

SELF-EMPLOYMENT IN LATVIA IN COMPARISON WITH THE EU MEMBER STATES

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Abstract. Self-employment represents a form of employment and self-employed persons constitute a part of employment policy in the European Union (EU) Member States, including Latvia. In 2020, the proportion of self-employed persons equalled to 12.2% of total employment in Latvia; hence, approaching the average EU indicator (13.4%). The research aim is to perform a comparative analysis of self-employment trends in Latvia and other EU Member States. The analysed period (2011-2019) allows observing various changes in the trends of self-employment such as changes in the age groups and sectors with the increasing number of self-employed persons as well as changes in reasons indicating willingness of individuals to become self-employed. An examination of the statistical portrait of a self-employed person reveals identical characteristics among the EU Member States: it is a male with a secondary education, aged 25-49, having chosen self-employment by his own choice and hiring no other employees. The only difference of statistical portrait lies in the employment status: a manager in Latvia and a professional in the EU. In recent years, the number of self-employed persons aged 50-64, having chosen self-employment due to their personal reasons, hiring no other employees, having acquired an in-depth and comprehensive knowledge and wanting to apply the acquired knowledge in the future tends to increase. Therefore, further research on this group of self-employed persons is recommended to identify the causal relationships and benefits for their engagement in this type of employment.

Keywords: self-employment, profile of a self-employed person, Latvia.

JEL code: J21, J23

Introduction

Employment in Latvia and other EU Member States is one of the most important indicators of the economic development and growth. Self-employment is a part of the employment policy, since the proportion of self-employed persons is essential accounting for 13.4% of total employment in the EU-28 Member States in 2020. In recent years, researchers have increasingly studied not only trends of self-employment in general but also various aspects of self-employment consistent with the country's economic situation and the age, level of education, gender, type of employment and other characteristics of self-employed persons. Therefore, the research aim is to perform a comparative analysis of self-employment trends in Latvia and other EU Member States. The following specific research tasks were set to achieve the research aim: 1) to study the proportion of self-employed persons and their proportional changes in Latvia contrasted to other EU Member States; 2) to analyse the distribution of self-employed persons by sectors of employment, gender, level of education and age in Latvia and other EU Member States; 3) to develop a statistical portrait of a self-employed person.

The research is based on the monographic or descriptive method to study scientific literature and legal framework; it applied statistical analysis to reveal the trends of self-employment as well as a graphical method to reflect visually the research results. The research employed the Eurostat database for the research period from 2009 to 2020 taking into consideration the different number of the EU Member States – 28 countries up to 2019 (including) and 27 countries from 2020. In some cases, the research period is from 2011 onwards due to the lack of particular data.

Research results and discussion

Self-employment is one of the types of employment that plays an important role in the national economy. In Latvia, a self-employed person is a natural entity who is registered as an income taxpayer from the economic activity. This means that the person has first to register as a taxpayer with the State

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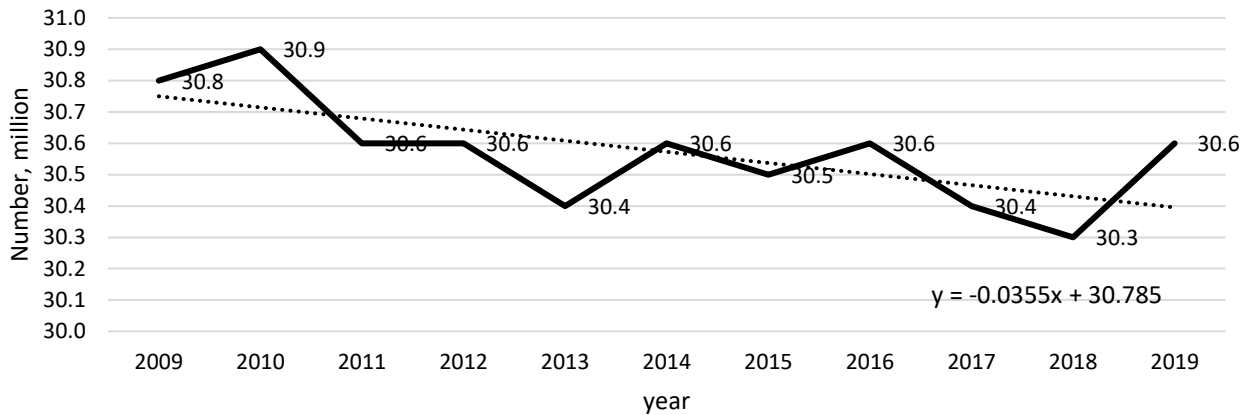
Revenue Service (SRS) as an operator of economic activity or with the Commercial Register as an individual merchant or an owner of a farm or a fishing enterprise in order to become a self-employed person.

In Latvia, the term *self-employed person* is explained in Section 1 of the law "On the Regulated Professions and the Recognition of Professional Qualifications". The law defines a self-employed person as a person who earns income independently without entering into a contractual employment relationship with an employer and without holding a position that entitles the person to receive remuneration. The term self-employed person is also specified in the law "On State Social Insurance" of the Republic of Latvia. Part 3 of Section 1 of the law defines a self-employed person as a person who earns income (or revenue) as: a person receiving a royalty, a sworn notary, a sworn advocate, a sworn auditor, a doctor in practice, a pharmacist in practice, a veterinary practitioner, an optometrist in practice; another natural entity who has registered as an economic activity income taxpayer; an owner of a farm or fishing enterprise, a person whose permanent place of residence is in the Republic of Latvia and whose work is remunerated from foreign technical assistance resources and loans from international financial institutions granted to the Republic of Latvia; a sworn bailiff, an individual economic operator and a micro-enterprise taxpayer (On State Social Insurance, 1997).

The terminology of self-employment differs between Latvia and other EU Member States. The basic idea of self-employment is the same; yet, there are differences in the formulation of the term. The difficulty in agreeing on a common definition of a self-employed person is due to the specific national conditions and the relevant legal framework in each Member State as well as the significant changes that have occurred in employment relationships in recent years. An analysis of various research studies commissioned by and carried out in the EU revealed that almost all the surveyed Member States indicated that they had worked to design a more effective legal definition of a self-employed person in order to create a legal framework for social security, employment rights and protection for the self-employed persons. After examining various literature sources, the authors have concluded that it is possible to identify five basic categories of self-employed persons, which are also the most common in the scientific literature:

- 1) entrepreneurs who perform economic activities with the help of employees;
- 2) those representing traditional "liberal professions" who shall meet certain requirements, comply with rules and binding codes of duty as well as often pass examinations for being registered with public registers to perform their professional activities. Such persons usually work individually or together with other professionals, possibly employing a limited number of employees, if any;
- 3) craftsmen, traders and farmers representing traditional types of self-employment. Such self-employed persons usually work with their family members and might also employ a small number of employees;
- 4) self-employed persons in skilled but unregulated professions, sometimes referred to as "young professionals";
- 5) self-employed persons in unskilled professions who perform economic activities without hiring any employees but sometimes with the help of their family members.

The compiled information shows that there are different categories of self-employed persons that may change over time. The number of self-employed persons is also fluctuating; the largest number of self-employed persons amounting to 30.9 million is observed in 2010 (Figure 1), while the smallest one amounting to 30.3 million is identified in 2018. Nevertheless, the number has slightly increased to 30.6 million in 2019, the overall trend is negative. In general, according to the linear regression equation, the average annual decrease in the number of self-employed persons is 35.5 thousand.

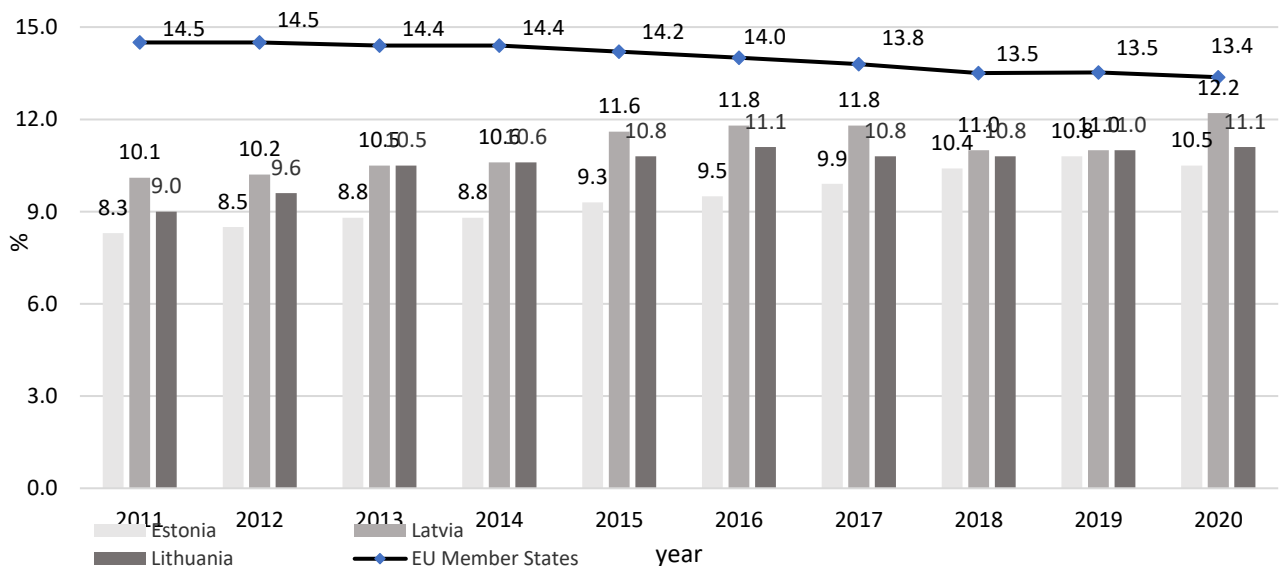


Source: authors' calculations based on Eurostat database, 2022

Fig. 1. The number of self-employed persons aged 15-64 in the EU-28 from 2009 to 2019, million

Total number of self-employed persons in the EU-28 has decreased by 0.94% over 10 years, which is an insignificant decline in the opinion of the authors. The data for 2020 are not reflected in the figure, as the United Kingdom withdrew from the EU in 2020, and the data for the EU-27 are not comparable with those for the EU-28.

In order to gain a deeper understanding on the trends of self-employment, it is necessary to look not only at the number of self-employed persons but also at their proportion of total number of employed population in the country. Figure 2 depicts the average proportion of self-employed persons in the Baltic States and EU Member States for more comprehensive comparison of Latvia and its immediate neighbours and the EU.



Source: authors' calculations based on Eurostat database, 2022

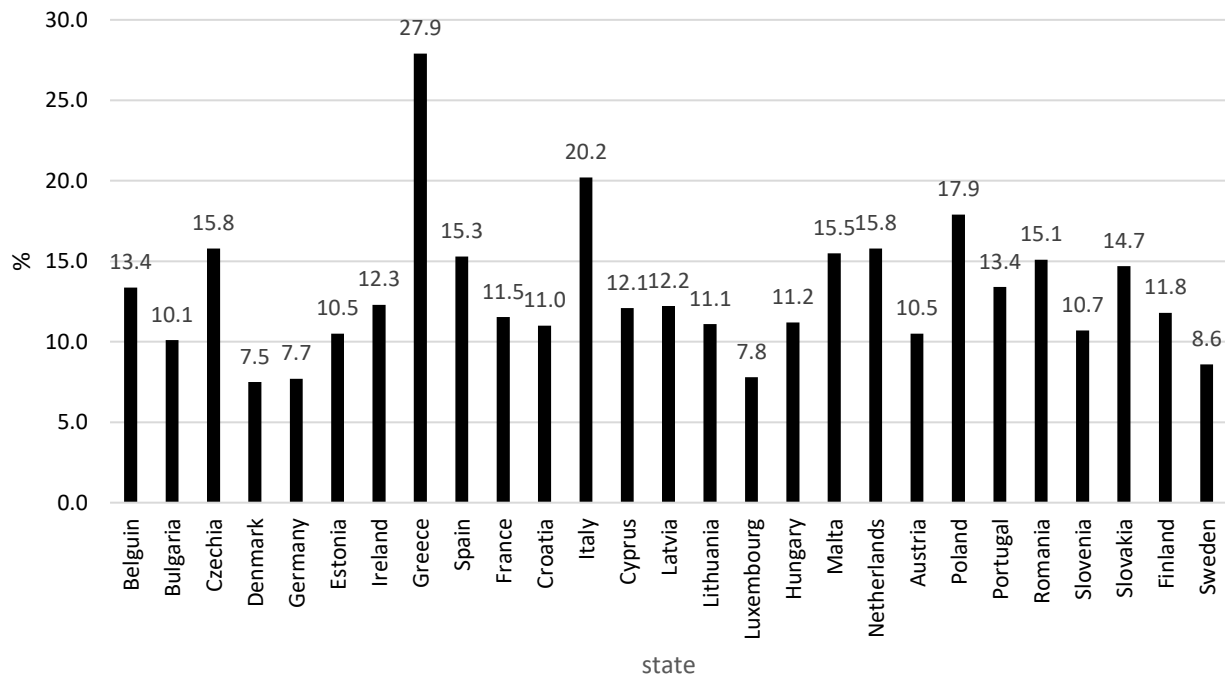
Fig. 2. The proportion of self-employed persons aged 15-64 of totally employed population in the Baltic States compared with the EU-28 average from 2010 to 2019 and the EU-27 in 2020, %

Latvia has the highest proportion of self-employed persons in total employment among the three Baltic States. In 2020, the proportion of self-employed persons in Latvia neared the EU-27 average, 12.2% and 13.4%, respectively. Latvia is followed by Lithuania where the proportion of self-employed persons equalled

to 11.1% in 2020. However, the dynamics of the proportion of self-employed persons in the study period in Latvia and other Baltic States differs from the EU general trend. In total, the proportion of self-employed persons in the EU has decreased from 14.5% to 13.4% or by 1.1 percentage points, while it is increasing in all three Baltic States with similar growth rate: 2.1 percentage points in Latvia and Lithuania each and 2.2 percentage points in Estonia.

According to a research by Remeikiene and Gaspareniene, self-employment has common characteristic features (similarities and differences) in Latvia and Lithuania. The research results depict that the willingness of individuals to become self-employed persons grow with the increase of demand for various services (R.Remeikiene, L.Gaspareniene, 2015). The figures are similar, since the economic and political situations as well as the tax and administrative burdens on the self-employed persons are similar in both countries.

In Latvia, the proportion of self-employed persons is similar to the rest of the Baltic States; yet, there is a significant difference compared with the other EU Member States.



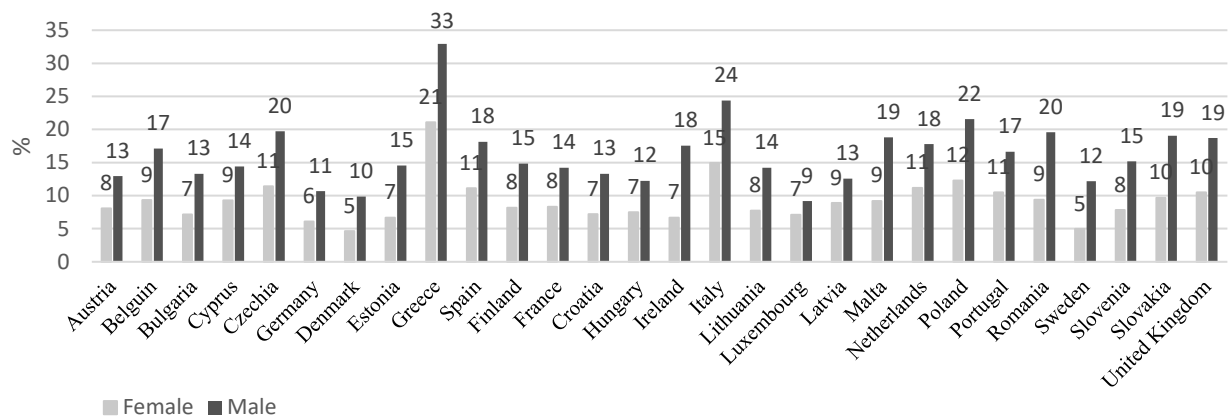
Source: authors' calculations based on Eurostat database, 2022

Fig. 3. The proportion of self-employed persons aged 15-64 of totally employed population in the EU-27 in 2020, %

The Eurostat data show that in 2019, 30.6 million self-employed persons were registered in the EU-28; thus, representing 13.5% of total employment in the EU-28 (225.7 million). In contrast, 25.7 million self-employed persons were registered in the EU-27 in 2020; thus, accounting for 13.4% of total employment (192.3 million).

Greece (27.9%), Italy (20.20%) and Poland (17.9%) had the highest proportions of self-employment in the EU-27 in 2020. The lowest proportions were reported in Denmark (7.5%), Germany (7.7%) and Luxembourg (7.8%). Historically, Greece has been at the top of the list for several years (at least 10 years), which could be explained by the fact that the highest proportion of self-employment was reported for the agricultural sector.

The consideration of gender distribution in self-employment is required to develop a statistical portrait of a self-employed person. The overall trend shows that there are more self-employed males than self-employed females in all EU Member States (Figure 4).



Source: authors' calculations based on Eurostat database, 2022

Fig. 4. The proportion of self-employed persons aged 15-64 of totally employed people by gender in the EU-28 in 2019

Gender differences are more expressed in individual EU Member States, for example, Greece, Ireland and Romania has a significantly higher proportion of males among the self-employed persons. However, the proportion of males among the self-employed people was lower in Luxembourg, Latvia and Germany. The distribution of males and females engaged in self-employment is very similar in these three countries.

The number of self-employed females is twice as low as that of self-employed males in the EU-28. In 2010, the difference was 2.26-fold and it has decreased to 2.04-fold by 2019. The decrease accounts for 0.22 times over the 10 years. In this period, the number of self-employed males has decreased with the simultaneous increase in the number of self-employed females. In 2019, the number of the self-employed males has decreased by 898.20 thousand compared with 2010, whereas the number of self-employed females increased by 550.8 thousand. The literature review has revealed that the birth of children might encourage women to become self-employed in order to reconcile their care for their children with their professional ambitions (Bago J.L., Dessy S., 2020; Bogenhold D., Klinglmai A., 2015). According to a research by C.Kalenkoski and S.W.Pabilonia, the Covid-19 period explicitly showed that women were the first to leave self-employment or significantly reduce their working hours to take care of their children.

J.I.Gimenez-Nadal, J.A.Molina and J.Vellila have identified a correlation between fathers and sons – a self-employed father most often influenced his son to become a self-employed person. The intergenerational correlation of self-employment is stronger in Belgium, Luxembourg, France and Austria, while it is less pronounced (but statistically significant) in the Netherlands and Sweden.

Directive 2010/41EU of the European Parliament and of the Council on the application of the principle of equal treatment between men and women engaged in an activity in a self-employed capacity was adopted on 7 July 2010. In the field of self-employment, the application of the principle of equal treatment means that there should be no discrimination on grounds of gender, for example, in relation to the establishment, equipment or extension of a business or the launching or extension of any other form of self-employed activity (Directive ..., 2010).

The literature review revealed that the reasons for choosing self-employment differed by gender. Females most often chose self-employment because it could be combined with the family life (Dawid A. W., Curington W., 2014; Carrasco R., Ejrnæs M., 2012) as well as they might have flexible working hours and

could arrange their work environment as they wished. In contrast, males became self-employed mainly because they could earn more and apply their knowledge and abilities at their own discretion (Rembiasz M., Siemieniak P., Licznarska, M., 2018).

In the push and pull theory of motivations, push factors are viewed more as negatives and their impacts are external. A push or driving factor emerges if possibilities are limited.

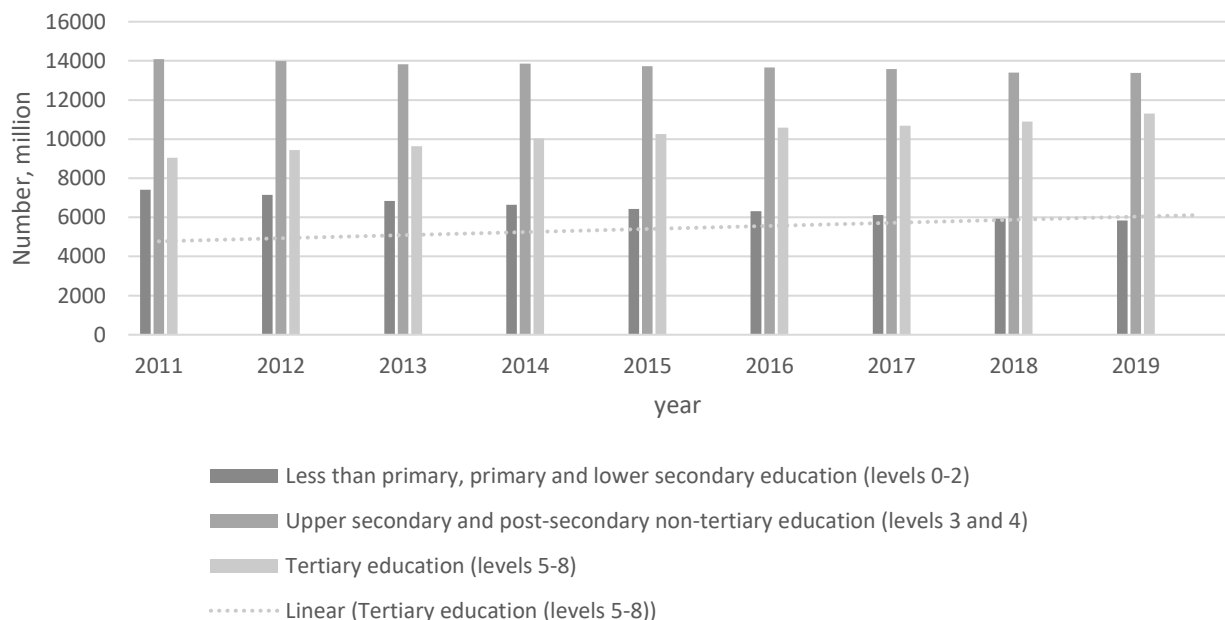
Based on the push and pull theory of motivations, the authors identified the following push factors:

- 1) the birth of a child, which is also confirmed by C.Patrick (2016) who has analysed the differences between married and unmarried women in the United States. He found that married women with young children were engaged in self-employment because they needed more flexible working hours;
- 2) unemployment may encourage individuals to register as self-employed persons.

According to the push and pull theory of motivations, pull factors are viewed as positives and relate with the opportunities and the desire to challenge oneself and be independent. The pull factors could be as follows:

- 1) developed business environment, as pointed out by C. Patrick (2016), e.g. unmarried women were engaged in self-employment where the business environment was secure and well-structured (Patrick C., Stephens H., Weinstein A., 2016);
- 2) extra income;
- 3) family business.

According to a research by P. MacGowan on push and pull factors, all the women involved in the research were faced with both types of factors when starting their own business. Unfortunately, the research found a negative aspect – an increase in the level of stress – because they had to take care of their families as well as be leaders in their own business (McGowan P., Lewis Redeker C., Cooper S., Greenan K., 2012).

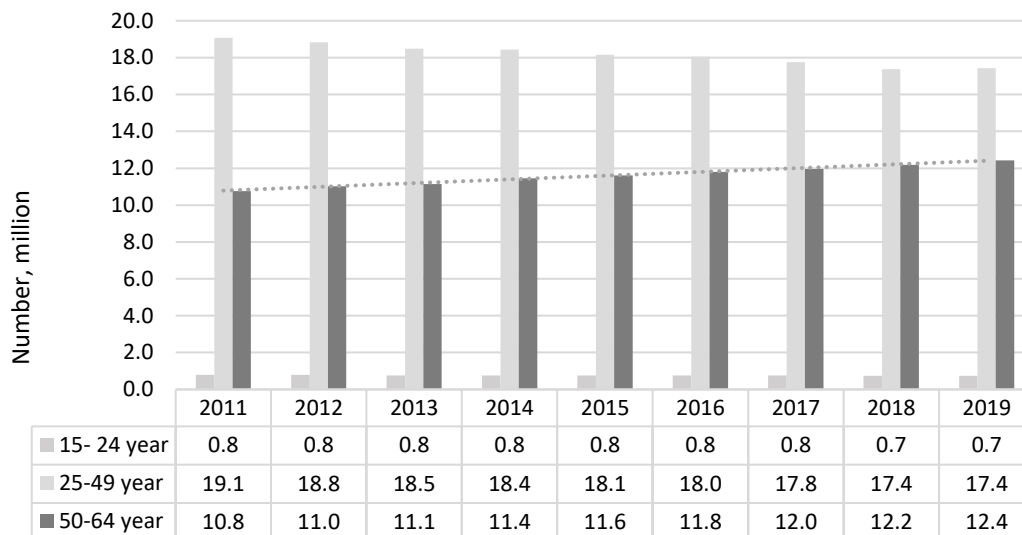


Source: authors' calculations based on Eurostat database, 2022

Fig. 5. The number of self-employed persons by level of education in the EU-28 from 2011 to 2019, million

Figure 5 depicts statistical data from the Eurostat database on self-employed persons broken down by the level of education according to the International Standard Classification of Education (ISCED, 2011). The number of self-employed persons with primary and secondary education in the EU-28 has decreased

between 2011 and 2019, whereas the number of self-employed persons with tertiary education has increased, which is indicated by the trend curve in the figure. This was due to the decrease in the number of self-employed persons in agriculture, forestry and fishing and the increase in the number of self-employed persons in the services sector. As a result, there was a growing demand for highly qualified service providers possessing a comprehensive knowledge.



Source: authors' calculations based on Eurostat database, 2022

Fig. 6. The number of self-employed persons by age groups in the EU-28 from 2011 to 2019, million

Figure 6 identifies an interesting trend – the number of self-employed persons in the age group of 25-49 gradually decreases with an increase in the age group of 50-64. The trend is expected to only intensify due to the overall demographic situation in the EU-28, as the number of elderly people increases fast but the number of young people is not large due to the relatively low birth rates. Consequently, elderly people will have to seek additional sources of income to supplement their retirement pensions. This problem has also been pointed out by U.Fachinger (2019) in his research. Currently, the main reason for people in the age group of 50-64 to become a self-employed person is the wish to continue working. This means that such people are no longer in the employment relationships, yet they still want to apply the knowledge acquired and skills mastered during the employment relationship. These self-employed people want to realize themselves in their profession. Most of the self-employed in the age group of 50-64 had worked in one profession, where they acquired an in-depth and comprehensive knowledge that they would want to apply in the future. The factor of earning an additional income is only the second important factor. However, there is a necessity to study this group of self-employed people in more details due to limited research studies at present.



Source: authors' calculations based on Eurostat database, 2022

Fig. 7. The number of self-employed persons aged 15-64 in the EU-28 broken down by their relations with employees from 2009 to 2019, million

The number of self-employed persons who hired employees is gradually decreasing over 10 years. Figure 7 shows that the number of self-employed persons who hired employees has decreased by 8.5% in 2019 compared with 2009. According to S. Spasova (2019), this is related with the declining role of agriculture in the European economy; hence, the number of self-employed persons engaged in this sector has also declined. In contrast, the number of self-employed persons without employees has increased by 2.4% during this period.



Source: authors' calculations based on Eurostat database, 2022

Fig. 8. The proportion of self-employed persons aged 15-64 by type of occupation in the EU-28 in 2019, %

The Eurostat database classifies self-employed persons by employment according to the International Standard Classification of Occupations 2008 (ISCO-08). Figure 8 shows that the largest proportion of self-employed persons among the EU-28 Member States are professionals (22.1%), followed by service and sales workers (15.8%) and craft and related trades workers (15.8%). In Latvia, in turn, the largest proportion of self-employed persons is observed in the groups of managers (32.3%) and skilled agricultural,

forestry and fishery workers (16.0%). Such significant differences between the EU and Latvia in the group of managers might be explained by a different understanding of this term in Latvia and other EU Member States. However, it is undeniable that the majority of self-employed persons in the EU Member States in general fall under the group of professionals, which is twice as many as in Latvia. The number of self-employed persons in agriculture is annually decreasing; however, it is still higher in Latvia than the EU on average. In contrast, the proportion of self-employed persons in the sectors of crafts and services is smaller in Latvia than the EU on average. Both Latvia and the EU-28 Member States produce an increasing trend of self-employed persons in the service sector.

Table 1

Average statistical portrait of a self-employed person in Latvia and the EU-28 in 2019

Criteria	EU-28 Member States	Latvia
Age	25-49 years	25-49 years
Gender	male	male
Education	secondary	secondary
Occupation	professionals	manager
Reason	by one's own choice	by one's own choice
Hired employees	no hired employees	no hired employees

Source: authors' construction

An analysis of statistical data made it possible to create a statistical profile of a self-employed person in Latvia and the EU-28 in 2019. Table 1 summarises information showing that a self-employed person in Latvia is statistically similar to a self-employed person in the EU-28, and the only difference is that the largest proportion of self-employed persons in the EU are professionals, while they are managers in Latvia.

Conclusions, proposals, recommendations

- 1) Over a 10-years period (2011-2020), the proportion of self-employed persons of total employment is slightly lower in Latvia compared with the EU on average as it is similarly in Lithuania and Estonia. However, the proportion of self-employed persons gradually increases in all Baltic States opposite to the EU on average.
- 2) The number of self-employed males exceeds the number of self-employed females in all the EU-28 Member States. Greece, Ireland and Romania have a significantly higher proportion of males among the self-employed persons. However, the proportion of males among the self-employed persons is lower in Luxembourg, Latvia and Germany.
- 3) The reasons for choosing self-employment differ by gender. Women most often choose self-employment because it might be combined with the family life as well as they may have flexible working hours and arrange their work environment as they wish. In contrast, men become self-employed mainly because they could earn more and apply their knowledge and abilities at their own discretion.
- 4) The research revealed that the number of self-employed persons with primary and secondary education was decreasing in the EU-28 between 2011 and 2019 opposite to the number of the self-employed persons with tertiary education. The number of self-employed persons who did not hire employees has increased in contrast to those who hired employees.
- 5) The number of self-employed persons in the age group of 25-49 gradually decreases, while it increases in the age group of 50-64 leading to the growth of the average age.

- 6) In the EU Member States on a whole most self-employed persons work as professionals (22.1%), while in Latvia the largest proportion of self-employed persons are managers (32.3%). Yet, a different understanding of the term in statistics of Latvia might explain this essential difference in the group of managers.
- 7) The statistical profiles of a self-employed person in Latvia and the EU-28 are very similar: a man with secondary education, aged 25-49, who is self-employed by his own choice and employs no other employees. The only difference is that the self-employed person in Latvia works as a manager and not as a professional.
- 8) The fact that most of the self-employed persons in the age group of 50-64 having worked in one profession where they acquired an in-depth and comprehensive knowledge that they want to apply in the future and they do not want to retire requires more research on this group of self-employed persons to identify the causes, advantages and disadvantages.

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