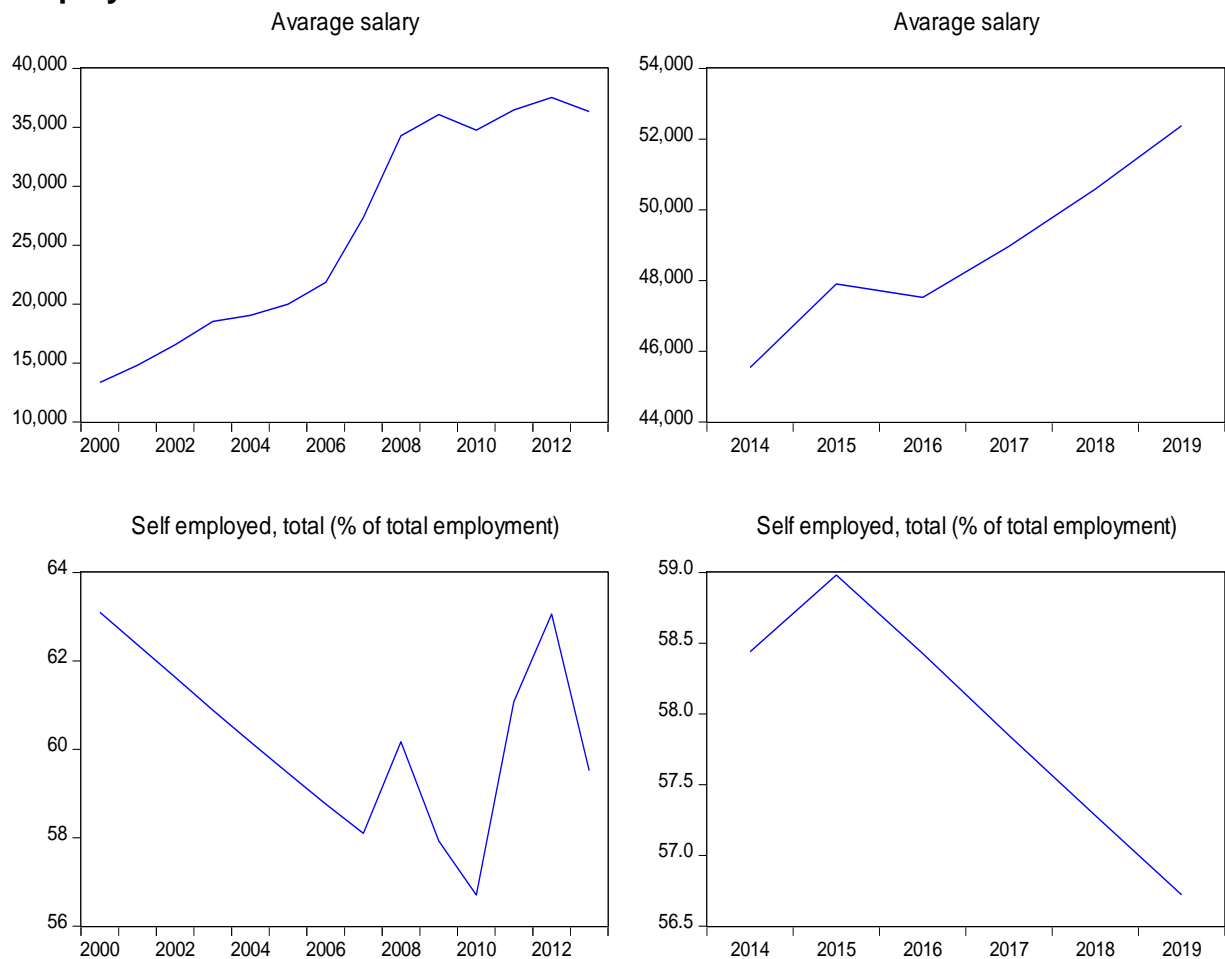
Self-employment does not always require higher education, but always require a preliminary level of income. These funds will enable the purchase of a shop for the development of activities or the payment of rents. It will also require funds to purchase equipment needed to practice the profession or to purchase goods that will be traded if it is a retail store. Self-employment as an alternative to employment is not a possibility for everyone, especially for young people. Self-employment is more of an opportunity

for individuals who have gained experience in a particular field and have an appropriate financial level to start a business.

### 1.1 Self-employment and the relation with wages and economic growth

Individuals who are self-employed generally do not get a monthly salary for themselves. They declare and pay contributions for social and health insurance on the minimum monthly wage. Figure 2 shows a lack of connection between the average monthly salary in the country and self-employment until 2013, while there seems to be a negative relationship between them in recent years. The performance of the relationship between the average monthly salary and the level of self-employed has been divided into two periods due to the change of the database for the average monthly salary by the Institute of Statistics.

**Figure 2. The performance of the average salary and the level of the self employed**



**Source of data: Institute of statistics, 2020c; World Bank, 2020**

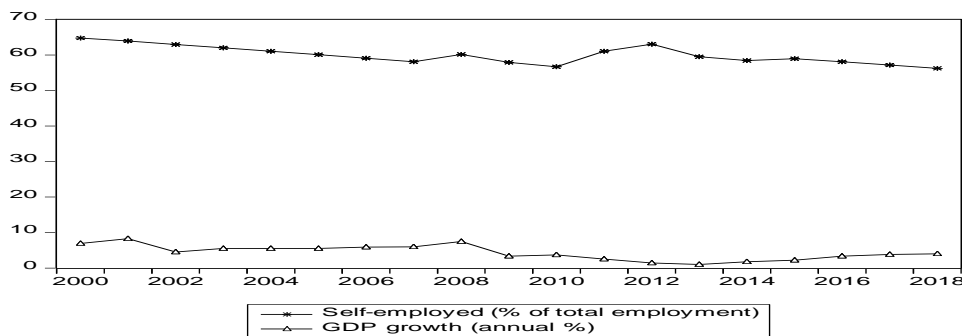
Although from their graphical presentation it does not seem to have a connection or it seems to have a negative connection, we cannot reach a conclusion because there is a possibility of incorrect declaration of salaries in the country, especially until 2014.

However, self-employment can affect the level of wages in several other ways. Self-employment means the opening of new businesses that provide the necessary goods and services to individuals or other businesses, positively affecting the development of the entire economy. The increase in the level of the economy will encourage job creation and, consequently, the increase in the level of salaries. While the self-employed businesses are growing, there is a need for employees, which has a positive effect on employment growth and salary.

However in the early years of their activity, businesses offer low wages. It also remains to be seen in other studies whether there is a shift of employees from companies with high wages, due to the closure of businesses as a result of declining economic growth, in this period, to smaller companies that pay lower wages.

From a graphical analysis of the performance of the level of the self-employed and GDP, there seems to be a negative relationship, Figure 3. This negative connection means that in periods of declining economic growth, people who may remain unemployed turn to self-employment. In this connection is presented only as the percentage of self-employed and not their productivity.

**Figure 3. The performance of the self-employed and the growth rate of GDP**



**Source of data: World Bank, 2020**

In the recent years, economic growth rates are positive and growing, which is expected to affect the level of employment in the country, with the growth of businesses and job creation. Meanwhile, in this case, the self-employed will either have an increase in their businesses by increasing the number of employees or self-employed people will be moved to other companies to be employed. For helping and promoting the development of small businesses, the government has just presented a new fiscal package that provides tax relief.

## 2. Literature review

Self employment as an alternative of the unemployed received a lot of attention in recent decades by governments as well as by economic experts. According to Boeri et al.(2020) the self-employment has many characteristics of underemployment and it appears to be an intermediate category between employment and unemployment. Lack of liquidity, long hours of work, and few employment rights make self-employed people vulnerable categories.

Government policies should take into account the situation of unemployment or employment in periods of economic decline in order to boost the economy. According to Elsby and Michaels (2013) in periods of recession the share of businesses with more employees decrease and the share of businesses with fewer employees increase. This conclusion shows that in periods of economic decline and the share of self-employed businesses grow.

The impact of the financial crisis has affected in different ways to the self employed in various countries. Remeikiene (2015) conclude that the financial and economic crisis has negatively affected self-employment in European countries. The main elements of European policy that promote economic growth and employment are self-employment and job creation. According to Zieliński (2012) the financial crisis in the EU has reduced the level of employment, and changed the structure of employment (especially level of part time employed, temporary employed, self employed). Baumgartner and Caliendo (2008) evaluate the effectiveness of two programmes in Germany that aimed to combat Germany's problem of persistently high unemployment and to increase low self employment rate. They conclude that turning unemployment into self-employment has become a major focus of labor market policy in Germany and the programmes have been successful.

Millán, Congregado and Román (2010) concluded that in order to promote self-employment as an alternative to the unemployed is a necessary set of instruments. Training and counseling programs should be launched in order to increase the productivity of self employment and to encourage the financing of projects with high human capital benefits. Grigorescu, Pîrciog and Lincaru (2019) study if in short term self-employment in Romania influences unemployment. Romania has a problem with medium and long-term success of enterprises, while there is a lack of incentives for self-employment by the unemployed, where one reason is the lack of innovation. Entrepreneurship increases in number but the survival of enterprises is low, not affecting the reduction of unemployment.

Golpe and van Stel (2007) investigated the relation between changes in self-employment and unemployment at the regional level in Spain ('entrepreneurial' effect).

While they found a positive effect of unemployment on subsequent self-employment for regions with higher incomes, they didn't find this effect in regions with lower incomes of Spain. The results of the study by Congregado, Golpe and Esteve (2019) support the existence of a changing and increasing elasticity of substitution between paid employment and self-employment. Beginning in the 1980s, self-employment levels began to rise in many advanced economies, starting in the US, as a result of the fast-growing services sector, a trend in preference towards self-employment, as well as by creating opportunities from new technologies.

### **3. The data and methodology, the model**

Given the importance of self-employment in reducing unemployment, the main objective of this paper is to find the link between self-employment and employment. Another objective is to find the link between employment and exports, to understand the link between openings up the economy to employment. Since the main part of the economic activity in the country is focused on trade, this also shows the connection between trade and employment.

Secondary data were used to construct the model of this paper. The aim is to understand how self-employment, economic growth and exports have affected the level of employment in the country. Economic growth is represented by the GDP growth rate variable. Exports of goods and services in relation with GDP (% of GDP) have been used.

Employment to population ratio (%) is used as a dependent variable, while independent variables are GDP growth rate, Self-employed (% of total employment) and Exports of goods and services (% of GDP). All variables are returned in the log form. Data for the variables are taken from the Institute of Statistics and from the World Bank Indicators. To achieve a conclusion regarding the connections of the variables is used the least squares method.

#### **3.1. The relations of the variables**

To analyze the relationship, data depending on their availability, were obtained from 2000 to 2017. By testing the model through the Eviews program the independent self-employment variable has a significant positive relationship with the dependent variable. This proves the importance of self employment in increasing the level of employment in the country.

**Table 2. The variables**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.333661	0.417255	0.799657	0.4373
LOG_EXP	0.052431	0.068684	0.763373	0.4579
LOG_GDP_GROWTH	0.046848	0.011969	3.913959	0.0016
LOG_SELF	0.751936	0.196193	3.832634	0.0018

**Source: Author**

As expected, the link between economic growth and employment is positive and significant. The relationship between exports and employment is also positive. Export is an important indicator of the development of both trade and service activities. Increasing exports means increasing activity in the country and consequently will have a positive impact on employment.

From the analysis of the model it can be concluded that model is good, this because R-squared is 0.80831, adjusted R-squared is 0.767234, while Prob(F-statistic) is 0.000027. Residuals are not serially correlated and are homoscedastic. With a probability of 85% the series is normally distributed.

## Conclusion and discussion

The focus of this paper is to find the impact of self-employment on the employment. In this paper is analyzed the relationship between the level of employment as a dependent variable and self-employment, economic growth and export as independent variables. From the analysis of the model build it was concluded that there is a significant positive relationship between self-employment and the level of total employment in the country. It also results in a positive relationship between the country's economic growth, exports and employment. This means that the increase in employment of the country requires a general economic growth and the government must find incentives instruments to increase exports. The positive relationship between self-employment and the employment shows a way to promote employment. The government must continue to focus on vocational education.

However, as mentioned earlier, self-employment needs funds to start activities. It would be necessary to create financial incentives for the self-employed people in order to provide funds for financing the enterprises at affordable costs, especially in the first years of their creation.



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