



The Forgotten Group: Being Self-Employed in Montana

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Most labor market statistics exclude the self-employed due to a lack of data. However, tracking the self-employed is of particular importance in the current economic downturn. Many self-employed individuals may be unable to afford periods of substantially reduced business activity. In addition, the self-employed are not covered under many of the programs designed to help individuals during economic downturns, such as Unemployment Insurance. This article examines the self-employed in Montana and explores some areas where this group may be feeling strained under the current economic situation.

Data Sources

For this article, an individual is considered self-employed if they run a non-incorporated business, professional practice, or farm. Unfortunately, most of the standard data sources have incomplete data on the self-employed because a great deal of labor market data comes from the Unemployment Insurance (UI) program. While Unemployment Insurance data is generally very accurate, it only



tracks businesses with employees, which generally excludes the self-employed. Fortunately, there are two data sources, developed by the Census Bureau, that do track the self-employed.

The primary data source used to examine the self-employed in this article is the Current Population Survey (CPS). The CPS is a monthly survey conducted jointly by the U.S. Census Bureau and the Bureau of Labor Statistics, which questions 60,000 individuals in the United States about their occupation status. The CPS survey should provide consistent estimates of the total number of self-employed individuals in Montana.

However, the CPS data used in this article does have its deficiencies. The focus on primary occupations in the data will cause an under count of the true number of individuals who are self-employed, due to the exclusion of those who are self-employed through a secondary occupation. In addition, the rural nature of Montana ensures that the CPS includes a relatively small sample of Montana





households, which may lead to consistency issues with the monthly survey results. However, annual estimates can be used to reduce the sampling error.

The second data source comes from the U.S. Census Bureau's Non-employer Statistics estimates. Non-employer Statistics estimates primarily come from IRS tax records and provide an estimate of the total number of non-employer businesses in Montana. The number of non-employer businesses should provide a reasonable estimate of the number of self-employed individuals in a region. In comparison to the CPS data used in this article, Non-employer Statistics include individuals who are self-employed in their secondary occupations.

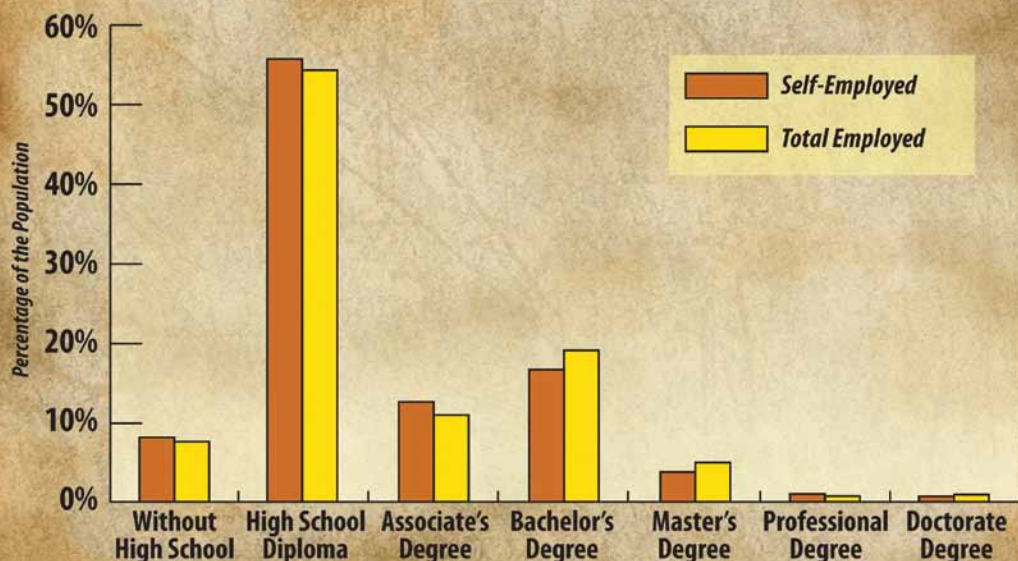
What do we know about the self-employed?

The CPS indicates that there were an estimated 69,000 self-employed individuals in Montana during 2008. Over the past 14 years, the proportion of self-employed individuals in Montana's labor force has declined. In 1994, the self-employed com-

prised 17% of Montana's workers; this percentage declined to 13.3% by 2008. However, despite the decline, Montana still maintains the largest proportion of self-employed individuals in the U.S.

There are noticeable differences between the self-employed and the average worker in Montana along demographic characteristics. Older individuals are disproportionately represented in the self-employed, with the average Montana worker being seven years younger than the average self-employed individual in the state. The self-employed also tend to be concentrated in occupations that require less formal training than Montana's overall workforce, which has resulted in a lower average level of educational attainment for the self-employed (Figure 1). For example, nearly 27% of workers in Montana had at least a Bachelor's degree, while only 23% of the self-employed had a four-year degree. National demographic statistics on the self-employed show similar trends to Montana estimates for both age and educational status.¹

Figure 1: Educational Attainment of the Employed Workers and the Self-Employed



Source: Current Population Survey, 2008, U.S. Census Bureau



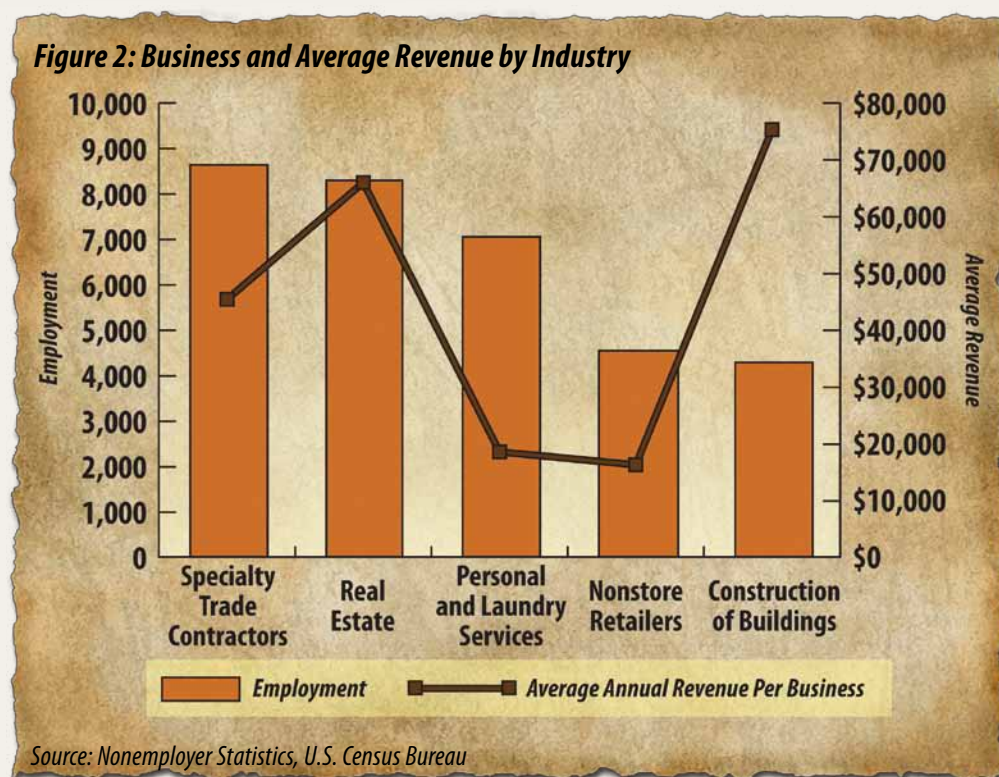
The Non-employer Statistics provides information on the industry distribution of the self-employed. Of the top five non-employer industries, three sectors were related to the construction, modification, or selling of homes. The largest industry in terms of businesses was the Specialty Trade Contractors sector, which had 8,662 businesses and comprised nearly 11% of all non-employer businesses (Figure 2). The other two industries were the Real Estate and Construction of Building sectors, which had a combined 13,000 businesses. Rounding out the top five industries were Personal and Laundry Services and Non-Store Retailers with a combined 11,655 businesses. Together, the top five industries accounted for more than 40% of all non-employer business in Montana in 2006.

The running of gasoline stations is the highest revenue-generating sector for the self-employed, generating average annual revenue of nearly \$153,000. The second highest revenue-generating non-em-

ployer sector was Beverage and Tobacco Products Manufacturing businesses, with annual revenues of nearly \$151,000. The Water Transportation and Other Goods through Pipelines, also generate large amounts of revenue for non-employer businesses, with respective revenues of \$121,364 and \$141,000. The remaining industry in the top five is Motor Vehicle and Parts Dealers, which had average revenues of \$134,137.

Self-employed during the economic downturn

Over the past 12 months, Montana and the United States have experienced a general economic slowdown. As this slowdown continues, businesses have reduced their output and employment. With the estimated number of people unemployed increasing by nearly 50% from April of last year, there is no doubt that businesses are reducing their payrolls. The self-employed cannot be laid-off from their jobs, but this does not mean they are immune to the economic contraction.





The self-employed are disproportionately concentrated in some of the sectors that are feeling the strain of the economic slowdown. For example, the Construction and Real Estate sectors have been particularly affected by the national downturn in home prices. As Figure 3 denotes, Construction and Real Estate industries comprise three of the five largest, and some of the highest paying, self-employed industries in Montana. The rapid collapse of these sectors nationally has large negative employment effects for Montana's self-employed working in the housing sectors.

The strain of the current economic slowdown may be particularly difficult for the self-employed, due in part to the fact that many social insurance programs, such as Unemployment Insurance and Workers Compensation, may not be available to this group. In addition, self-employed individuals are significantly less likely to have health insurance coverage.² The lack of health insurance is particularly important during the decline in economic ac-

tivity when the self-employed may find it harder to acquire adequate funds to meet the direct cost of health care. Together, the reduced safety net and the need to cover many benefits themselves may make it harder for the self-employed to adjust to the changing economic conditions.

Conclusion

There is no doubt that the current economic slowdown is having a negative effect on many of Montana's workers. However, given the particular characteristics of the group, the self-employed are most likely facing unique difficulties in the current labor market. Self-employed individuals tend to be concentrated in occupations that require less training and that have seen rapid employment declines during the current recession. The lower training levels, industry specific skills, and high numbers of unemployed persons may make it harder for self-employed individuals to locate new employment if they have to give up their self-employed status. In addition, many of the self-employed will not have access to some social insurance programs that provide a source of income for individuals while searching for employment.

Fortunately, there may be some good news. Many of the characteristics that define self-employed individuals, such as motivation and innovation, are highly desired in the labor market. Self-employed individuals who are able to capitalize on these skills should be able to adjust to the changing economic situation and drive economic growth in the future.

Works Cited:

¹Ong, Paul and Matthew Graham, "Social, Economic, Spatial, and Commuting Patterns of Self-Employed Jobholders," U.S. Census Bureau Technical Paper No. TP-2007-03

²Perry, Craig William, Harvey S. Rosen, "Insurance and the Utilization of Medical Services Among the Self-Employed", CESifo Working Paper No. 580