

# SOCIAL CLASS AND THE RISE OF THE SELF-EMPLOYED

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## ABSTRACT

*Class is an enduring concern of sociologists, but the way in which class schemas are operationalised often does not keep pace with institutional changes. In this paper we examine changes in the status of own account workers – self-employed persons with no employees – over the period from 1986-2005. Linking our arguments to Neo-liberal policy changes, we observe that own account workers have increased greatly as a proportion of the labour force, particularly among men. Second, we examine the distinctiveness of own account workers relative to employees in terms of education, occupation and income. Education and occupation are typically important defining features of class schemes, and income represents arguably the most important outcome of class location. Our findings suggest that own account workers are increasingly similar to employees with respect to all of these variables. As a consequence of their growing numbers and diversity, we suggest that it is increasingly inappropriate for class analysts to operationalise own account workers as a uniform group, the petit bourgeoisie. We tentatively suggest that a useful strategy for future analysts would be to classify own account workers in the same way as employees by education and occupation, but include self-employment as an additional control variable.*

## 1 INTRODUCTION

During the past two decades the proportion of the Australian workforce who are self-employed has been steadily increasing. This trend has been linked to neoliberal policy changes introduced during this period and may have implications for the class structure of post-industrial society. In the past, the self-employed were commonly assigned to the *Petit Bourgeoisie*, an almost residual class, irrespective of their occupation or level of education. However as the self-employed make up an increasing proportion of the workforce, it is timely to investigate both the extent of heterogeneity in their occupational and educational composition as well as the similarities and differences between them and employees on the same two factors. This paper uses data from four national surveys to explore changes in the relative distributions of education, occupation and income between own account workers and employees over the period 1986-2005. Education and occupation are the defining features of many class schemes – the key variables that locate a person in one class or another – and income is arguably the most important outcome of class. Changing associations between these variables and self-employment is therefore of some consequence for analysts interested in class.

## 2 DISCUSSION

### 2.1 LITERATURE REVIEW

### 2.1.1 SOCIAL CLASS

Social class is an enduring concept in sociology and class analysis is an enduring pastime of sociologists. However, what goes by the name of class analysis has changed over the years. Coming from Weberian and Marxist traditions respectively in the 1970s and 1980s, Goldthorpe and Wright developed class maps based on what Weeden and Grusky (2005) called a 'big class' assumption. Briefly, this assumption held that the class structure comprised a relatively few classes which are – from both perspectives – related to one another.

As is well known, Goldthorpe's class scheme comprises eight occupationally based classes. Classes I and II consist of individuals in upper and lower professional occupations, administrators managers and large proprietors. Together they make up the service class. Classes IIIa, clerical workers, and IIIb, employees in personal service, such as hairdressing, and sales, are white collar employees in routinised occupations. Class IV is small employers and the traditional *Petit Bourgeoisie* or own account workers. Class V comprises lower-level technical workers and supervisors of manual workers. Class VI consists of skilled manual workers and class VII semi and unskilled manual workers (Goldthorpe & Payne, 1986).

In contrast to Goldthorpe, Wright's (1997) class schema is based on control of three types of assets: the means of production or productive property (nearest to the classical Marxist definition of capital); skills and expertise; and organizational resources and authority. Wright makes an initial distinction between the owners of productive property and non-owners. Among owners he distinguishes between those who employ labour and those who do not – own account workers. Among employees, Wright argues for a class typology that is defined by the two remaining assets: skill and authority. By cross classifying these two dimensions after dichotomizing them he identifies four employee class locations – a total of six class locations including the owner classes. This basic model can be modified by adding intermediary categories along each dimension. Of particular importance for our purposes is that Wright's classification does not provide for any differentiation of the *petit bourgeoisie* by skill.

Consequently, this paper addresses the changing nature of the traditional *petit bourgeoisie* – own account workers in non-class terminology - both in size and the occupational differentiation of this class from employees.

### 2.1.2 SELF-EMPLOYMENT IN AUSTRALIA

The Australian Bureau of Statistics (ABS) uses the terms self-employed and own account workers interchangeably to refer to people 'who operate their own economic enterprise or engage independently in a profession or trade, and hire no employees, and operate unincorporated businesses' (ABS, 2006, p. 119). According to the ABS, between 1983-84 and 2000-01 the number of own account workers increased by 63 percent (2001, p. 13). Australian Census data show that the self-employment rate for males increased from 16.4 to 20.2 percent between 1981 and 1991 (Le Anh, 2000, p. 204).

This increase in self-employment has been linked to economic changes resulting from the institution of the neoliberal reform agenda of the past two decades (Muller & Arum, 2004, p. 11). Neoliberal policy advocates favour economic de-regulation – arguing that the role of the state is to 'create and preserve an institutional framework characterized by strong private property rights, free markets and free trade' (Harvey, 2006, p. 2). Neoliberal policies undermine the stability of internal labour markets allowing employers more freedom to determine the wages and conditions of their employees so that they may tailor their workforces to meet fluctuations in demand for their products or services (Muller & Arum, 2004). This increasing flexibility has removed security of employment for workers and encouraged many to become contractors (often performing the same work for the same businesses as when they were employees). Many of these contractors have little capital to invest in their businesses - suggesting that the operationalisation of 'capital' by self-employment may be increasingly problematic.



The proportion of employers in the workforce increased marginally for both men and women – from eight to ten percent for men and from five to six percent for women between 1986 and 2005. Our main focus here is, however, on the comparison between own account workers and employees. We therefore focus exclusively on these two groups for the remainder of the paper.

In 1986, only 8 percent of the male workforce were own account workers. By 2005 however this proportion had increased to 20 percent. During the same period the proportion of the female workforce who were own account workers increased from 4 to 7 percent. Mirroring this increase in own account workers, the proportion of employees in the male workforce declined from 84 percent in 1986 to 70 percent in 2005. For females, employees declined from 91 percent of the workforce in 1986 to 87 percent in 2005.

### **2.3.2 VARIABLES**

We examine differences in three important variables in our analysis: education, occupation and income. The education variable was constructed by dividing respondents into four categories according to their highest level of education: less than completed secondary education; completed secondary education; trade certificate or diploma; and completed university degree.

Occupation is coded according to the Australian Standard Classification of Occupations (ASCO) system. Under this classification, occupations are divided into nine broad categories according to skill level and access to organizational resources (Dwan & Western, 2003). Due to the implementation of a new coding system in 1997, the occupations of respondents in the 1986 and 1993 surveys were re-coded from ASCO 1 to ASCO 2 to allow comparisons with the data from the 2001 and 2005 surveys.

Income was measured in categories in the 1986, 1993 and 2005 surveys and in 2001 it was measured continuously. The income categories in 1986 and 1993 were converted to their 2005 dollar equivalents and then recalculated to correspond to the 2005 categories. For the 2001 respondents, we first converted the upper bounds of the 2005 categories into 2001 dollars and then grouped the respondents according to these categories.

## **2.4 ANALYSES**

### **2.4.1 BIVARIATE ANALYSIS**

We conducted bivariate analysis comparing own account workers and employees on education, occupation and income in 1986, 1993, 2001 and 2005. Only the results for 2005 are presented here. Table 2 shows how widely distributed own account workers and employees are on the three variables of interest. We can see that by 2005 own account workers differ little from employees in terms of their education – if anything they appear to be slightly *less* educated than employees. Thirty-six percent of own account workers report less than completed secondary education, compared to only thirty percent of employees.

In terms of occupation there are two notable differences between own account workers and employees. Own account workers are much more likely to be managers and administrators (24 percent to 10 percent) and much less likely to fall in the ‘intermediate clerical, sales and service’ occupational group (4 percent compared to 19 percent). There are minor differences between own account workers and employees in the other occupational groups, but none exceeding a gap of three percentage points.

Own account workers’ incomes appear – relative to employees – to cluster towards the bottom of the income distribution and be less likely to fall in the middle. Thirty-eight percent of own account workers report incomes below \$30,000 per year compared to 22 percent of employees. Middling incomes (from \$30,000-50,000/year) are reported by only 19 percent of own account workers, compared to thirty percent of employees in 2005.

Table 2. Percentage of own account workers and employees in each education, occupation and income category in 2005

	OAW	Employees
Education	n=111	n=669
< Grade 12	14	10
Grade 12	22	20
Trade Cert./ Diploma	26	31
University	38	39
<b>Total</b>	<b>100</b>	<b>100</b>
Occupation	n=111	n=673
1.Managers & Administrators	24	10
2.Professionals	30	31
3.Associated Professionals	14	13
4.Tradespersons	10	7
5. Advanced Clerical, Sales & Service	3	4
6.Intermediate Clerical, Sales & Service	4	19
7.Transport & Production	6	6
8.Elementary Clerical, Sales & Service	4	6
9.Labourers and Related	5	4
<b>Total</b>	<b>100</b>	<b>100</b>
Income	n=100	n=634
<=20000	19	8
\$20001-30000	19	14
\$30001-40000	10	16
\$40001-50000	9	15
\$50001-60000	12	17
>\$60000	31	30
<b>Total</b>	<b>100</b>	<b>100</b>

Overall, these figures suggest that differences between own account workers and employees do exist – but they are far from widespread and would seem to indicate if anything that own account workers are *disadvantaged*. However, this represents but a snapshot of data from 2005 – we turn now to the picture over time.

**2.4.2 INDEXES OF DISSIMILARITY**

An index of dissimilarity (D) was constructed for each of the variables of interest: occupation, education and income for each year: 1986, 1993, 2001 and 2005. This measure provides a summary indication of how distinctive the self-employed and employees are on each variable. The equation for the index of dissimilarity is:

$$D = \sum | (O_j/O) - (E_j/E) | \times 100 \times \frac{1}{2}$$

Where J is equal to the total number of categories in the outcome of interest,  $O_j$  refers to number of own account workers in the  $j^{th}$  category,  $E_j$  refers to number of employees in the  $j^{th}$  category, O refers to number of own account workers in the labour force and E refers to number of employees in the labour force. The value of D can be interpreted as the percentage of the labour force that must change categories to bring about a perfect correspondence between the ratio of own account workers to employees within each category and the overall rate of own account workers in the labour force.

Figure 1: Declining Distinctiveness of Own Account Workers – 1986-2005

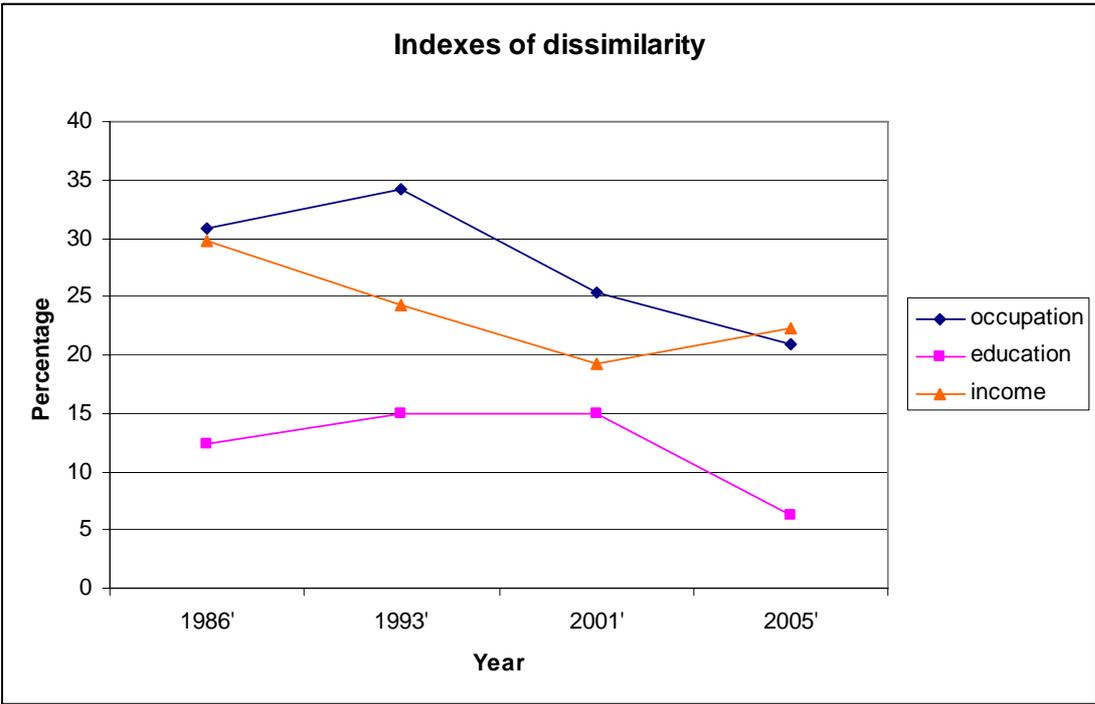


Figure 1 plots the value of D for education, occupation and income over time. For each variable, we find that the distinctiveness of own account workers declines over the period of observation. The value of D for occupation declines from 31 in 1986 to 20 in 2005, indicating a substantial decrease in the occupational distinctiveness of own account workers relative to employees. For income the index falls from about 30 in 1986 to a low of 19 in 2001, before climbing marginally to 22 at 2005. Education is the variable on which own account workers are least distinguishable in all years. However, in this respect also own account workers’ distinctiveness declines – from a value of 12 in 1986 to just 6 in 2005. These findings suggest that own account workers have become increasingly similar to

employees with respect to the distribution of these key variables – it would seem that the nature of self-employment is changing.

### 3 CONCLUSIONS

This paper set out to explore changes in the nature of self-employment in Australia. We have produced two key findings. First, our analysis reveals that there has been an increase in the proportion of the Australian workforce classified as own account workers between 1986 and 2005. This is most pronounced for male workers, but is also true for women. At 20 percent of the male workforce and 7 percent of the female workforce own account workers represent a substantial segment of the labour force, which is very much under-theorised. At a minimum, the growing size of this group should motivate more focused attention by class theorists.

Second, we constructed a series of indexes of dissimilarity to examine differences in the distribution of own account workers and employees across different income, educational and occupational groups. We find that in all cases the differences between own account workers and employees have lessened over time. In conjunction with the growing number of own account workers in the labour force, this finding suggests that it would be perilous at best for class analysts to continue to treat own account workers as a self-contained ‘class’. A more appropriate analytical strategy might simply be to apply the same occupational and educational criteria to own account workers as to employees, including self-employment as a control, but not as a definitional feature of class schemes. Theoretically, this also seems appropriate – ownership of *productive capital*, not self-employment, is the salient variable from an abstract point of view. Existing operationalisations increasingly fail to capture this.

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