

Understanding self-employment trajectories over the life course in the United States

Paper by Abramowitz and Joung

Discussion by Ryan Decker
Federal Reserve Board

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The analysis and conclusions set forth here are those of the author and do not indicate concurrence by members of the Federal Reserve staff or the Board of Governors.

Trying to wrap my head around the self-employment literature

- Big theme 1: **Measurement** (e.g., [National Academies 2020](#))
 - Survey vs administrative data ([Abraham et al. 2021](#), [Abramowitz 2025](#))
 - Survey ambiguity/misreporting ([Abraham et al. 2023](#))
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- Big theme 2: **Heterogeneity**
 - Hopenhayn: I'm just another *business*, getting hit by shocks
 - Gazelles vs. Hurst & Pugsley/lifestyle
 - Self employed out of necessity—e.g., weak labor markets drive me into it
 - Second+ “job,” supplemental income, hobby
 - Contingent work, gig work, independent contractor, etc.
 - Bridge to retirement

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This paper makes progress on both themes... But I'm still reaching for a punchline

Measurement matters

Table 2.1. Personal Income and Its Disposition		
[Billions of dollars]		
Line		2019
1	Personal income	18363.2
2	Compensation of employees	11446.6
3	Wages and salaries	9325.1
6	Supplements to wages and salaries	2121.5
9	Proprietors' income with inventory valuation and capital c	1555.8
10	Farm	33.8
11	Nonfarm	1522
12	Rental income of persons with capital consumption adjus	688.4
13	Personal income receipts on assets	2950
16	Personal current transfer receipts	3147.1
25	Less: Contributions for government social insurance, dor	1424.8

- “Current” estimates: inferred indirectly from various
- Later filled in with SOI data...

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Table 7.14. Relation of Nonfarm Proprietors' Income in the National Income and Product Accounts to Corresponding Measures as Published by the Internal Revenue Service

[Billions of dollars]

Line		2019
1	Net profit (less loss) of nonfarm proprietorships and partnerships, plus payments to partners, IRS	735.1
	Plus:	
2	Adjustments for misreporting on income tax returns	571.6
3	Posttabulation amendments and revisions ¹	-206.4
4	Depletion on domestic minerals	1.4
5	Adjustment to depreciate expenditures for mining explorat	-0.7
6	Bad debt expense	23.1
7	Income received by fiduciaries	2
8	Income of tax-exempt cooperatives	8.2
9	Adjustment to depreciate expenditures for intellectual pr	13.7
10	Disaster adjustments (net) ³	0
11	Equals: Nonfarm proprietors' income, NIPAs	1148

Self-employment measurement importance

- 8-9% of NIPA personal income (well, prop. income is)
- A (set of) occupational choice(s) like any other
- A form of labor market dynamics with important lifecycle dimensions
- Subject of policy interest (small business policy, UI policy, “gig” worker policy, etc.)

A measurement contribution

- Novel approach: (Have a computer) read the free response/narrative comments in PSID and HRS
 - PSID has more self-employment than CPS
 - Different trends in informal vs. formal SE (2003-2019): “informal self-employment increasingly has become the most common form of self-employment... for both primary and secondary employment” ([A&J 2024](#))
 - With rich data on types of self-employment, can study transition patterns

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 - With rich data on types of self-employment, can study transition patterns
 - Didn't even require a new survey!
 - Looking forward: Can these methods help us with current challenges?
 - NIPA proprietors' income
 - CPS measurement of self-employment
 - Help make sense of recent aggregate stores (pandemic entry surge, pandemic retirement surge)
 - Identifying ex ante entrepreneurial “type” (high growth, etc, as in [Guzman et al.](#))
- Note: “read the comments” showing promise across a range of topics (e.g., [Cajner et al. 2024](#))

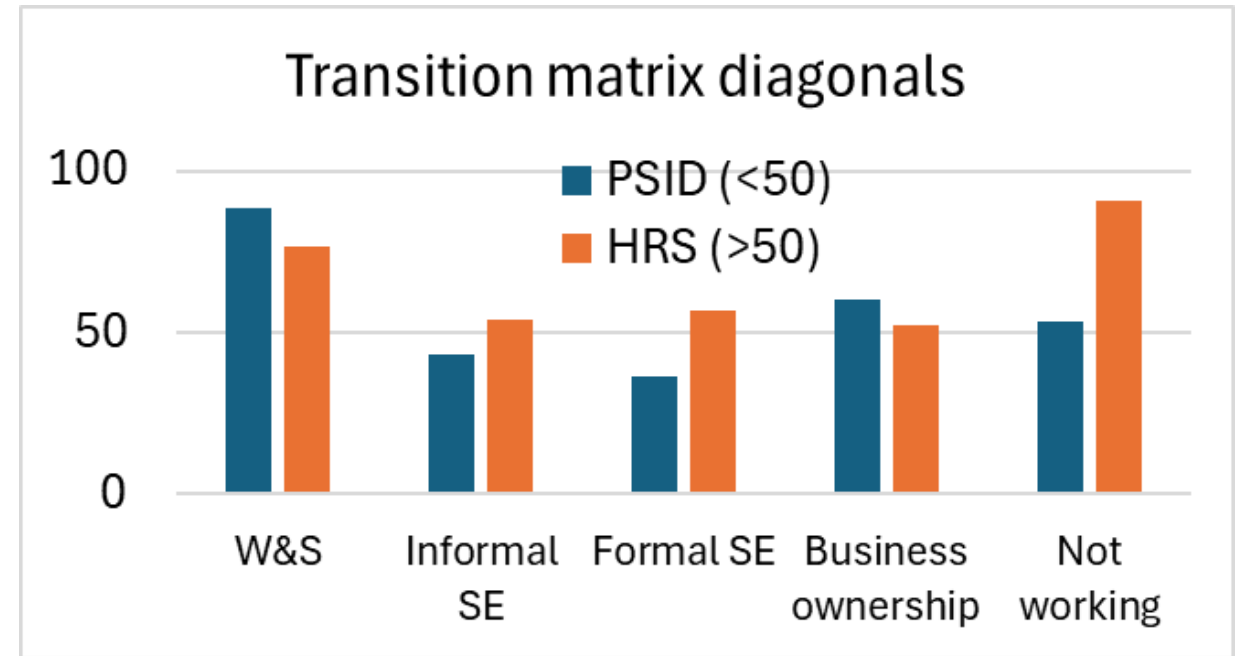
Heterogeneity: New facts, new questions

Some heterogeneity facts raising questions

- Stability of self employment:
 - Relatively low (vs. wage & salary)
 - Business ownership more stable than other SE in PSID, not in HRS
 - HRS transitions from biz ownership to “other SE” higher than in PSID
 - → Do older individuals have weaker preferences about *type* of SE?

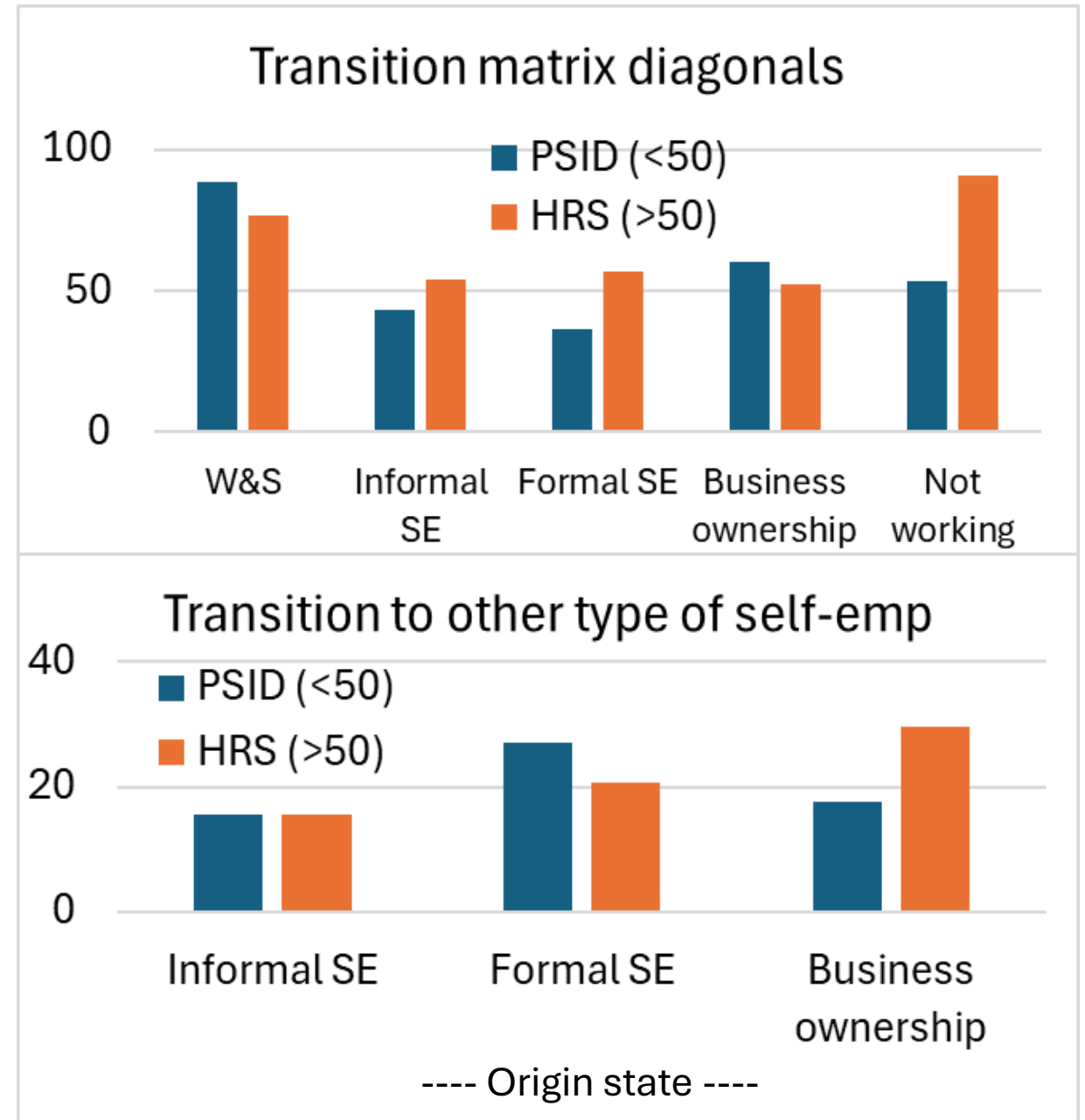
Younger, older, SE type

- Nontransitions:
 - More common out of SE than out of W&S or nonemp
 - **SE states are relatively unstable**
 - Business ownership most stable type of SE in PSID—but not in HRS
 - **Relative stability of non-owner SE for older vs. younger individuals**



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 - Business ownership most stable type of SE in PSID—but not in HRS
 - **Relative stability of non-owner SE for older vs. younger individuals**
- Transit rates from business ownership to other SE higher for older
 - **Is “business ownership” less valuable to older individuals?**

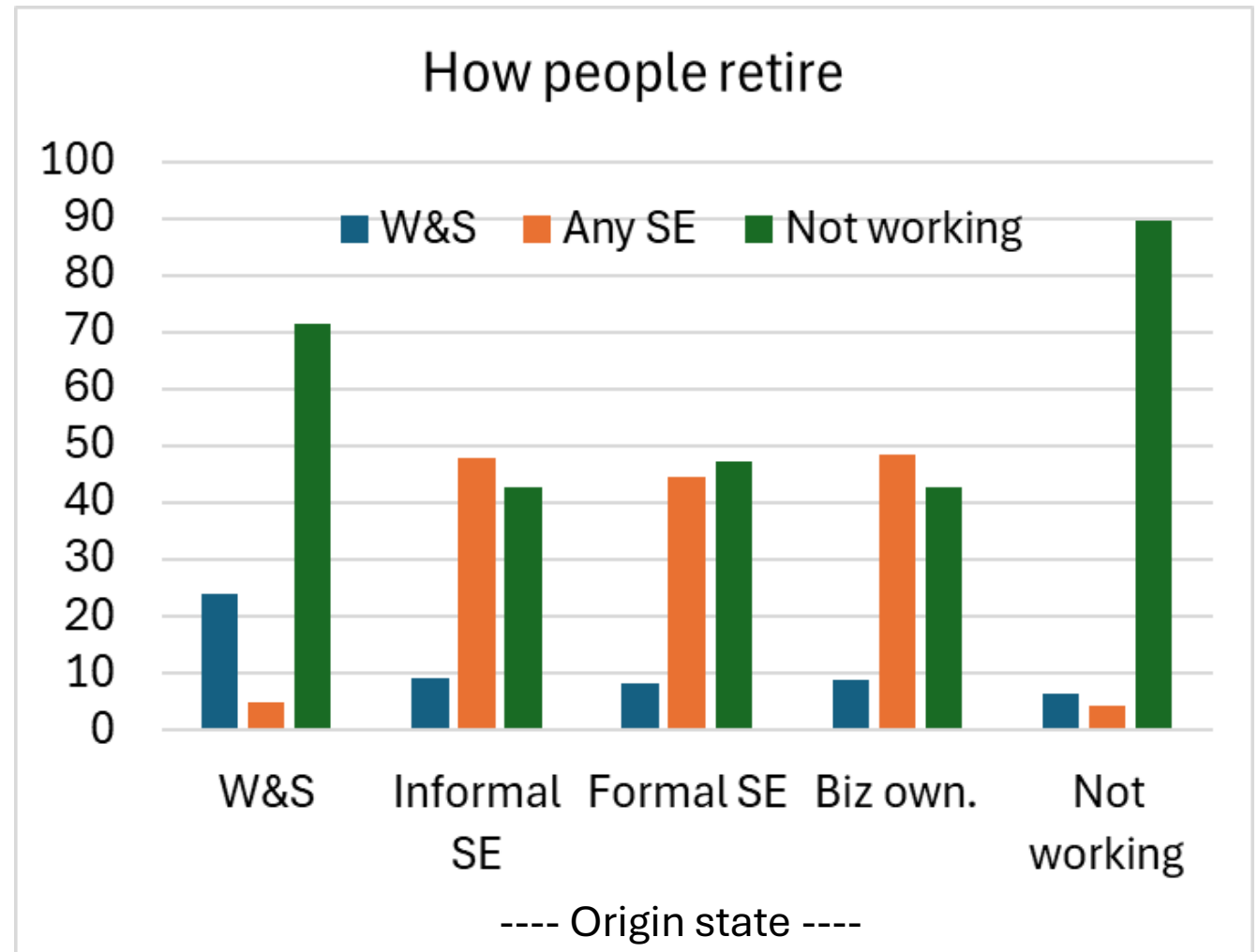


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 - → Do older individuals have weaker preferences about *type* of SE?
- Retirement patterns:
 - When W&S workers retire, they... retire
 - SE individuals retire but just... keep doing self-employment?

W&S workers vs. entrepreneurs in retirement

- Wage and salary workers retire by *quitting working*
- Entrepreneurs are equally likely to quit worker or... just keep being entrepreneurs!
 - **What does retirement mean to entrepreneurs?**
- (Not shown): Business owners like to switch to informal SE



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- Retirement patterns:
 - When W&S workers retire, they... retire
 - SE individuals retire but just... keep doing self-employment?
- W&S/SE transitions have different earnings consequences across the initial earnings distribution
 - Low earners always have HUGE gains from switching between W&S/SE
 - High earners have losses, but these vary by PSID/HRS
 - → What does this tell us about preferences?

Why do (high-earning) people enter self employment?

Panel A: PSID % Changes in Earnings

	Earnings in Prior Wave		
	≤\$30K	\$30K - \$60K	>\$60K
Switched Wage to SE 4%	51.0	-3.9	-2.3
Switched Wage to Informal	47.4	-25.4	-8.4
Switched Wage to Formal	51.6	5.7	-2.6
Switched Wage to Owners	60.0	12.1	2.0

Panel B: HRS % Changes in Earnings

	Earnings in Prior Wave		
	≤\$30K	\$30K - \$60K	>\$60K
Switched Wage to SE 1%	36.9	-18.0	-29.7
Switched Wage to Informal	22.4	-27.2	-37.6
Switched Wage to Formal	48.8	-2.6	-25.1
Switched Wage to Owners	77.1	-22.7	-30.0

- Low-earners reap HUGE gains from leaving W&S market...
 - Different ability draws?
 - Reversion to the mean? (show us W&S -> W&S earnings)
- Higher earners take huge earnings hits...
 - ...especially among older individuals
 - Is this the “nonpecuniary benefit” story or something else?

Why do (high-earning) people leave self employment?

Panel A: PSID % Changes in Earnings

	<i>Earnings in Prior Wave</i>		
	$\leq \$30K$	$\$30K - \$60K$	$> \$60K$
Switched SE to Wage 72%	68.8	12.1	-24.2
Switched Informal to Wage	44.8	17.9	-32.6
Switched Formal to Wage	144.0	29.4	-20.3
Switched Owner to Wage	61.5	-16.6	-20.3

Panel B: HRS % Changes in Earnings

	<i>Earnings in Prior Wave</i>		
	$\leq \$30K$	$\$30K - \$60K$	$> \$60K$
Switched SE to Wage 14%	32.7	-12.6	-9.8
Switched Informal to Wage	55.5	-59.2	-1.9
Switched Formal to Wage	9.9	39.2	-12.6
Switched Owner to Wage	52.7	34.8	-47.7

- Why give up on self employment to take a big earnings hit?
- Not as bad for older individuals

Do these (very large) transition gains/losses tell us something about the nature of worker vs. entrepreneur ability distributions? Non-pecuniary preferences? Labor market matches or conditions?

Great work that raises many questions

- Can this text-based measurement approach improve measurement elsewhere, shed light on recent puzzles?
 - Also... Can we do inference/stat significance of PSID/HRS differences?
- What kind of heterogeneous **preferences** are **revealed** by the transition results?
 - Can the results tell us something about “nonpecuniary benefits” and how individuals value self-employment?
 - What explains the big income gains/losses from:
 - Low-income people entering SE (+), or leaving SE (+)
 - High-income people entering SE, especially older (-), or leaving SE, especially younger (-)