



Paper presented to the

8<sup>th</sup> Workshop on LFS Methodology in Gdansk, May 23–24, 2013

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## Slovak experience with false self-employment

### Introduction

In reaction to changes in labour market, we decided to cover false self-employment in our questionnaire. Several impulses led us to such action. Firstly, we recognized this phenomenon in sources from abroad. Secondly, we found out it was kind of “public secret” that number of people preferred self-employment status over being employee because of favorable tax, social, and health security payments.

Employers realized it as well. In more demanding situations it is quite attractive to change employee/employer relationship to more favourable relationship of self-employed/customer. This was obvious from job offers and from “widely known” situations, when employer offered two options to his employee: no job or self-employment. Another highly related dimension is the moment when self-employed persons retire. There were several articles in media, where former self-employed persons were shocked when they realized amount of their pension according to minimal social service payments. Such situation is only one example of people who lack social protection in dependent work relationship.

All these discussions took place in the year 2009 and first version of questions was added to the questionnaire in 2010. Data were released after one year of information collection, in summer 2011, when some time expired and questions and dates proved to be sound.

### Measurement

From point of view of questionnaire’s structure, there were no big changes. As filter question for the new questionnaire was used variable STAPRO. Based on the answer to the question “In your main job your professional status is:” respondent was assessed as fitting to answer new question. All respondents that stated they were self-traders and had no employees proceeded to the next question. Here is chart of possible answers to this question:

← **Sformatowano:** Wcięcie: Z lewej: 0,1 cm, Pierwszy wiersz: 1 cm, Tabulatory: 1 cm, Do lewej + 1,25 cm, Do lewej

|          | <b>status</b>                   | <b>example</b>   |
|----------|---------------------------------|--|
| Employed | Employees                       | state / national / private enterprise, cooperative, other              |
|          | Self-employed without employees | partner (Limited liability company), farmer, artist                    |
|          | Self-employed with employees    | sole trader, partner (Limited liability company), farmer, artist       |
|          | Sole trader without employees   | „real“ and „false“   |
|          | Others                          | producers cooperative, helping member of the family in family business |

Following question (existence of dependent character of the job) asks: Does your job have character of dependent work of employee? Wording of the question is quite “formal”. To ensure correct understanding, explanatory note is read as well. Wording of explanatory note was changed twice. First time (2012) due to criticism that the explanatory note is not aligned with definition of dependent work in labour code. Second time (2013) change occurred because of adjustments of definitions in labor code.

| <b>2010/2011</b>                               | <b>2012</b>   | <b>2013</b>  |
|--|---|--|
| subordination towards other person             | x   | in relat. of supero. of employer and subord. of employee |
| organization of your work is not in your hands | repeating of given tasks based on employer (his) instructions | following his instructions                               |
| x  | in his name   | in his name  |
| x  | on his expenses   | x  |
| you do not use own tools                       | with his tools  | x  |
| in given working time                          | in given working time   | in given working time                                    |
| x  | under his responsibility                                      | x  |
| x  | for pay or profit   | for pay or profit  |
| x  | x   | in person for employer                                   |

#### **Name and reactions after first publication**

The most controversial aspect was title of false self-employment. In order to make it understandable we used term sole-trader „out of necessity“. This necessity can be caused by several factors. Employer can give it as ultimatum (to be fired or to start work as self-employed), or he can condition job offer by being sole-trader. The biggest job search portal announced that: „The number of job offers for sole-trader went up three-time in last four years“. Other point of view is decision to work as sole-trader due to tax, social, and health security payments, which are more favourable for sole-trader people. The job portal announced that: „Up to 12 % of all people searching via job portals would like to work as sole-trader “.

Nevertheless this wording was not accepted by several subjects. It is necessary to note three relevant factors:

First one was timing. When we published results for the first time, there was discussion about sole-traders policy going on. Several subjects even questioned independence of statistical office, mainly those whose line of reasoning was corrupted by these data.

Second factor, which was criticized, was the name. In Slovak language „out of necessity“, “compulsory” or “to compel” are not just semantically close, but they all have the same wording base. This is why one journalist criticized us in his article, where he accused us of describing something that cannot exist in democratic society and that can be found “only in totalitarian regimes in connection with work in concentration camps, gulags and work of slaves”. In response to such reactions and accusations, we decided to change the name to “sole-trader, whose work has character of dependent work of employee”.

Third point of criticism was fact that not all attributes of dependent work were mentioned in the question. We added them all for next year questionnaire.

Despite all this unease in time of first publication, at present the existence of this phenomenon is not questioned. There is still no broadly accepted and unequivocal name for this phenomenon. Terms used often are these: out of necessity, to the eye, pseudo, non-genuine, false, ... .

#### **Short description of false self-employed in Slovakia**

As of moment, we have three years of data available. We can say that out of all employed people, approximately 85% are employees, 5% are self-employed with or without employees, and almost 10% make sole-traders without employees. This last group is the one where it is necessary to distinguish whether their work has or has not character of dependent work. Over the time share of dependent versus independent was quite stable: half – half, slightly in favor of independent sole-traders.

It is very interesting to compare these two groups from the point of view of country where their work is conducted, from their economic activity, and from gender of sole trader.

From the point of the country where the work is conducted, there is quite a big difference between independent/dependent sole-traders. Almost all (95%) of independent sole-traders are situated in Slovakia, while the rest (4,5%) is located mainly in Austria. In contrast only 75% of all dependent sole-traders are located in Slovakia; other 10% are located in Czech Republic, 7% in

Austria and 4% in Netherlands. This shows that 80% off all sole-traders abroad are dependent sole-traders.

For comparison of economic activity, we choose just those who are diverse between these two groups. Largest difference is in activities connected to construction (F). Almost 50% of all dependent sole-traders belong to this group and only 25% are independent sole-traders. In case of wholesale and retail trade (G) share is in favor of independent (15%) in comparison with dependent (7%). Similar situation is in case of professional, scientific and technical activities (M) (4% vs 13%) and other service activities (S) (1% vs 10%).

Gender perspective is highly influenced by large share of dependent sole-traders in constructions activities. In average there are 80% men in dependent sole-traders group and 65% in independent sole-traders group.

#### **Future**

In the future we expect adjustments in this phenomenon, due to introduced changes in the Labour Code. As consequence we expect significant move sole-traders towards self-employed in limited liability companies.