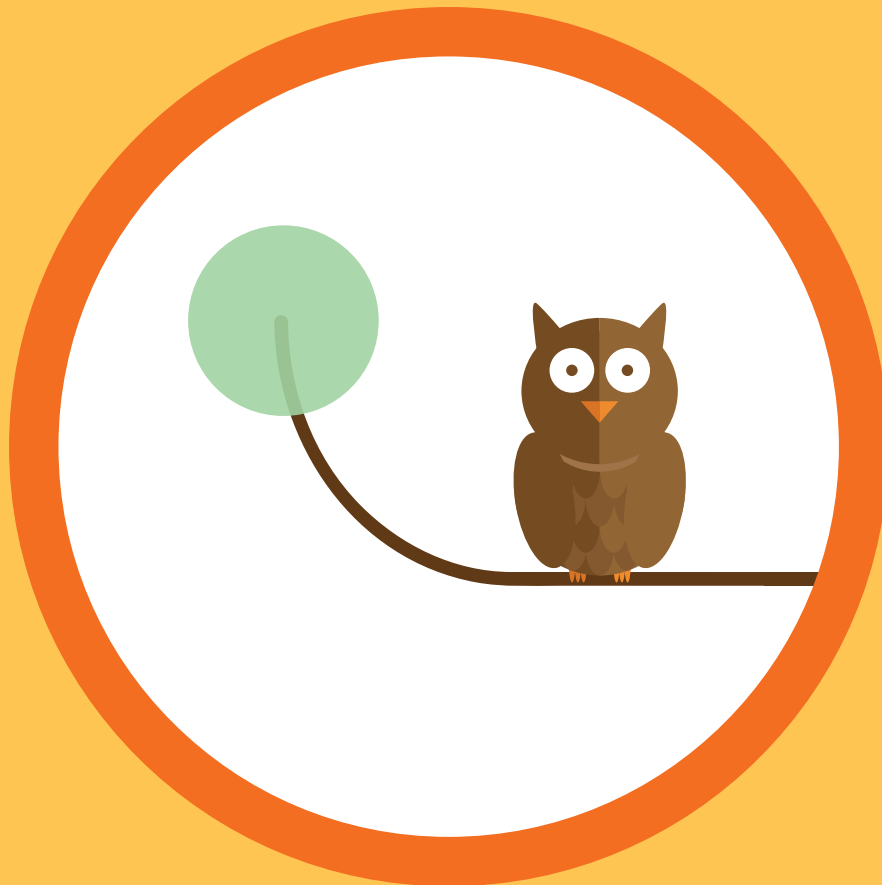


Perch



Hanging out your shingle: Self-employment in Alberta

Volume 1 Issue 2

ATB Financial®

A LOOK AT SELF-EMPLOYMENT IN ALBERTA

Rob Roach, Director of Insight, Economics & Research

“If you ever get annoyed, look at me I’m self-employed”

—BTO, Takin’ Care of Business

We’ve probably all had days when we’ve thought: “If I was the boss, I’d do things differently around here.” For Alberta’s 383,000 self-employed workers, they don’t have to dream about it — they are their own boss. Contractual obligations, demanding clients and professional standards mean that you don’t always get to do what you want, but greater freedom and independence are often cited as reasons to become – and stay – self-employed. At the same time, being self-

employed often means working longer hours and weathering gaps in your income.

Whatever the pros and cons, self-employment is a critical piece of Alberta’s economic puzzle. It’s where new businesses are born and where the famous entrepreneurial spirit of Albertans can truly soar. This edition of **Perch** highlights some of the key characteristics of our province’s many entrepreneurs.

A more detailed portrait of self-employment can be found on atb.com/economics.

About Perch

Thanks for taking a moment to read ATB Financial’s Perch. Published quarterly, each edition focuses on a topic of importance to Albertans and their prosperity. Subscribe at atb.com/economics.

Who are we?

We are ATB Financial’s Economics & Research team. We work to share our province’s economic story and to connect Albertans to the economic news and ideas they need to know about. Head on over to atb.com/economics to get a better look at who we are and what we do.

Business Beat

For insight into Alberta’s small and mid-sized enterprises (SMEs), most of which are operated by self-employed individuals, please read ATB’s Business Beat. The Labour Force Survey used in Perch captures a larger number of self-employed workers with no paid staff than Business Beat’s survey of SMEs in Alberta. As a result, the data in Perch and Business Beat are not directly comparable.

“I wanted to be able to work half-time from Vancouver where my partner lives. The full-time job I left for my business was wonderful, but wouldn’t abide that.”*

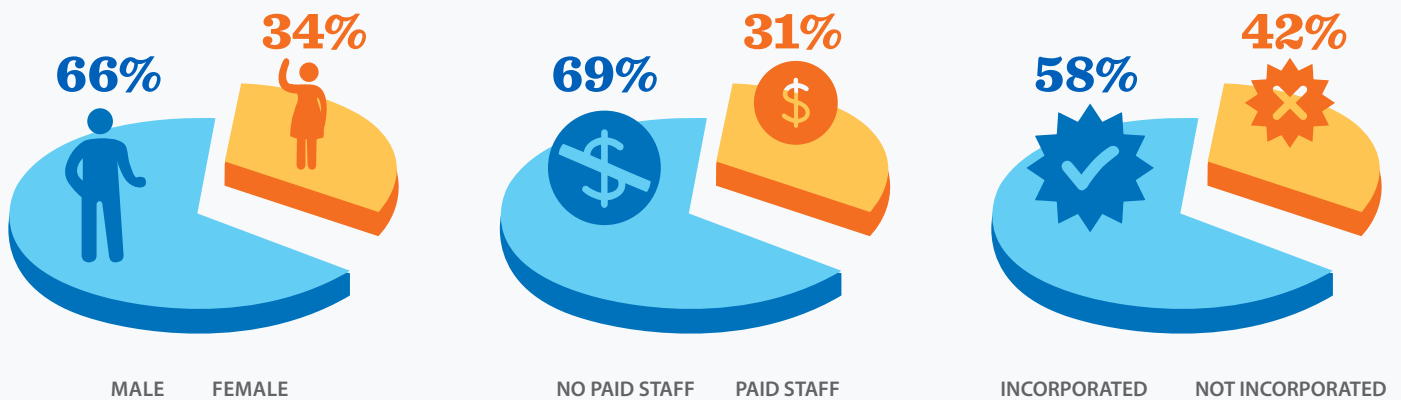
A DIVERSE GROUP

The type of work self-employed* Albertans do includes everything from running a large company with hundreds of staff to operating a single food truck. Some Albertans choose to be self-employed because they want to be their own boss while others seek it out because it's more flexible than a nine-to-five job. Some are self-employed because it's a common option for the kind of work they do (e.g., dentists, day-home operators, photographers) while others have a full-time job as an employee and use self-employment as a way to make a little extra money or to test the waters before giving up their steady paycheck. For some it's their dream to go it alone as an entrepreneur while for others it's a necessary leap after losing their job.

“Working 9 to 5, what a way to make a living”

—Dolly Parton, 9 to 5

Percentage of Alberta's self-employed workers (2014)



Source: Statistics Canada, Labour Force Survey, CANSIM table 282-0012 and author's calculations.

While there is no one-size-fits-all profile of self-employed Albertans, they are more likely to be men than women, most have no paid staff and the majority have incorporated their business. We do not know why, but Albertans are more likely to incorporate than Canadians in general (at 43 per cent, the national average for self-employed incorporation is 15 percentage points lower than Alberta's 58 per cent). Incorporation is associated with greater stability and higher income.

*Statistics Canada tracks two broad categories of workers aged 15 and over: Those who work for others (employees) and those who work for themselves (self-employed). Unless otherwise stated, the statistics herein refer to the main job held by Albertans as measured by Statistics Canada's Labour Force Survey.

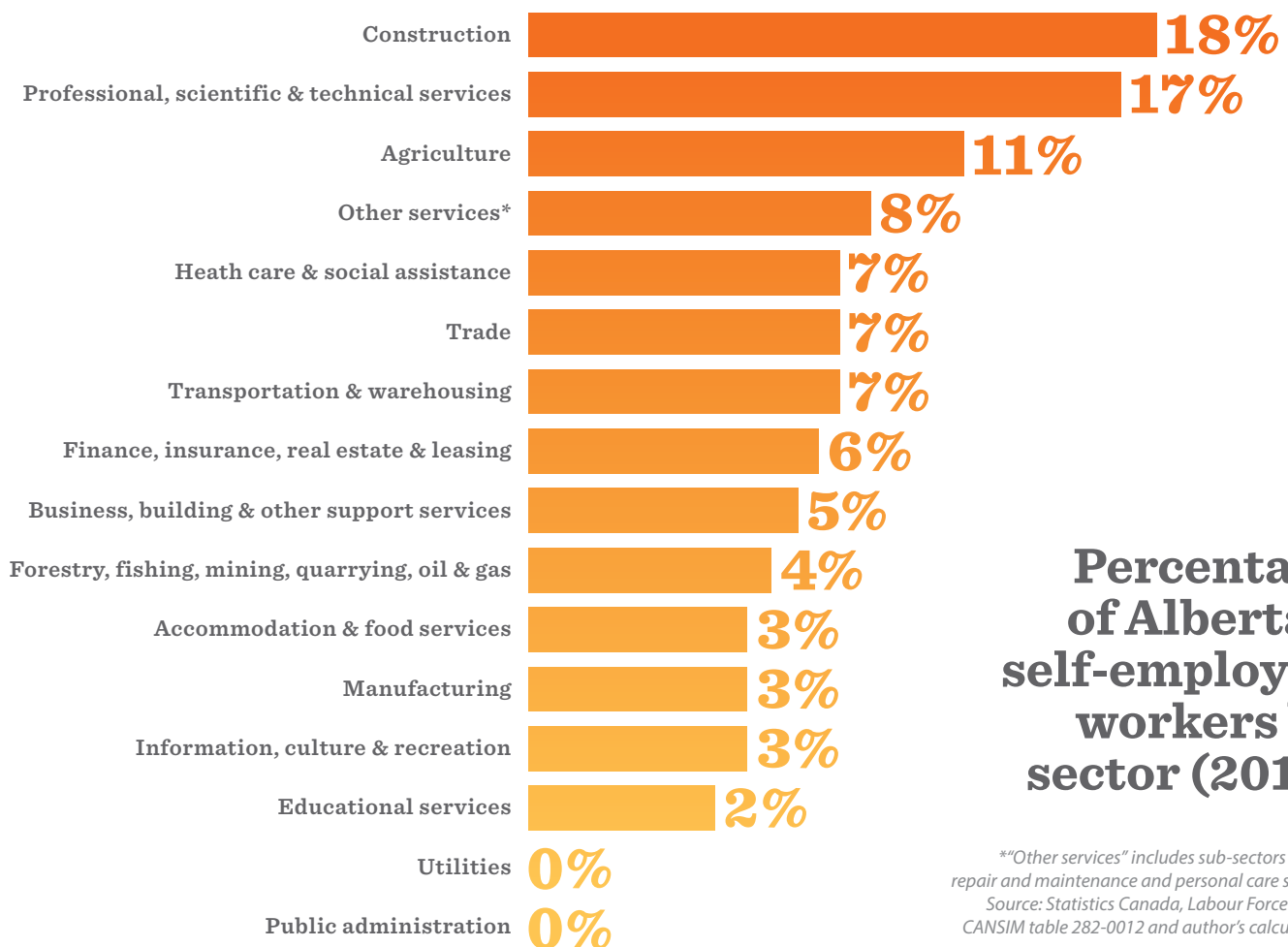
“I became self-employed because I was tired of getting fired!”

SELF-EMPLOYED BY SECTOR

“Have to catch an early train, got to be to work by nine, and if I had an aeroplane, I still couldn’t make it on time”

—The Bangles, *Manic Monday*

Self-employed Albertans can be found in almost all parts of the economy, but close to half (46 per cent) work in one of three sectors: construction (18 per cent); professional, scientific and technical services (17 per cent); and, agriculture (11 per cent). Typical jobs include independent contractors who provide home renovation services, family doctors, real estate lawyers, ranchers and freelance geologists working in the energy patch.



Percentage of Alberta’s self-employed workers by sector (2014)

*“Other services” includes sub-sectors such as repair and maintenance and personal care services. Source: Statistics Canada, Labour Force Survey, CANSIM table 282-0012 and author’s calculations.

“As a young mother, I needed part-time, flexible and interesting work that provided me an opportunity to interact with adults but didn’t entail lots of child care.”



SELF-EMPLOYMENT IN ALBERTA

Brought to you by **ATB Financial**

383,000 Albertans are self-employed...

That's **17%** of Alberta's workforce!



72%

of agricultural workers are self-employed



36%

of professional, scientific, and technical workers are self-employed



27%

of construction workers are self-employed

Average Retirement Age

66.4

Self-employed

vs.

63.0

All retirees



50+
Hours worked per week

34%

of self-employed Albertans

7%

of employees

Self-employed workers in Alberta by gender

31%

of self-employed Albertans have paid staff



58% of self-employed Albertans have incorporated their business

66%
Male

34%
Female

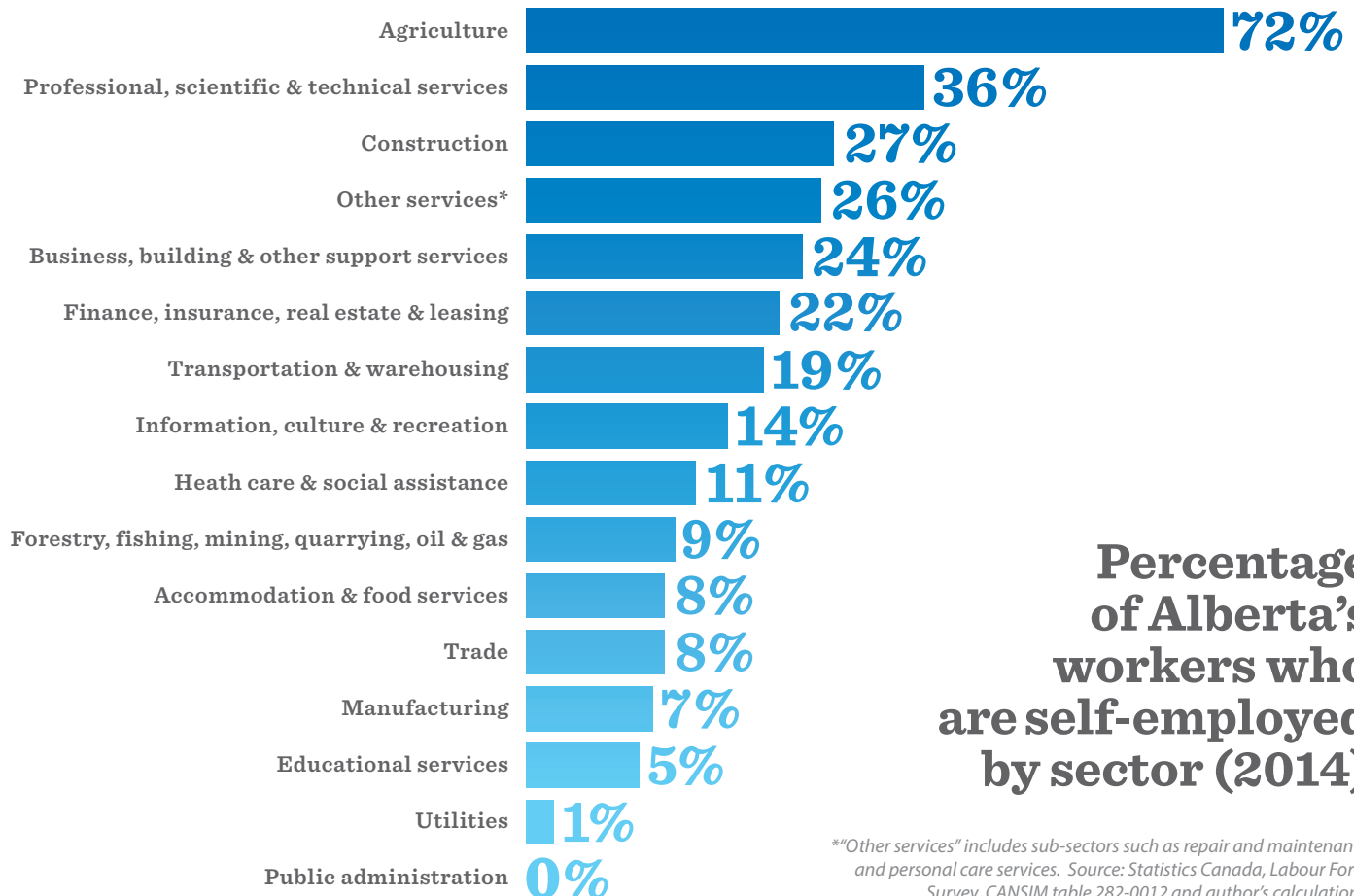


SECTOR BY SELF-EMPLOYED

“They offered me the office, offered me the shop, they said I’d better take anything they’d got”

—The Clash, Career Opportunities

While only one in ten self-employed Albertans work in the agricultural sector, **over seven in ten agricultural workers are self-employed**. The prevalence of self-employment in the agricultural sector reflects the ongoing existence of the family farm. Other occupations in which you are likely to bump into a lot of self-employed people include chiropractors, artists, naturopaths, dentists and family physicians.



“I take the work I want to take, I do it at my own pace, set my hours and have maximum flexibility. However, the stress of having to hunt for your next piece of work while completing your current assignment is daunting and exhausting in my view.”

AGE

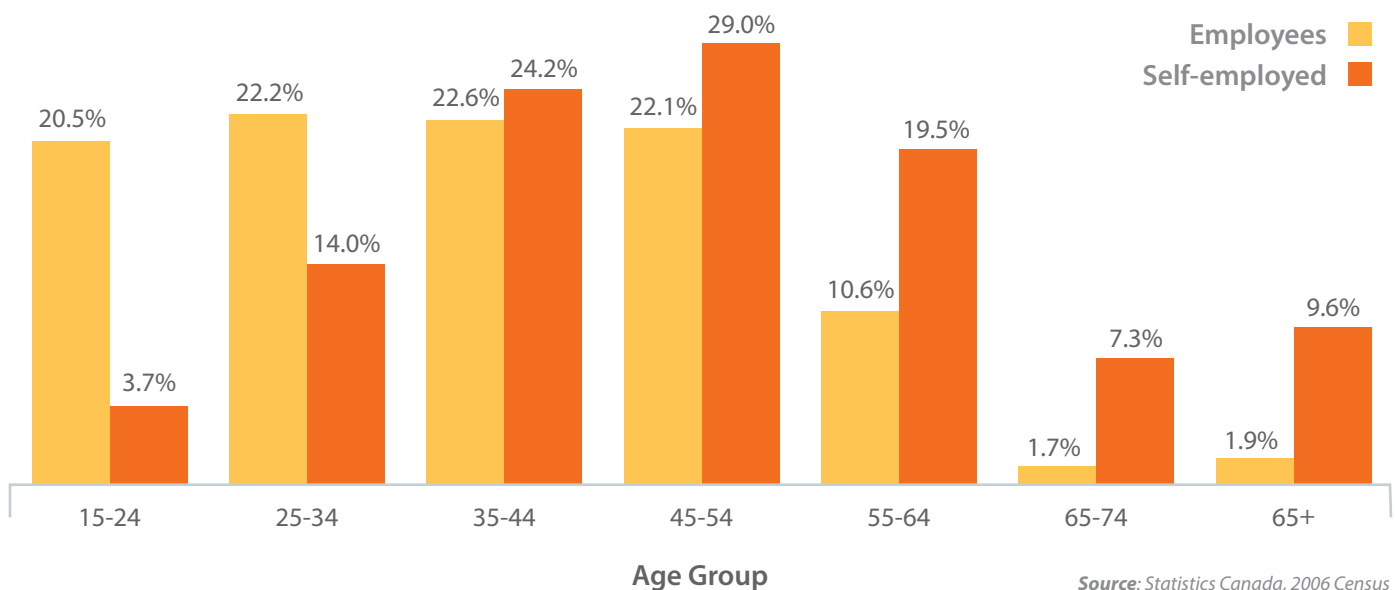
When we look at the age profile of employees and the self-employed, we find that self-employed Albertans are more likely to be in the older age groups. Only four per cent of self-employed workers were between 15 and 24 years old as of the 2006 Census compared to 21 per cent of employees. This suggests that initial attachment to the labour market tends to be in the form of an employee rather than as a self-employed worker. About a third (36 per cent) of self-employed Albertans were over 55 years of age compared to just 14 per cent of employees.

The average retirement age for self-employed Canadians is 66.4 years, three years later than private sector employees and almost five years later than public sector employees. Among Alberta seniors who continue to work past age 65, 43 per cent are self-employed compared to the 13 per cent figure for workers aged 15-64.

“I ain’t gonna work on Maggie’s farm no more”

—Bob Dylan, Maggie’s Farm

Alberta’s employees and self-employees by age group (2006 Census)



“Being self-employed works well for me because my spouse has a stable job with a big company so he can provide the stability (food on the table) and benefits for our family. I appreciate the flexibility and income tax deductions that come with owning my own business.”

INCOME

“I get up at seven, and go to work at nine, I got no time for living”

—Rush, Working Man

Average individual market income of Canadians (2009)



Some jump to the conclusion that self-employed jobs are of lower quality than standard jobs because the average pre-tax income of the self-employed is lower than that of employees. But this does not take into account the potential benefits of self-employment including tax advantages, higher job satisfaction and wealth accumulation. It also ignores the fact that the net worth of the self-employed is higher than that of employees. At the same time, we don't know how factors such as the longer hours reported by self-employed workers, the stress of owning your own business and the general lack of access to employer pension plans may work together to undermine the quality of self-employment. There are too many variables in play and not enough survey data to say things like “it's a bad sign that self-employment is rising because it creates lower quality jobs” or “it's a good sign that more people are choosing self-employment because this means entrepreneurialism is on the rise.”



James Boettcher of Fiasco Gelato

Source: Statistics Canada, Survey of Labour and Income Dynamics, 2009 reported in Sébastien LaRochelle-Côté and Sharanjit Uppal. 2011. “The financial well-being of the self-employed.” Perspectives on Labour and Income. Statistics Canada. Data for Alberta are not readily available. Data are for workers age 25-59.

“My biggest complaint: getting clients to pay in a timely fashion.”

WEALTH

“It’s a five o’clock world when the whistle blows, no one owns a piece of my time”

—The Vogues, Five O’clock World

Income is a key measure of how individuals and families are doing financially, but so is wealth accumulation. Accumulated wealth is particularly important to the self-employed who often need to weather income gaps and finance their retirement without the aid of a company pension.

Self-employed Canadians have higher average asset levels and higher net worth than employees. Whether looking at the average or the median, the net worth of self-employed individuals is 2.7 times that of employees.

Average and median wealth of Canadians (2009)

	Employees	Self-employed
Tangible assets	\$ 317,300	\$589,400
Financial assets	\$122,500	\$217,800
RRSP	\$56,000	\$93,600
RESP	\$3,500	\$5,000
Other	\$63,000	\$119,200
Business assets	\$44,200	\$373,000
Average total assets	\$484,000	\$1,180,300
Average total debts and liabilities	\$109,200	\$156,600
Average total net worth	\$374,800	\$1,023,700
Median total net worth	\$195,000	\$520,000



Data for Alberta are not readily available. Data are for workers age 25-59. Source: Statistics Canada, Survey of Labour and Income Dynamics, 2009 reported in Sébastien LaRochelle-Côté and Sharanjit Uppal. 2011. “The financial well-being of the self-employed.” Perspectives on Labour and Income. Statistics Canada.

“Regardless of the challenges, owning my own business is something of which I am proud.”

SHARE OF WORKERS

Working for someone else as an employee rather than for yourself is the dominant form of employment in Alberta. With that said, **17 per cent of Alberta's workers were self-employed in 2014** (a proportion that ballooned to one-fifth for most of the 1990s). When you consider this does not include Albertans who used to be self-employed, who might become self-employed or who are self-employed in addition to their main job as an employee, **self-employment is a significant component of the Alberta economy.**

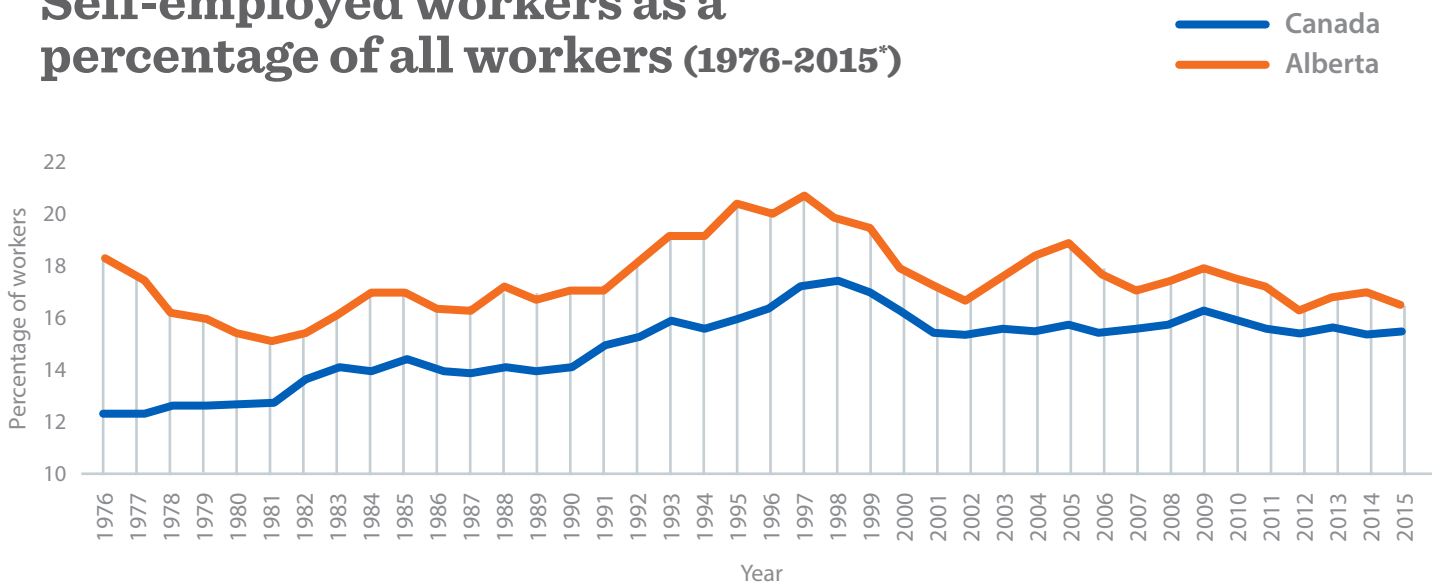
“Welcome to the working week, you gotta do it till you’re through it, so you better get to it”

*— Elvis Costello,
Welcome to the Working Week*

Self-employment's share of total employment in Alberta peaked in 1997 at 21 per cent and went as low as 15 per cent in the early 1980s. This is, however, only a six percentage point variation over almost four decades and highlights the relative stability of self-employment's share of the workforce. Time will tell, but if history is any indication, factors such

as the apparent preference of some Millennials for more independent work arrangements is unlikely to cause a dramatic increase in self-employment's slice of the overall employment pie.

Self-employed workers as a percentage of all workers (1976-2015*)



*First ten months.

Source: Statistics Canada, Labour Force Survey, CANSIM table 282-0089 and author's calculations.

“In today’s mobile economy, it’s wise to constantly have self-employment as an option. Full-time jobs are not as certain as they used to be, so you need to be able to generate income independently.”

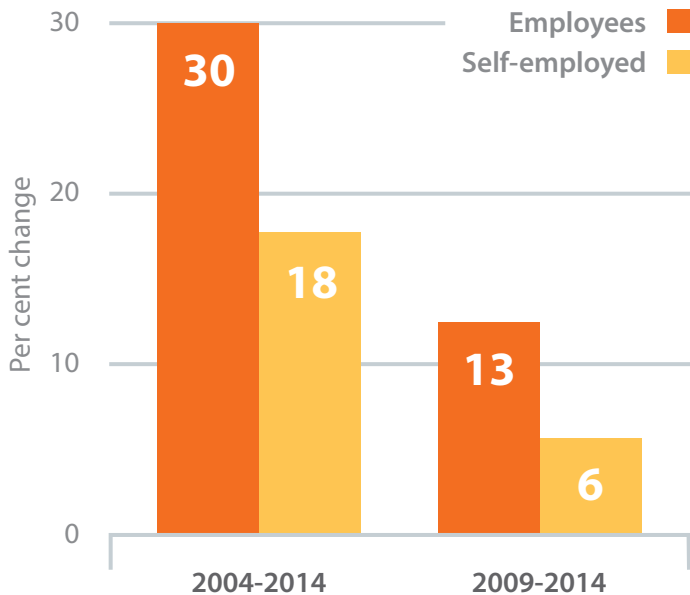
GROWTH

In the ten years between 2004 and 2014, growth in employees (30 per cent) outpaced self-employment growth (18 per cent) in Alberta. The same is true for the five years between 2009 and 2014 when employees grew by 13 per cent compared to just six per cent for self-employment. If self-employed agricultural workers are excluded, self-employment growth improves, going from 18 to 25 per cent between 2004 and 2014 and from six to eight per cent between 2009 and 2014.

*“Heigh-ho, heigh-ho,
it’s off to work we go”*

*—Tom Waits,
The Dwarfs’ Marching Song*

Per cent change in employment in Alberta



Source: Statistics Canada, Labour Force Survey, CANSIM table 282-0012 and author’s calculations.



John Scott of John Scott Film Productions

“I control my own time. Success is not dependant upon other people’s performance.”

“It’s been a hard day’s night, and I’ve been working like a dog”

—The Beatles, A Hard Day’s Night

When economists examine self-employment, they often focus on the question of whether or not people are pushed or pulled into it. You are pushed into it when you can’t find a job as an employee because of a recession or other macro-economic factors. You are pulled into it when you opt to be self-employed because it appeals to you for some reason such as wanting to be your own boss or because you think it will be more rewarding. If people are being pushed into self-employment, it’s thought to be a sign of trouble in the labour market whereas if people are pulled into self-employment based on its merits, surely this is a sign that entrepreneurialism is alive and well.

To my mind, the better questions to ask are: **do people enjoy being self-employed and are they making a living doing it?** In short, do they like it and does it pay the bills? The answers to these questions will tell us if self-employment provides Albertans with fulfilling work and a decent income – regardless of why people enter into it. Does self-employment create good jobs or is it the poor cousin of “standard” employment?

Unfortunately, we don’t have the facts and figures we need to adequately answer these questions. The conclusion “we need to do more research” is unsatisfying, but unavoidable in this instance. The information we need to provide a compelling answer is dated and incomplete. The last major national survey of the opinions of self-employed Canadians regarding their situation dates back to 2000 when Human Resources Development Canada (now called Employment and Social Development Canada) and Statistics Canada combined efforts on the *Survey of Self-Employment in Canada*. The survey found a 70/30 split between those who were content to be self-employed and

those who were not. This is an encouraging ratio, but hardly a definitive statement on how the self-employed are doing. It also suggests that a significant minority of self-employed workers may be unhappy and/or struggling financially – a potential problem we should learn more about.

Income statistics for the self-employed are also incomplete and getting a bit grey around the ears. Data from 2009 show that unincorporated self-employed workers make less (before taxes) on average than employees who in turn make less than incorporated self-employed workers. But determining the actual income of self-employed workers is a bit tricky because it is often interwoven with their business activities, treated differently by the tax system and potentially quite uneven from year-to-year. As a result, it is hard to compare the financial situation of self-employed workers and employees. Nonetheless, the lower income of the unincorporated is a red flag that calls for more research.

To assess the true quality of self-employment we need to take into account a broad range of factors such as after-tax income, wealth accumulation, skills development, productivity and job satisfaction. Until this more robust analysis is done, we should not conclude that a rise in self-employment is a better, worse or equal alternative to the creation of “standard” jobs. All of this points to that inherently unsatisfying conclusion: we need to do more research. Given that 17 per cent of Alberta’s workers are self-employed – with many more entering and exiting self-employment over time – and given their role in generating new businesses with the potential to grow into enterprises that create jobs for many others, it’s time to pay more attention to their actual circumstances.

CONNECT



From left to right: Dr. Ian Giebelhaus of Rimbey Veterinary Clinic, Monita Chapman of Simply Supper and Bryan Szatkowski and Brad Johnston of Gchem Ltd.



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