Economic power of self-employment felt countywide

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People in rural counties who work for themselves may add a boost to local economies, improving income and job growth, according to economists.

The share of self-employed workers in non-metro counties significantly predicted personal income and job growth, as well as declines in family poverty levels, said Stephan Goetz, professor of agricultural economics and regional economics, Penn State, and director of the Northeast Regional Center for Rural Development.

"We often look at self-employment as a stopgap measure, something done out of desperation," Goetz said. "But, in fact, self-employment has a tangible effect in raising income growth and lowering poverty."

The researchers said that the self-employed can perform a range of services in a community.

"They can be the people who mow your lawn and shovel your walk," Goetz said. "But they can also be more innovative entrepreneurs, like the person with a new technology idea or someone who is manufacturing medical equipment."

Goetz and Anil Rupasingha, research economist and policy advisor, Federal Reserve Bank, Atlanta, reported their findings in the online version of *Papers in Regional Science*. They examined statistics from the Bureau of Economic Analysis on the self-employed in 3,000 metro and non-metro counties.

People who work for themselves, but do not own farms, have become a larger part of the economic mix of rural counties.

Between 1969 and 2009, the number of the self-employed in non-metro areas has risen from 2.9 million to 5.6 million, an increase of 93 percent. Farm ownerships, which were once the backbone of rural economies, have fallen from 2.1 million to 1.3 million, a 38 percent decrease.

The researchers did not find results as robust in metro counties. The share of self-employed workers was generally favorable for economic performance, but did not necessarily reduce family poverty levels.

Since larger counties tend to be more economically self-contained, economic conditions that prompt self-employment, such as sudden economic downturns, have less of an impact in those counties.

"On the other hand, rural counties are smaller, perhaps more open to commuter flows, and thus also more likely to be affected by events in adjacent counties," Goetz said. "They also have higher self-employment rates, so a larger proportion of the labor market would be affected if there is a shock."

The researchers studied economic trends during the 1970s, 1980s and 1990s. They used long time periods as one way to ensure that self-employment was not caused by such economic factors as growth, but that it created growth.

Goetz said that economic leaders in rural areas should recognize and encourage self-employed entrepreneurs.

"Community leaders usually are thinking about big companies, and there's a mindset that economic development comes from the outside -- recruiting auto manufacturers and big stores, for example," he said. "But leaders should also celebrate local businesses and look at the self-employed, in addition, as important to the economy."

Goetz said to encourage growth, leaders could also help the self-employed by organizing networking meetings and alerting them to exporting opportunities. Economic development groups can also assist entrepreneurs with credit and grant applications.

Provided by Pennsylvania State University

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