

Youth Labor in Transition: Inequalities, Mobility, and Policies in Europe

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Do business start-ups create high-quality jobs for young people?

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Abstract and Keywords

Since the onset of the recent economic crisis, there has been renewed interest among policymakers across Europe in measures to stimulate self-employment and entrepreneurship as an alternative to unemployment. However, fundamental questions about policies that promote self-employment, especially among young people, remain unanswered. For instance, do such policies create new jobs or just promote new forms of precarious, poor-quality employment? This chapter finds that for some young people, self-employment is an option that offers high-quality jobs. Young self-employed people report that they can use and further develop their skills, and they appreciate the high degrees of autonomy and flexibility. However, the actual volume of jobs created through self-employment is low. Moreover, job quality is impaired by poor social protection, with severe negative consequences especially in the long term. Policies are needed to address the risks associated with self-employment, especially in relation to unemployment, health care, and pension benefits.

Keywords: self-employment, youth self-employment, youth unemployment, youth labor market, job quality, job creation, entrepreneurship, social protection

20.1. Introduction

Since the onset of the recent economic crisis, there has been a renewed interest among policymakers across Europe in measures to stimulate self-employment and entrepreneurship as an alternative to unemployment (e.g., within the

Europe 2020 strategy; European Commission 2010, 2013). However, fundamental questions about policies promoting self-employment, especially among young people, remain unanswered. For instance, do such policies create new jobs or just promote new forms of precarious, poor-quality employment? (For an overview of policies targeted at youth transitions in general across Europe, see Petmesidou and González Menéndez, this volume.) Despite considerable interest among policymakers, there is little evidence regarding the quality of jobs that young people create for either themselves or for further employees. Indeed, Shane's (2008) detailed analysis of entrepreneurship in the United States critically concluded, "Start-ups don't generate as many jobs as most people think, and the jobs that they create aren't as good as the jobs in existing companies" (p. 161). Focusing on EU27 countries, this chapter addresses the question as to whether business start-ups create high-quality jobs for young people.¹

New economic business models have recently seen a flourishing of self-employment for young people, as exemplified by the growth of companies such as Deliveroo and Uber operating in the "sharing" economy (Cushing 2013; Eichhorst et al. 2016). Young people working for these companies frequently have a self-employment status as own-account workers rather than a traditional **(p.598)** employment relationship with the organization. So-called "gig" workers are typically contracted through virtual "human cloud" platforms such as Amazon's Mechanical Turk, TaskRabbit, and Upwork. The European Commission (2016a) is generally quite positive in its outlook for these new business models and the associated employment opportunities. However, the rise of "gig" workers is also receiving increased media and policy attention, with workers demanding better pay deals and questions being raised about the extent to which these young people really are self-employed or not (BBC 2016; Valenduc and Vendramin 2016). As an emerging form of employment, it is not always clear to what extent these new self-employed workers are protected by domestic labor law (De Stefano 2016), given that they do not have employment contracts but, rather, service contracts on the basis of so-called clickwrap agreements—that is, the workers agree to the terms of a service contract by clicking an "OK" button on the company website.

Encouraging self-employment for young people requires an understanding of what the long-term implications of this work are in terms of job quality. The aim of this chapter is to examine the job quality of self-employed women and men younger than age 35 years and the related job-creation potential. The analysis uses an explorative approach based on current conceptualizations of job quality and secondary data sources such as the European Union Labour Force Survey, the European Working Conditions Survey, and the European Union Statistics on Income and Living Conditions, as well as semistructured interviews with self-employed young people in selected countries and industries. After mapping youth self-employment in EU27 countries, the chapter presents findings

concerning the job quality of young self-employed and the job-creation potential of youth self-employment. The analysis takes gender-related differences into account, given that the existing literature indicates that job quality differs substantially between women and men (Smith et al. 2008; Mühlau 2011; Beblo and Ortlieb 2012).

20.2. Defining self-employment

In this chapter, we define self-employment in accordance with the definition used by the European Union Labour Force Survey. That is, with the term “self-employment,” we refer to a form of employment engaged in by people who work in their own business, farm, or professional practice and who receive some form of economic return for their labor. Thereby, in our analysis we consider both self-employed with employees working for them and self-employed without employees. Alternative terms commonly used in the literature include “employers” and “owner-managers” for self-employed with employees and “sole traders,” “solo self-employed,” “own-account workers,” and “freelancers” for self-employed without employees. With the term “salaried employees,” we refer to people employed by organizations.

(p.599) Defining self-employment is a challenging endeavor because the empirical boundary between self-employment and salaried employment is blurred (Jorens 2008; Muehlberger and Pasqua 2009; Eichhorst et al. 2013; Oostveen et al. 2013). According to definitions typically used by social security institutions and state authorities, people are categorized as self-employed if they fulfill the following criteria: Self-employed individuals autonomously choose the content, time, and place of their work without being bound by the instructions of other persons—such as formal supervisors within a hierarchically structured company—and they take responsibility for business risks on their own (for an overview of legal definitions in selected European countries, see Sheehan and McNamara 2015).

However, within the past few decades, “false” or “bogus” forms of self-employment have been emerging as a consequence of an increase in outsourcing activities by firms (Jorens 2008; Flecker and Hermann 2011). Bogus self-employed people formally deliver their services as an independent firm based on a service contract or a general commercial contract, but factually, they depend on another organization to the same degree as salaried employees depend on their employers. Typically, these people work as sole traders without employees working for them, they have only one client, they are not able to hire staff if necessary, and/or they are not able to make the most important decisions about how to organize their work and run the business (Oostveen et al. 2013). This form of self-employment is related to employers circumventing social insurance contributions and other issues subject to labor law, such as employment protection, working-time limits, maternity/paternity and sick pay, or paid holidays (Román, Congregado, and Millán 2011). In addition, bogus self-

employment has been related in the past to circumventing access restrictions to the labor market for migrants from European Union (EU) accession countries (Thörnquist 2013). Thus, although bogus self-employment sometimes may remain the only viable option for youth to find paid work, it is often associated with a quite significant lack of employment protection and social welfare entitlements (Eichhorst et al. 2013). As a consequence, in those countries and occupations in which such institutions exist, bogus self-employed people are at a disadvantage in this regard compared to salaried employees. Moreover, the (bogus) self-employed cannot avail of benefits negotiated from the collective bargaining agreements commonly found in Denmark, Germany, and Sweden, for example.

Both the difficulties related to the empirical distinction between self-employed, bogus self-employed, and salaried employees and the differences between these three forms of employment with respect to dependencies and risks should be kept in mind when interpreting the empirical findings presented in this chapter. We shed more light on bogus self-employment in Section 20.8 on job-creation potential.

(p.600) 20.3. Job quality: Concepts and empirical evidence

For policymakers, unions, and many employers alike, the quality of jobs is a highly important issue. For example, one of the declared aims of the Lisbon Strategy launched by the European Council in 2000 reads, “More and better jobs for Europe” (European Council 2000). For unions and other workers’ associations, job quality can be viewed as the overarching aim of different kinds of activities. This aim is also reflected in the International Labour Organization’s (2015) Decent Work Agenda, which emphasizes fair labor income, security in the workplace, and workers’ voice, among other issues. Only recently, management scholars, too, have called for a reinvigoration of research on quality of working life, which also should have a policy impact (Grote and Guest 2017).

A number of studies seek to map job quality in Europe using survey data (Gallie 2003; Smith et al. 2008; Olsen, Kalleberg, and Nesheim 2010; Green and Mostafa 2012; Oinas et al. 2012; Green et al. 2013; Holman 2013). According to these studies, job quality tends to be better in Nordic and Continental European countries than in Southern Europe and especially in Eastern Europe. However, although some studies establish nuanced pictures of job quality in Europe, very few consider the job quality of young people (Russell, Leschke, and Smith 2015), and none explicitly examine the consequences for young self-employed.

Within the job-quality literature, various conceptualizations of job quality have been proposed. Although scholars do not have a common understanding of what “good jobs” or “bad jobs” mean, we can identify workers’ well-being as a comprehensive aim. As Muñoz de Bustillo et al. (2011) state in their extensive review, “At a very high level of generality, we can more or less agree that job

quality refers to the characteristics of work and employment that affect the well-being of the worker” (p. 460).

The question as to what concrete job characteristics constitute job quality has not yet been conclusively answered. However, review articles indicate that there is agreement on the shortcomings of subjective concepts focusing on factors such as job satisfaction and feelings of well-being (Leschke, Watt, and Finn 2008; Muñoz de Bustillo et al. 2011; Hauff and Kirchner 2014). Although subjective concepts might suit research purposes related to work motivation or general life satisfaction, they fall short with regard to identifying the sources of these attitudes and their long-term consequences for the well-being of both workers and their families. In contrast, objective concepts of job quality directly focus on “the features of jobs that meet workers’ needs from work” (Green and Mostafa 2012, 10), which can be summarized under the umbrella concept of workers’ well-being. Examples of objective measures include pay, working time, autonomy, health and safety, skills and career development, and participation in decision-making. Objective concepts have a subjective component, too, because they center on the perspective of the working individuals. Correspondingly, research typically relies on self-reported data. Overall, however, objective concepts **(p.601)** rely on measures related to the universal needs of (all) workers rather than on subjective feelings.

In our analysis of the job quality of self-employed youth in Europe, we focus on both objective and subjective job characteristics. These indicators include the following: pay, working hours, work intensity, feeling of social belonging, health and safety, learning and development, perceived job security, and subjective satisfaction with pay and working hours.

20.4. Research design and data

With the aim of understanding and comparing the job quality of self-employed youth in Europe, we draw on a range of complementary methodological approaches. The analysis of secondary data relies on three cross-EU individual-level representative surveys. First, the European Union Labour Force Survey (EU-LFS)—run by the national statistical authorities—is the standard household-based survey of labor market information, such as rates of unemployment and inactivity, in the EU. In the analysis, we used data for EU27 countries from 2002 until 2014. In recent years, the number of annual observations has ranged from approximately 20,000 to 600,000. Second, the European Working Conditions Survey (EWCS) run by Eurofound is the source of information for working conditions and the quality of work in the EU. We used the most recent available data (year 2010) for 27 countries, with the number of observations per country being in the range of 1,000 to 4,000. Third, the European Union Statistics on Income and Living Conditions (EU-SILC) is the source for comparative statistics on income distribution and social inclusion in the EU, with a focus on income. In

the analysis, we used three waves from 2004, 2008, and 2012 for 31 countries (for details, see Masso et al. 2015, 61).

The quantitative data are supplemented by case study data originating from semistructured interviews with 72 young self-employed under 35 years of age and by additional company information gathered from websites and personal visits. Applying purposeful sampling, we conducted the case studies in six selected countries: Estonia, Germany, Ireland, Poland, Spain, and the United Kingdom. We selected these countries because they represent very different business environments in terms of institutional, economic, and cultural contexts. Specifically, these countries cover different types of Hall and Soskice's (2001) *Varieties of Capitalism* typology and of Pohl and Walther's (2007) categorization of school-to-work transition regimes.

Germany reflects many elements of coordinated market capitalism and has an employment-centered transition regime, Ireland and the United Kingdom both have liberal market economies and liberal transition regimes, Spain has some degree of market coordination and a subprotective transition regime, and Estonia **(p.602)** and Poland both have liberal market economies and post-socialist transition regimes. We sought to take account of different regimes in our sample because we expected that these frameworks would help provide a theoretical explanation for patterns of youth self-employment in the six study countries and possibly across the EU. In addition, hypothesizing that national unemployment rates and youth self-employment rates reflect more general labor market and institutional conditions, we selected the countries in such a way that the sample covers different labor market contexts.

The six countries differ in terms of youth unemployment rates (ranging from 7.2% in Germany to 48.3% in Spain in 2014; Eurostat 2016) and youth self-employment rates (ranging from 4.3% in Germany to 11.1% in Poland in 2014; authors' calculations based on EU-LFS data; see also Section 20.5). Regarding social protection systems, in all six countries the self-employed have access to health care and pension insurance. Differences between the countries relate to the degree of compulsion, the cost of social insurance, and the related benefits (for details on selected European countries, see Schulze Buschoff and Protsch 2008). For instance, in Germany, health care and pension insurance are compulsory, with contributions depending on the amount of tax paid. In contrast, all self-employed in the United Kingdom receive health care benefits without paying contributions. In Spain, the self-employed can voluntarily contribute to a special system that also provides cash benefits in the event of sickness (for further details, see European Commission 2014). The fact that the sample does not include a country with a very high rate of self-employment—for example, Greece or Italy—is recognized as a limitation of this study.

In the six countries, we focus on two selected industrial sectors so as to reduce complexity. We selected the cultural and creative industry (CCI) and the information/communication technologies sector (ICT) because they provide comparatively good opportunities for youth, especially, to start a business. Moreover, the ICT industry represents 4.8% of the European economy, where investments in ICT account for half of the productivity growth in Europe (European Commission 2016b), whereas the CCI industry is perceived as one of Europe's most dynamic sectors, providing approximately 5 million jobs across the EU27 (European Commission 2010). In addition, the importance of these two sectors within the European economy is expected to increase in the future so that they could become a significant source of future self-employment opportunities for young people (for details, see McNamara et al. 2016).

The value of this case study research is to provide insights into perceptions of job quality and into the job-creation potential associated with youth self-employment that go beyond those available from an interpretation of more quantitative aggregate data. In this sense, our research design incorporates both a macro, comparative dimension and a more specific, micro perspective to evaluate the issue of job quality for the young self-employed in Europe.

(p.603) 20.5. Youth self-employment rates across Europe

The extent and significance of youth self-employment in Europe are indicated by the figure of more than 5.6 million EU27 citizens younger than age 35 years who were self-employed in 2014 (according to EU-LFS data). Within the group of working people aged 25–34 years, more than every tenth person was self-employed. The self-employment rate—that is, the share of self-employed among all employed—within this group of older youth is more than twice as high as the rate for younger youth aged 15–24 years, but it is decidedly lower than that for adults aged 35–65 years (older youth, 10.1%; younger youth, 4.2%; older adults, 17.0%). During the past decade, the self-employment rate has been fairly stable. The overall rate across EU27 countries has oscillated within the range of 14.2% to 14.7%, with a peak in 2004 and a decreasing trend during the past 5 years.

Self-employment rates in EU27 countries are presented in Figure 20.1, which compares youth younger than age 35 years and older adults in the years 2002 and 2014. The graph shows that youth self-employment rates vary significantly across the EU. For example, in 2014, the rates for youth younger than age 35 years were highest in Greece and Italy (18.3% and 17.8%, respectively), whereas they were lowest in Denmark and Germany (3.6% and 4.3%, respectively). Regarding age groups, Figure 20.1 indicates that the largest gaps in self-employment rates between youth younger than age 35 years and older adults exist in Ireland and Austria. By contrast, the self-employment rates of youth younger than age 35 years and older adults are similar in Italy and Slovakia. **(p. 604)**

A comparison of the years 2002 and 2014—spanning a period that may entail effects of the recent economic and financial crisis but is still long enough to shed light on longer term trends—indicates that self-employment rates decreased especially in those countries that were characterized by comparatively high self-employment rates in 2002 and poor general economic environments. Examples include Portugal, Poland, and Romania. Interestingly, countries such as Estonia, Latvia, and Slovakia,

where self-employment rates increased, faced similarly difficult economic conditions. But because self-employment rates in these countries were comparatively low in 2002, they apparently subsequently caught up with the other EU countries. Western European countries with increased self-employment rates include France, the Netherlands, and the United Kingdom. In these countries, self-employment rates possibly increased because of both improved governmental support for entrepreneurship and increased outsourcing activities—resulting in bogus self-employment.

A further interesting finding is that in some countries, youth self-employment rates changed differently over time from those for older adults, whereas in most countries the rates for youth and older adults changed in a similar way—that is, between 2002 and 2014, the rates for both age groups increased, decreased, or they remained at the same level. Specifically, in Spain and Italy, youth self-employment rates increased, whereas rates for older adults decreased. Similarly, in Cyprus and Greece, rates for older adults considerably decreased, whereas those for the young remained nearly stable. Because these four countries are among those EU countries with the highest youth unemployment rates, the patterns suggest that a high number of young people may have tried to escape from unemployment by working as self-employed, although they might have preferred salaried employment had it been available.²

Although we are not able to identify a clear pattern of differences across countries according to Hall and Soskice's (2001) *Varieties of Capitalism* typology, we interpret these findings as reflecting country specificities, such as the youth unemployment rate, the size of the informal sector, the relative importance of sectors typical of self-employment (e.g., agriculture), institutions related to starting a business and social welfare, as well as the skills and mindsets of

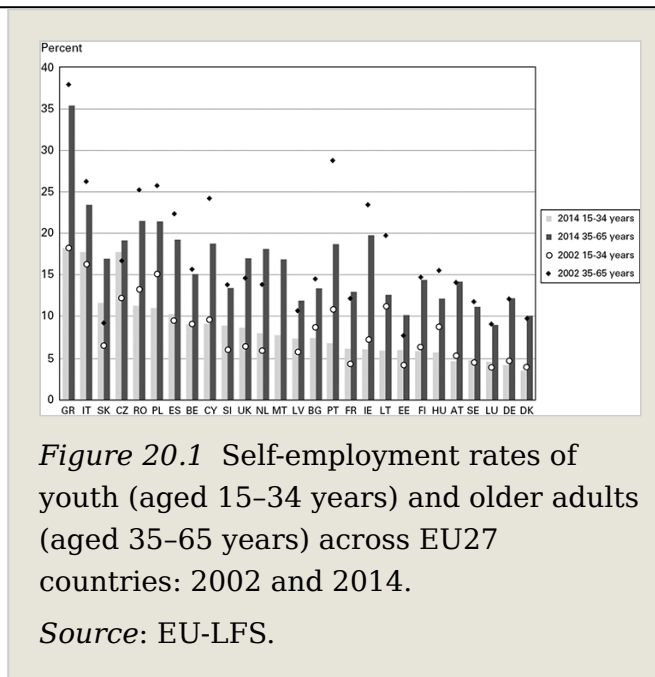


Figure 20.1 Self-employment rates of youth (aged 15–34 years) and older adults (aged 35–65 years) across EU27 countries: 2002 and 2014.

Source: EU-LFS.

young people (Packard, Koettl, and Montenegro 2012; Eichhorst et al. 2013; Mascherini and Bisello 2015; Organization for Economic Co-operation and Development/European Union 2015). Likewise, differences between age groups may be traced back to different labor market opportunities, economic structures, and mindsets. Furthermore, although young people and adults of one country act within the same institutional environment, these institutions may affect young people differently compared to adults.

(p.605) 20.6. Who are the self-employed and what kind of businesses do they run?

Confirming previous research findings on the sociodemographic characteristics of the self-employed (Dawson, Henley, and Latreille 2009; Barnir and McLaughlin 2011; Poschke 2013; Caliendo, Fossen, and Kritikos 2014; Simoes, Crespo, and Moreira 2015), our analyses based on EU-LFS data show that the probability of being self-employed increases with age. In addition, this probability is higher for men than for women, for nationals than for non-nationals, for less educated people (below secondary education) than for the better educated, and for those whose parents are self-employed (for details, see Masso et al. 2015, 20–21). Self-employment does not appear to be very attractive to the rising number of “overeducated” young people across the EU (for a comprehensive analysis of youth overeducation across the EU, see McGuinness, Bergin, and Whelan, this volume).

Regarding industrial sectors, according to EWCS data for 2010, young self-employed under 35 years of age tend to cluster in the wholesale, retail, food, and accommodation sectors (22.6%); other services (21.8%); and agriculture (20.5%). Figure 20.2 displays their distribution across sectors compared to all self-employed and all young working people under 35 years of age. In addition, it presents the distribution of young self-employed women under 35 years of age.

Figure 20.2 shows a very similar pattern for young self-employed aged under 35 years and for all self-employed, with approximately 3% of the young working less in the agricultural sector and 3% more providing other services. These trends might result from a cohort effect, shaped by the general decline of **(p.606)** the agricultural sector and the emergence of the service sector during the past few decades.

Nevertheless, agriculture is still an important sector for young self-employed,

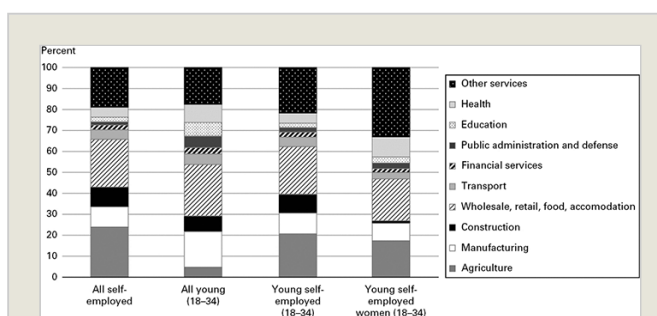


Figure 20.2 Sectors of all self-employed (aged 18–65 years), all young working people (aged 18–34 years), young self-employed (aged 18–34 years), and young self-employed women (aged 18–34 years) in EU27 countries: 2010.

particularly in comparison to young salaried employees.

Source: EWCS.

Furthermore, Figure 20.2 indicates typical gender segregation within the group of young self-employed under 35 years, with young women strongly over-represented in the health sector and in other services.

Altogether, these findings support previous evidence, according to which young people tend to focus on sectors with low entry barriers and low capital requirements (Parker 2009). At the same time, because these sectors are characterized by high shares of low-skill jobs and poorly paid work, they are often associated with lower job quality (see Grotti, Russell, and O'Reilly, this volume).

20.7. Job quality of young self-employed

Using EWCS data for the EU27 countries (the wording of the items is provided in the Appendix to this chapter), this section concentrates on selected job characteristics, as outlined in Section 20.3 on concepts of job quality (for an overview of youth transitions and job quality in general, see Filandri, Nazio, and O'Reilly, this volume). Figure 20.3 depicts the median net earnings and average working hours, as well as ratings concerning further working conditions, of all self-employed, all young working people under 35 years, young self-employed people under 35 years, and young self-employed women.

Figure 20.3 shows that the young self-employed under 35 years receive a median income of €1,158, which is higher than the income of young salaried (p.607) employees but lower than the income of older adult self-employed. Within the group of the young self-employed under 35 years, women—with a median income of €1,000—receive less than men.³ Interestingly, among the young self-employed under 35 years, and thereof among women in particular, the share of those who believe they are well paid for their work is larger than in the groups of older adult self-employed and young salaried employees under 35 years.

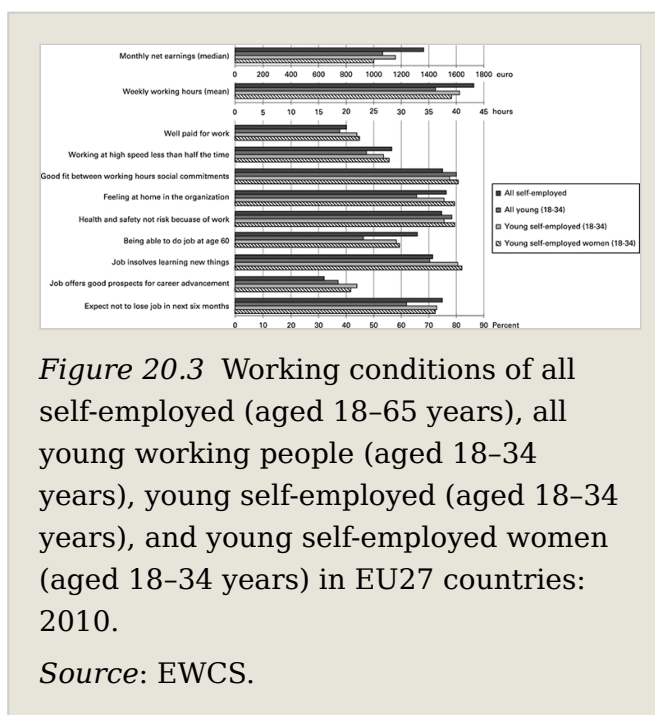


Figure 20.3 Working conditions of all self-employed (aged 18–65 years), all young working people (aged 18–34 years), young self-employed (aged 18–34 years), and young self-employed women (aged 18–34 years) in EU27 countries: 2010.

Source: EWCS.

Regarding working hours, young self-employed under 35 years work 40.8 hours per week, on average, which is more than 4 hours above the mean for all young working people (36.5 hours) and 2.6 hours less than the mean for all self-employed (43.4 hours). Young self-employed women, on average, work 38.6 hours per week. However, the median working hours of young self-employed women and men equal those of all young working people and all employees, amounting to 40 hours per week. According to Figure 20.3, young self-employed under 35 years—and, in particular, young self-employed women—perceive a good fit between their job duties and their social commitments. Although the share of those perceiving a good fit is smaller than that of the young salaried employees, this finding indicates satisfactory working-time arrangements, also in comparison with older adult self-employed.

Likewise, young self-employed aged under 35—and, especially, young self-employed women—report comparatively low work intensity. According to figure 20.3, the ratings of this job feature correspond with those of the following three items, where young self-employed perceive themselves as having better working conditions than their salaried employed peers, but (slightly) worse conditions than older adult self-employed: “Feeling at home in the organization worked for,” “Being able to do job at age 60,” and “Expect not to lose job in next 6 months.” The finding that young self-employed at least partly perceive these job features more negatively than older adult self-employed can be traced back to effects related to age and experience. For example, it is less likely that a 30-year-old person would envision doing her/his job at the age of 60, as compared to a 50-year-old person, simply because the time horizon for the 30-year-old is much longer.

Besides satisfaction with pay, the young self-employed evaluated two further job characteristics more positively than the other groups, namely “Job involves learning new things” and “Job offers good prospects for career advancement.” Figure 20.3 additionally shows that young self-employed women rate learning opportunities more positively than their male peers, but career prospects more negatively. These gender differences might be associated with the different industrial sectors women and men work in, as described in section 6 above. Notwithstanding these differences, this finding is particularly notable because good learning and development opportunities are especially crucial for young people, both in their current situation and for their future.

However, although young self-employed perceive comparatively good learning opportunities, they also view themselves as lacking skills. According to EWCS data, compared to all self-employed and all young working people, **(p.608)** young self-employed under 35 years more often report that their present skills do not correspond well with their job duties (for details, see Masso et al. 2015, 30–31). In particular, the share of those who perceive themselves as lacking skills is largest among young self-employed women. The share of young self-

employed under 35 years reporting that they need further training is particularly large in Austria (58.2%), Estonia (41.1%), and Denmark (37.5%). Although this finding points, on the one hand, to the potentially problematic situation of high demands faced by young self-employed, it can be viewed, on the other hand, as a positive indicator of the fact that these people work not just in low-skill jobs.

In summary, compared to other groups of working people, young self-employed generally report good job quality. However, the overall good ratings should not hide the fact that a large share of young self-employed indicated that they do not believe they are well paid for their work and that their job does not offer good career prospects. Moreover, even if they express less job insecurity than peers working as salaried employees, the consequences of losing their jobs are more severe because in many countries they are not entitled to unemployment benefits (for details, see Schulze Buschoff and Protsch 2008).

20.8. Job-creation potential

This section takes a closer look at the job-creation potential for both the young self-employed and additional people working for them. Indicators of the job-creation potential of self-employment relate to the following three questions: Do young people leave unemployment by becoming self-employed? Are young self-employed to be classified as bogus self-employed? and Do young self-employed have further employees working for them?

20.8.1. Do young people leave unemployment by becoming self-employed?

Regarding this question, analyses of labor market status transition rates based on EU-LFS data reveal a mixed picture (for details, see Masso et al. 2015, 14–17). Table 20.1 presents results for transitions between different labor market statuses in 2011 and 2012.

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Table 20.1 Labor market status transitions of young youth (aged 15-24 years), older youth (aged 25-34 years), and older adults (aged 35-64 years) in EU27 countries, 2011-2012

Age group	Labor market status in 2011	Labor market status in 2012 (row %)			
		Unemployed	Self-employed	Salaried employed	Labor market inactive
15-24 years	Unemployed	67.9	1.4	23.8	7.0
	Self-employed	6.1	78.1	8.1	7.7
	Salaried employed	9.2	0.6	82.5	7.7
	Labor market inactive	5.5	0.2	6.2	88.1
25-34 years	Unemployed	66.4	2.8	24.8	6.1
	Self-employed	3.1	89.0	4.7	3.2
	Salaried employed	6.1	0.8	90.4	2.7
	Labor market inactive	10.2	1.3	13.4	75.1
35-64 years	Unemployed	72.4	2.0	16.9	8.7
	Self-employed	2.0	92.5	2.2	3.3
	Salaried employed	3.9	0.5	92.8	2.9
	Labor market inactive	2.2	0.5	2.2	95.1

Notes: Authors' calculations; no data for Germany, Ireland, or the United Kingdom.

Do business start-ups create high-quality jobs for young people?

Source: EU-LFS.

Table 20.1 shows that 1.4% of young unemployed under 25 years in 2011 and 2.8% of older youth aged 25–34 years in 2011 became self-employed in the following year—that is, in 2012. Of both youth age groups, approximately two-thirds remained unemployed in the following year; one-fourth became salaried employees; and 6.1% or 7.0%, respectively, moved into labor market inactivity (e.g., by entering further training). The small shares of those young unemployed who moved from unemployment into self-employment indicate that opportunities for young people to escape unemployment by founding their own **(p.609)** business are limited. Even so, these numbers are slightly higher for older youth aged 25–34 years compared to older adults aged 35 years or older.

Relatedly, the transition rates of young self-employed under 25 years suggest that for many younger youth, self-employment is a temporary option only (for details, see Masso et al. 2015, 14–17, 65–67, 70–73). Of the self-employed aged 15–24 years in 2011, in the following year 6.1% were unemployed, 8.1% were working as salaried employees, and 7.7% were inactive in the labor market. Overall, transition rates out of self-employment decrease with increasing age. Of the older self-employed youth aged 25–34 years in 2011, in the following year 3.1% were unemployed, 4.7% were working as salaried employees, and 3.2% were labor market inactive. The shares for self-employed adults aged 35–64 years amounted to 2% being unemployed in the following year, 2.2% becoming salaried employees, and 3.3% being labor market inactive.

The finding that transition rates out of self-employment decrease by increasing age can be interpreted as partly resulting from a higher share of involuntary self-employment among youth. For some of those young self-employed who moved into salaried employment, running their own business may have functioned as a steppingstone to a less insecure job. On the other hand, young people may, **(p.610)** on average, change jobs more often than older adults because they still have to determine what kind of work suits them. However, the high transition rates of young self-employed—especially of those younger than age 25 years—into unemployment or labor market inactivity point to larger problems.

20.8.2. Are young self-employed to be classified as bogus self-employed?

To analyze bogus self-employment, our second indicator of job-creation potential, we apply the criteria suggested by Oostveen et al. (2013) and outlined previously. Data from the 2010 wave of the EWCS show that young self-employed under 35 years of age are likely to a similar degree as older adults to belong to the category of bogus self-employed (for details, see Masso et al. 2015, 22–23). Among the young self-employed under 35 years without employees working for them, 13.4% indicate that they have only one client (all self-employed: 14.0%), 40.9% are not able to hire staff (all self-employed: 43.6%),⁴ and 9.7% do not make the most important decisions on how to run their business (all self-employed: 7.9%). Furthermore, 28.1% receive regular payments from

their client(s) (all self-employed: 25.4%). We interpret regular payments as an indicator of bogus self-employment, too, because they are associated with dependencies typical of employer–employee relationships. These findings indicate that a large share of young self-employed people factually work in jobs resembling salaried employment rather than self-employment. In terms of job-creation potential, the question is whether these jobs would exist if the same work had to be done on the basis of an employment contract.

20.8.3. Do young self-employed have further employees working for them?

Our third indicator refers to the employment of further people. According to EU-SILC data for 2012, the majority of young self-employed run their business without employees working for them (for details, see Masso et al. 2015, 17–20). Within the group of the younger self-employed under 25 years of age, only 11.2% have one or more employees working for them. For older youth aged 25–34 years, this share increases to 21.8%, whereas 27.7% of the self-employed adults aged 35–64 years have at least one employee. Within all age groups, compared to men, fewer women have employees. The correlation of age with number of employees could be due to various reasons, such as longer life of the business associated with growth or different sectors. These findings appear to curb the hope that young self-employed serve as a source of further job creation.

Altogether, these findings provide a comprehensive insight into youth self-employment in Europe. However, although the statistical analyses showed that youth self-employment has many shapes (e.g., in terms of the size and the sector **(p.611)** of the business), they cannot identify what exactly is behind a statistical case. To obtain a better understanding of the concrete circumstances under which young self-employed people work, further investigation at the micro level of analysis is needed. In Section 20.9, we take such a micro perspective, focusing on selected cases of young self-employed people.

20.9. Findings from interviews with young self-employed people

Building on the findings from a macro perspective on youth self-employment in Europe, we turn in this section to a micro perspective. Our case studies in the CCI and ICT sectors based on semistructured interviews and further company information offer deeper insight into job quality and job-creation potential. In the analysis of this qualitative material, certain patterns emerged in these regards—related to the business success of the start-up and subjective concerns of the founders regarding social protection. We identified four such patterns that we present next by describing one prototypical case standing for each pattern. We chose the four cases that are best suited to illustrating details related to the job quality and the job-creation potential of young self-employed people.

Originating from Germany, Estonia, and Ireland, the four selected cases are embedded in different institutional, economic, and cultural contexts (see the description in Section 20.4). However, because of the small sample size of 12

cases in each country, our findings are not intended to make generalizations about country differences. Rather, by presenting these 4 cases from three countries, we aim at a condensed illustration of the larger trends we have identified in the empirical material.

Here, we first describe the four cases. Then we juxtapose the cases in order to carve out the specific details related to job quality and job-creation potential. The cases are real, but the names are pseudonyms and several details have been omitted to ensure the anonymity of the interviewees. We indicate the number of cases in our empirical material that belong to the same category as the prototypical example.

The case of Hanna from Germany, exemplifying young self-employed people who work hard and receive considerable income but face challenges related to staff (14 cases in the empirical material)

Hanna provides post-production services related to photography and video clips. Holding a master's degree in arts, she taught herself how to use graphics software. Her company is located in a large city, where Hanna can draw on a large pool of national and international clients. She migrated from another European country and started working as a freelancer 5 years before the interview. After a few months, she had earned the initial capital for a limited company. Hanna did not apply for financial assistance from the state because she had been generating revenue from the outset and because she lacked the German language skills she would have needed to complete application forms.

Hanna works between 50 and 80 hours per week, often including working in the evenings and on bank holidays, and sometimes working during the night, on weekends, and during holidays. She would prefer to work less hours and spend more time with her two children, but she is afraid of losing her clients if she works less. Although Hanna perceives the financial performance of her business to be below the industry average, her income amounts to €6,000 per month before tax.⁵ Her skills match the job requirements very well.

Asked about risks associated with her work as self-employed, Hanna indicates that at the time of founding her business she was unsure whether clients would like her work. Sickness is a risk, as her clients rely on her. Because the business depended on her, a challenging period was when she gave birth to her two children. Although she usually works even if she is sick, she perceives the risk that if something serious happened to her, the whole business would be affected. She tries to invest in real estate so as to have a pension when she is old.

Hanna has one full-time and one part-time employee, both aged younger than 35 years. Because she has many orders, Hanna can afford to employ more staff. However, she has difficulties in finding and retaining qualified employees. The major challenge is that job candidates expect to receive both training and a salary, but Hanna is too busy to devote much of her time to instructing new staff because she has to carry out the regular work herself. In addition, she has had bad experiences regarding employees who quit their job once they have received training from her. She wishes to find employees with appropriate skills or the willingness to earn only a little during the training stage and to stay with her company for a longer period of time.

The case of Bettina from Germany, exemplifying young self-employed people who are creative and perfectionists but in a precarious economic situation (21 cases in the empirical material)

Bettina is a sole trader in fashion design. After obtaining a master's degree and working for several years abroad at a large, high-quality fashion company, she realized a long-cherished desire and founded her own label. Bettina has no employees but does have a few temporary interns. Although she learned a lot during her previous job, she thinks that it would have been better if she had entered self-employment immediately after her studies when she had more energy and better social networks. Setting up her own label initially went well, but then Bettina became pregnant and had to take a break for several months. She is currently a single parent without financial support from the child's father.

Bettina works approximately 40 hours per week. She never works on Sundays, but sometimes she works in the evening or at night, on Saturdays, on bank holidays, and during holidays. She perceives herself as having a good work-life balance, particularly when she compares the current working hours with those of her previous job as a salaried employee in a leadership position. The financial performance of the business is comparatively low. Bettina has difficulty assessing her monthly takings from the business and her total income. Roughly, monthly takings are less than €2,000, and Bettina earns less than €500 per month after tax. She receives financial assistance from the public employment service, supplemented by social benefits. An investor had been interested in her company, but Bettina decided to stay independent because she highly appreciates her autonomy regarding design, materials, and working style. Although her move from salaried employment to self-employment was associated with a considerable loss of income and social security, Bettina prefers her current situation over the previous one. She regularly contributes to a sickness insurance scheme and a pension scheme, which is covered by the social benefits she receives.

Bettina would like to hire staff in the future because she still has many ideas she would like to follow through on. However, it is unclear at what time the financial performance of her label will be good enough to pay salaries.

The case of Sofia from Estonia, exemplifying young self-employed people with a good business partner, a solid business, and a down-to-earth mindset (20 cases in the empirical material)

Sofia runs a company specializing in embroidery, sewing, and female fashion design. She jointly founded the company with another woman. The two women decided to start their own firm when one of them moved to another city and could not find a job matching her skills and the other had been made redundant and was thus also searching for a job in which she could utilize her professional skills in fashion design. The two women started with their own funds and took loans from their relatives. After a few months in business, they successfully applied for state funding to invest in machinery. The company operates on the local market; there is good demand, and the financial performance is above industry average.

Sofia earns less than €500 per month.⁶ She works 40 hours per week, sometimes in the evenings and at night or on Saturdays, but never on Sundays, during holidays, or on bank holidays. Living with her husband and small children, she perceives her work-life balance as being good. Her skills set perfectly matches the job requirements. She does not see any risks related to social security. Rather, when she founded the company, she was concerned about her products and the size of her customer base. Later, she perceived difficulties associated with lack of managerial skills and lack of skilled staff.

Sofia's company employs three full-time employees, all of whom are aged older than 50 years. Because the order situation is good, she could hire further employees. However, Sofia and her partner lack the time and money to strategically invest in the company's growth. Sofia also sees a shortage of skilled job candidates, and in the past she had to deal with employees who had a poor work ethic, especially young employees.

The case of David from Ireland, exemplifying young self-employed people who are innovative, run a growing business, and postpone thinking about social insurance to the future (17 cases in the empirical material)

David runs a company that provides an Internet platform to connect customers with cleaning professionals. He holds a bachelor's degree related to information technology (IT) and founded the company immediately after finishing his studies. He rejected a job offer by an IT company and preferred entering self-employment, aiming at doing something he loved to do, working for himself, and developing his own idea. Although less than 1 year in operation, the business has already created revenue. However, the monthly

takings are less than €1,000 before tax.⁷ The company has no employees, and David does not receive a salary from his company. Because he has a convincing business plan, David receives financial assistance from several state programs.

David works between 60 and 70 hours per week; he works sometimes in the evenings but never at night, usually on Saturdays and during holidays, and sometimes on Sundays and bank holidays. He is single and lives alone. He perceives himself as having a good work-life balance and especially enjoys flexibility because he can work from anywhere. He can utilize his skills, and he appreciates the fact that through running his own business he can learn a lot.

David expressed no concerns about social protection regarding his job status as self-employed. He does not contribute to any insurance schemes. Given his young age, he plans to go 2 or 3 years without any social security and to look more, as he gets older, into pensions, health care, and other insurance. The major risk factors he saw when he started his own business included lack of finances and the risk of personal failure. David is less concerned about financial losses, but he fears that if his business fails, people would question his ability. At the time of the interview, David sees the major risks as originating from upcoming competitors on the market and from having employees that have to be paid.

David plans to employ staff in the future. He wants to hire 15 full-time employees within the next 3 years. He perceives no challenges related to hiring employees because he believes that many people want to work for a start-up, which—according to his experience—is seen as a “cool thing” to do.

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20.9.1. Discussion of the interview findings

The micro perspective highlights several topics related to youth self-employment that were hidden in the macro perspective. Regarding job quality, the presented cases illustrate different patterns of working hours and income as well as underlying reasons. Whereas all four interviewees indicated that their job requires them to work long hours, Hanna does so because she is interested in retaining clients and has difficulty delegating work. David works long hours, too, but it seems that he does so more voluntarily than Hanna. Bettina and Sofia

work less hours. The working times of the latter two women are restricted by their family responsibilities, whereby Sofia has the advantage that she can share working tasks with her business partner. All interviewees emphasized that one of the major advantages of self-employment is flexibility of working time—despite the long working hours overall—and working place. Because the three women have children, they especially benefit from flexibility, but David also highly appreciates the flexibility.

Whereas Hanna and Sofia earn their living from work, Bettina and David depend on subsistence provided by the state. David appears to be in a less difficult situation compared to Bettina. David receives a large amount of financial assistance related to planned investments and business growth. Living without a family, for a certain period of time he can make ends meet even without a regular salary from his company. In contrast, Bettina belongs to the group of precarious workers. Working without pay may be more prevalent among young self-employed compared to older adults because young people may believe that they are still at a stage of learning and training within their vocational career. Even Hanna, who was able to make a living from the beginning and at the time of the interview was receiving a high salary, trained herself without getting paid. Later on, she accepted poorly paid orders because she needed them to build up her service portfolio, a customer base, and her reputation.

At the time of the interviews, Hanna's income was more than 10 times as high as Sofia's, reflecting different service/product markets and national income levels. However, Sofia appears to be more satisfied with both her business and her co-workers compared to Hanna. The underlying reasons may include the different points of reference in terms of national contexts and the different experiences related to colleagues and employees: Sofia has worse alternative job opportunities in the Estonian fashion industry compared to Hanna in her market segment in Germany. At the same time, whereas Sofia perceived the financial performance of her company as above average, Hanna viewed her company's performance as **(p.616)** below average. Furthermore, although both women reported that they were disappointed by former employees and job candidates, Sofia eventually found three employees with whom she was satisfied. In addition, Sofia benefits from the professional and social support of her business partner.

A further important topic related to job quality is professional skills and the degree to which skills sets match job requirements. Echoing our findings based on EWCS data, all the interviewees emphasized that they can utilize their skills and that they continue to learn while running their business. In particular, for Sofia, a major incentive for founding her own business was that she wanted to utilize her skills. Although for all working people the utilization of skills and further learning opportunities are viewed as important, this particularly holds true for young people because they need to create a solid body of knowledge,

skills, and abilities for their future career. Thereby, all interviewees expressed their strong desire to do at work those things at which they are best. They repeatedly described their work as something they really love to do. Especially for youth, this typical feature of self-employment will contribute to personal development.

On the other hand, the interviewees also perceived several risks related to self-employment. However, although in the interviews we explicitly asked about risks related to social protection, the interviewees actually mainly referred to business failure. In contrast, their long-term future and social insurance coverage only played a minor role. Apparently, business comes first, and the interviewees were much more concerned about potential competitors, lack of clients, or lack of money. Although the interviewees were well aware of the consequences of business failure, such as poverty or unemployment, they put far more emphasis on their business than on their private situation. This finding holds true for the whole sample of 72 interviews. Even if interviewees expressed their concerns about becoming sick without sickness pay or if they said it was unfair that social protection legislation differentiates between self-employed and salaried employed, their major concerns basically revolved around their businesses.

Of the four cases presented previously, David is illustrative of those young self-employed who believe they are too young to think about social insurance. Hanna and Bettina are aware that they must take care of social security, and they act accordingly. Sofia perceives that the question about social security risks was not relevant in the Estonian context. However, although in some European countries social security legislation provides self-employed with buffers against socioeconomic downfall, these people may be at disadvantage. For instance, young self-employed persons may have lower entitlements to social security over their entire life cycle if their earnings have been low and/or if their contributions were discontinuous. Indeed, after a detailed analysis of social protection for dependent self-employed across the EU, Eichhorst et al. (2013) concluded, “It is doubtful that most dependent self-employed workers sufficiently improve their **(p.617)** income over time and save enough to compensate for insufficient public pension entitlements” (p. 9). These authors express serious concerns for potentially high levels of risk of old-age poverty among self-employed EU citizens in the future.

Regarding the job-creation potential of youth self-employment, apparently all four interviewees created jobs that would not exist otherwise, as they invented new services or products. Thereby, the jobs of Bettina and David are not self-sustaining so far but, rather, financed by the public employment service and state programs, respectively. In contrast, both Hanna’s and Sofia’s work generate sufficient income. In addition, Hanna and Sofia created jobs for further employees. However, they faced challenges related to personnel recruitment. In

particular, they reported on negative experiences related to employees' lack of skills and poor work ethic. Although these issues present challenges for all kinds of firms, they will affect young self-employed more than older adults because the young may more often lack professional skills in human resource management. Moreover, apparently there is a danger that young self-employed seek out people with skills and work ethics very similar to their own, leading to disappointment if they see that there are no "clones" of themselves on the labor market.

In summary, although our analyses based on the EWCS suggest that the job-creation potential of youth self-employment is moderate only, the case studies shed light on experiences of young self-employed and rationales behind these findings. Furthermore, the four cases illustrate that the job quality of young self-employed is intertwined with job-creation potential because the interviewees were searching for employees who were willing to work under the same conditions as the interviewees themselves. However, because many job candidates refuse to accept these working conditions, the job-creation potential is only small, in both qualitative and quantitative terms.

It is important to note several limitations related to our case-study analysis. To reduce complexity, we concentrated on very few countries and relatively small labor market segments. In particular, because we selected the creative and ICT sectors, the finding that the young self-employed appreciate autonomy and the opportunity to realize their wishes may be more pronounced than in the transport/logistics, retail, or food service industry. Thus, future case study research should also take account of sectors such as these. Thereby, job quality related to bogus self-employment could be considered—a topic that did not arise in our study because none of the interviewees are categorized as bogus self-employed. In addition, our analyses are based on cross-sectional data. Although our sample comprised self-employed people at different stages, ranging from less than 1 year after founding their business to more than 4 years later, we were not able to trace them over time. Accordingly, future research applying a longitudinal design should cover longer time periods. Specifically, consideration of (formerly) self-employed at older ages and after business failure would be important.

(p.618) 20.10. Conclusions

This chapter examined the job quality and the job-creation potential of self-employed people younger than age 35 years. The analysis on the basis of EWCS data revealed a somewhat mixed picture in terms of pay and hours worked. The young self-employed report comparatively low work intensity, indicating scope for a good work-life balance. On the other hand, this finding may also reflect under-employment. Importantly, young self-employed see good opportunities for learning and career development. Among the young self-employed, women tend to report better working conditions compared to men. Nevertheless, large shares of the total group of young self-employed do not believe they are well

paid for their job and believe that their job offers limited career advancement. The case studies of young self-employed in the creative and ICT sectors additionally showed that despite the long working hours and sometimes very low income, self-employment has the advantage of providing young people with autonomy and an opportunity to utilize their skills. However, the interviews also highlighted that young self-employed see more risks related to their business than related to their private situation in terms of social protection. Because young self-employed have only limited social protection in many European countries (Eichhorst et al. 2013; European Commission 2014), a lack of awareness of the associated risks or insufficient financial means for contributing to optional insurance schemes is worrying. Thus, policies that expand the social security of salaried employees to the self-employed are needed and should address various issues, such as health insurance, sickness and disability pay, maternity/paternity pay, unemployment benefits, and pension coverage.

There already exist national welfare systems that take account of the particularities of self-employed workers. Examples include the health care system of the United Kingdom, which provides high-quality health care for all citizens without monthly contributions to be paid by the beneficiaries. Spain has a comprehensive legal framework related to its special system for the self-employed, including the establishment of benefits for the cessation of self-employment activity and temporary sick leave, along with maternity/paternity pay. In Austria and Germany, the self-employed can opt in to public unemployment insurance. However, as long as young self-employed are not concerned about their futures or if their business profits are too small to cover insurance contributions, they may not take this option.

This chapter has also highlighted that the job-creation potential associated with youth self-employment is only limited. The analysis based on EU-LFS data showed that only a few young people exit unemployment by means of becoming self-employed. At the same time, a non-negligible share of young self-employed become unemployed. A considerable share of young self-employed are categorized as bogus self-employed, and only a small share have employees. **(p. 619)** Our case study findings in the creative and ICT sectors indicate that the main obstacles to hiring employees are financial costs and difficulties in finding candidates with appropriate skills and work ethic. Accordingly, policies that promote job creation should comprise measures to address these issues, such as wage subsidies, assistance in finding qualified personnel, or targeted training of job candidates.

Our findings related to bogus self-employment and the hiring of employees also point to the need for policymakers to specify the target groups of policies aiming at the promotion of self-employment (for details, see Sheehan et al. 2016). Likewise, evaluation of policy measures should consider different forms of self-employment. Furthermore, there is a need to carefully assess the employment

status of the self-employed working in “human clouds” and organizations that rely on the self-employed for their competitive advantage. For example, Uber regards contracted drivers as “partners,” who are thus not protected by labor law. Despite the heavy critique coming from trade unions, Uber’s competitors, researchers, and the courts (for a summary, see Adam et al. 2016), presumably other firms will adopt this business model in the future. In general, the so-called “collaborative” and “sharing” economy is in need of specification and regulation. Although the European Commission (2016a) has indicated general support for these rapidly growing forms of economy, new questions of social security arise. For instance, it is difficult to distinguish between those people who provide services on an occasional basis and those who do so in a professional way. However, those people who view their activities within the collaborative economy as a main source of earning a living face the problem that they lack both social protection and protection by labor law.

In summary, for some young people, self-employment presents an option that offers high-quality jobs, as perceived by the young self-employed themselves. In particular, young self-employed people report that they can use and further develop their skills, and they appreciate the high degrees of autonomy and flexibility. However, job quality is impaired by poor social protection, with severe negative consequences especially in the long term. The actual volume of jobs created through self-employment lags behind what politicians had expected, and further policy measures are needed in order to realize existing job-creation potential in the future. Such policy measures would include mentoring and job-shadowing initiatives between established self-employed and young people exploring this career trajectory, as well as easier access to seed funding and other kinds of support for aspiring self-employed. Policies will also need to address the high risks associated with self-employment, especially in relation to unemployment, health care, and pension benefits. Overall, given the large amount of resources targeted at promoting self-employment within the EU, there is an important need for policies that address the current and future well-being of the young self-employed.

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Wording of the items capturing working conditions and response categories considered in Figure 20.3, as taken from the EWCS:

Well paid for work: "I am well paid for the work I do"—strongly agree; agree (not: neither agree nor disagree; disagree; strongly disagree).

Working at high speed less than half the time: "Does your job involve working at very high speed?"—never; almost never; around $\frac{1}{4}$ of the time (not: around half of the time; around $\frac{3}{4}$ of the time; almost all of the time; all of the time).

Good fit between working hours and social commitments: "Do your working hours fit in with your family or social commitments outside work?"—very well; well; (not: not very well; not at all well).

Feeling at home in the organization: "I feel at home in this organization"—strongly agree; agree (not: neither agree nor disagree; disagree; strongly disagree).

Health and safety not at risk because of work: "Do you think your health or safety is at risk because of your work?"—no (not: yes).

Being able to do job at age 60: "Do you think you will be able to do the same job you are doing now when you are 60 years old?"—yes, I think so (not: no, I don't think so; I wouldn't want to).

Job involves learning new things: “Generally, does your main paid job involve learning new things?”—yes (not: no).

Job offers good prospects for career advancement: “My job offers good prospects for career advancement”—strongly agree; agree (not: neither agree nor disagree; disagree; strongly disagree).

Expect not to lose job in next 6 months: “I might lose my job in the next 6 months”—strongly agree; agree (not: neither agree nor disagree; disagree; strongly disagree).

Notes:

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(2) Increases in youth self-employment rates can also reflect a decline in salaried employment. The absolute numbers of salaried employed and self-employed in Spain, Italy, Cyprus, and Greece for 2002 and 2014 based on EU-LFS data do not support this reasoning, however.

(3) The means and confidence intervals are as follows: All self-employed: €1,588 (1,533; 1,643); all young (aged 18–24 years): €1,103 (1,087; 1,120); young self-employed (aged 25–34 years): €1,272 (1,182; 1,361); and young self-employed women (aged 18–34 years): €1,160 (1,041; 1,279).

(4) The high share of young self-employed who indicated that they are not able to hire staff may have resulted from a misunderstanding because the respondents may have evaluated their (lacking) resources for hiring staff instead of the mere freedom to make a decision.

(5) In 2015, the median gross labor income in Germany amounted to €1,928 per month (Eurostat 2017).

(6) In 2015, the median gross labor income in Estonia amounted to €834 per month (Eurostat 2017).

(7) In 2015, the median gross labor income in Ireland amounted to €2,246 per month (Eurostat 2017).

