Characterisation of self-employment in Spain from a European perspective

Pilar García Perea and Concepción Román
Abstract

In Spain, self-employment currently accounts for 16% of those employed, a proportion slightly higher than the EU average. Compared with the prevailing structure among employees, it is males, the over-50s, those with a low level of educational attainment and those employed in traditional sectors such as agriculture, wholesale and retail trade, transport and accommodation who are over-represented in this group. Relative to self-employed workers in the EU, self-employment in Spain accounts for a smaller proportion of the total in the liberal professions in services, generally associated with a higher level of skill. In Spain, the incidence of self-employment economically dependent on a single client is relatively moderate compared with other European countries; but the high incidence of the self-employed who choose to work as such out of necessity, given the lack of alternatives, is notable. Lastly, in all euro area countries, households with a self-employed family head are seen to be wealthier than those with a wage-earning family head, and Spain is in an intermediate position.

Keywords: self-employment, sole proprietor, employer.

JEL codes: J21, J23, H25.
CHARACTERISATION OF SELF-EMPLOYMENT IN SPAIN FROM A EUROPEAN PERSPECTIVE

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Introduction

This article describes the main characteristics of the self-employed in Spain. This group includes employers who have their own business and hire staff, and own-account workers who have no employees in their charge and are commonly known as sole proprietors. Understanding the scale, course and conditioning factors of this type of work is important. Enterprise and business start-ups are in many cases linked to these types of workers and, therefore, the attendant dynamics are crucial for achieving a competitive economic structure that is conducive to more innovative growth. The second, third and fourth sections respectively address the definition, quantification and characterisation of self-employment in Spain from an international perspective.

Self-employment is not always synonymous with independent work, as associated with entrepreneurial status. Some of the self-employed, especially those depending on a single client, are in a situation very close to that of an employee in terms of economic dependency and lack of autonomy in the performance of their work; yet they do not enjoy the social protection that employees generally have. The need to clarify the status of workers on the borderline between employees and the self-employed is increasingly important, given that new forms of employment are emerging where, frequently, it is difficult to determine who the employer is and who the employee is. Thus, the fifth section looks into two significant aspects in order to understand the heterogeneity of motivations that may lie behind self-employment status: that of economically dependent employment, encompassing workers who depend on a single client; and that of self-employment out of necessity or self-employment as a last resort, encompassing those who choose to work on their own account, owing to a lack of alternatives. Lastly, the article includes a box which presents the main recent regulatory changes governing the self-employed in Spain, in light of the challenges posed by the European Pillar of Social Rights.

Definition of self-employment

1 In Spain, private person companies, the so-called sole proprietors, and majority owner workers of public and private limited companies who have effective control over such companies are obliged to register with the Special Regime for the Self-Employed (RETA by its Spanish abbreviation). However, owner-workers of public or private limited companies whose share in capital stock is less than one-third may choose between registration with the RETA or with the Spanish Social Security General Regime (RGSS).
— The sole proprietors who do not generally hire any workers, and who are usually more numerous in the groups of agricultural workers, retailers and liberal professionals in services (freelancers and iPros), who frequently work for the client through a contract for the performance of a specific task.

— Members of producers’ cooperatives self-employed in a cooperative.

— Non-remunerated family helpers who, in some countries, as is the case of Spain, are covered by the Social Security system.

Under this classification, according to the Labour Force Survey, there were 3.1 million self-employed in Spain in 2018 Q4. This figure is similar to that in the legal registers of the Social Security system (3.2 million in 2018), equivalent to 15.9% of total employment.

Early in the 21st century, there was a halt to the ongoing loss of weight of self-employment relative to total employment. This had been the case at least since 1964 when, according to the first release of the Labour Force Survey, 44% of those employed were self-employed. This rate amounted to 74% in agriculture, which then accounted for 40% of employment. In the 1960s the welfare state had not been developed and welfare benefits for employees were practically non-existent; accordingly, the differences between both groups were essentially in severance payments.

In 2017, the self-employment rate stood at 16%. In the last 55 years, then, it has fallen by almost 30 pp to stand at only 2 pp above that prevailing in Europe (see Chart 1.1). This trend shows the growing opportunities that arose in Spain for finding dependent employment as the country’s productive structure underwent transformation, with industry and, above all, services, gaining weight at the expense of agriculture. At the same time, the State began progressively to grant bigger entitlements and welfare benefits to employees, extending these to the self-employed as from 2007 (see Box 1).

Behind the reduction in self-employment has been the gradual decline in the self-employed without employees. The related rate stood at 10.9% in 2017, 1 pp above the European rate. Unlike in Spain, the rate of self-employed without employees in Europe has moved on a slightly rising trend over the past 20 years (see Chart 1.2). Throughout this period, the rate of self-employed with employees has held relatively constant in Spain (at around 5%), while in Europe it has dipped from 5.5% to somewhat less than 4.5% (see Chart 1.3). As a result, since the mid-2000s the rate of self-employed with employees in Spain has also stood almost 1 pp above the European rate.

Country by country, in 2017 only Greece and Italy had self-employment rates of over 20%. In Spain, Portugal, the Netherlands and Ireland these rates stood at around 15%, the euro area average. At the opposite extreme are Germany, Austria and France, with self-employment rates of around 10%. Of note are the intensity with which the self-employment rate is falling in Portugal, and the significant increase in this rate in the Netherlands. While of a much lesser intensity, it is worth mentioning the recent fall in the rate of self-employment in Germany.

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2 The National Accounts resort to a legal characteristic to define self-employment: private person companies or sole proprietors. Hence, as opposed to the Labour Force Survey or Social Security criterion, the bulk of employers, i.e. owner workers of public and private limited companies, are excluded from the group of self-employed, even though they are registered with the RETA. According to this classification, the number of self-employed workers would be 2.5 million in 2018. The million fewer self-employed captured by the National Accounts corresponds to the figure of 1,179,575 public and private limited companies recorded in the Central Companies Directory (DIRCE) published by Eurostat, a figure that approximates to the number of employers.
Lastly, countries with a low self-employment rate, such as Germany, Luxembourg, Estonia and Austria, can be seen to have a high percentage of employers, relative to the total self-employed, while countries such as Greece, Italy, Portugal and the Netherlands, with high self-employment rates, have a low proportion of employers (see Chart 2).

Focusing on the more recent period, we observe how, during the initial years of the crisis (2008 and 2009), self-employment in Spain fell at a very sharp rate (4% and 10%, respectively). This even exceeded the high decline in employees, which gave rise to a reduction in the rate...
of self-employment. The reduction most sharply affected the rate of self-employed with employees, in line with the increase in the exit rate of firms between 2006 and 2008. As from 2011, the rate of self-employed without employees rebounded (see Chart 1.2), possibly as a result of the difficulty of finding dependent employment at a time at which workers who had lost their job were facing the progressive run-down of their unemployment benefits. This was also as a consequence of the introduction of the “flat rate” for the payment of contributions to the Social Security system in 2013, as described below.

Indeed, given the high rate of unemployment reached, interest in promoting self-employment reigned. Hence, Royal Decree-Law 4/2013 of 22 February 2013, on measures to support entrepreneurs and stimulate growth and job creation, introduced the so-called “flat rate for the self-employed”. The legislation proposed reductions and rebates in Social Security contributions for the newly self-employed under the age of 30, who did not have employees in their charge and who had not been registered with the RETA in the five previous years.3

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3 The measure initially entailed an 80% reduction in the contribution for the first six months, a 50% reduction in the following six months, a 30% reduction over the three subsequent months, and a rebate of 30% for 15 additional months.
This measure has been amended by successive legislation, which has changed the eligibility requirements (e.g. eliminating the age limit and altering the restriction relating to prior experience as self-employed), and the duration and amount of assistance. Despite successive extensions, to date there has only been one paper evaluating the measure introduced in February 2013: the paper in question analyses the flat rate as an entrepreneurial policy, and finds no significant effect of this assistance on the survival of those availing themselves of these benefits as self-employed workers [Cueto et al. (2017)].

As the recovery began in 2013, dependent employment started to grow at a faster pace than self-employment, and the self-employment rate fell to 16% in 2017, close to the historical low recorded in 2011.

Much of the economic literature has focused on analysing the determinants of entry to self-employment. It has placed particular emphasis on the importance of individual characteristics, such as sex, age and educational level. If we focus on the effect of sex, the empirical literature can be seen to be fairly constant in showing that the probability of women working as self-employed is less than that of men. Likewise, most of the empirical work demonstrates that the probability of being self-employed is higher among middle-aged individuals.

The effect of education, however, is more controversial. Indeed, as many studies report a positive relationship as do those that find that the relationship is negative and even non-significant. Leaving aside possible methodological problems, this mixed evidence for different OECD countries may be related to the heterogeneity of self-employment, derived among other reasons from the presence of different motivations for entry into self-employment. While individuals with a low educational level have a greater probability of involuntary transition out of necessity, individuals in the highest educational attainment segment have a greater propensity to detect business opportunities and to enter self-employment for opportunistic reasons. Further, the impact of education may become blurred if the differences between sectors of activity are not taken into account.

More details about the determinants of self-employment can be found in Parker (2009), Román et al. (2011 and 2013), Millán et al. (2012), Milán et al. (2013) and Simoes et al. (2016). These include, in addition to individual factors such as those mentioned, the impact of certain labour market institutions, such as employment protection legislation and active labour-market and macroeconomic-environment policies.

Chart 3 depicts the breakdown by sex, age, educational level and productive sector of employees, the self-employed without employees and the self-employed with employees in Spain and in the euro area in 2017. In terms of sex, there is practical parity between male

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4 The details on the successive amendments may be consulted in Law 14/2013 of 27 September 2013, in support of entrepreneurs and their internationalisation; in Law 31/2015 of 9 September 2015, amending and updating the regulations on self-employment and adopting measures to foment and promote self-employment and the social economy; and in Law 6/2017 of 24 October 2017 on Urgent Self-Employment Reforms.

5 See, for example, Blanchflower (2000); Leoní and Falk (2010); Stefanović and Stošić (2012); Verheul et al. (2012), and Koellinger et al. (2013).

6 Taylor (1996); Fairlie (1999); Dunn and Holtz-Eakin (2000); Blanchflower (2004); Georgellis et al. (2005); Andersson and Hammarstedt (2010), and Calliendo et al. (2014).

7 Borjas and Bronars (1989); Dolton and Makepeace (1990); Bates (1995); Blanchflower (2000); Blanchflower (2000); Kim et al. (2006); Zissimopoulos et al. (2009).

8 Kidd (1993); Bruce (1999), and Clark and Drinkwater (2000).

9 Van der Sluis et al. (2008).

10 Blanchflower (2000); Åstebro et al. (2011); Joona and Wadsenjo (2013), and Poschke (2013).

In Spain, men, the over-50s, those with a low educational level and those pursuing their activity in the retail and wholesale trade, in transport and in accommodation account for a higher percentage in the self-employed than in employees. Compared with the self-employed in Europe, self-employment in Spain is under-represented among the liberal professions in services.

**Source:** Eurostat.

**Note:**
- Sector A groups agriculture, forestry and fishing. B, C, D and E refer to mining and quarrying, manufacturing, electricity, gas, steam and air conditioning supply, and water supply, sewerage, waste management and remediation activities, respectively. F represents the construction sector. G, H and I cover the retail and wholesale trade and the repair of motor vehicles and motorcycles, transport and storage, and accommodation, respectively. J represents the information and communications sector. Finally, M and N refer to professional, scientific and technical activities, and to administrative activities and ancillary services.
and female employees males and females in Spain (52.2% males), while the sex gap widens dramatically in self-employment, and especially among self-employed with employees, where 70% are men. This bias, however, is somewhat lower than in the euro area, where the percentage for men rises to 73.3%.

With greater experience and generally better access to financing, the over-50s account for a higher proportion of self-employed both in Spain and in the euro area. But the opposite is the case for youths, who face greater obstacles as self-employed with and without employees. The European Commission’s Flash Eurobarometer 354 survey conducted in 2012 showed that, for the European Union (EU) as a whole, 45% of the youngest cohorts (aged 15-24) prefer self-employment as opposed to employee status, compared with 37% of the cohorts aged 25-39. This difference between age groups is even bigger in Spain, where the youngest cohorts indicate a 49% preference for self-employment, while in the case of the generation aged 25-39, this figure is 26%.

In terms of educational level, Spain has a highly polarised employee-status population structure compared with Europe. The highest proportion of the population in Spain falls into the groups with higher studies and with lower studies, whereas only 24% of employees have intermediate studies, practically half that in Europe. This polarised structure also holds among the self-employed, albeit biased towards those with a lower educational level compared with the euro area. As a result, 40.5% of the self-employed without employees and 35.1% of self-employed with employees in Spain have a low educational level, set against the related figures of 24.8% and 20.1%, respectively, in Europe.

As regards sectoral distribution, employees in Spain have a greater weight relative to the euro area in agriculture, retail and wholesale trade, transport and accommodation, and the impact of these sectors among the self-employed is also greater. Conversely, among the self-employed, the percentage accounted for by the higher-skills services (e.g. independent professionals), is lower than is the case in Europe, which is not the case among those with employee status.

Drawing on the Household Finance and Consumption Survey (HFCS), it is possible to obtain information on the level of household wealth in the euro area countries differentiating between the households whose head is mainly self-employed and those whose head is mainly an employee. In all European countries the net median wealth of the self-employed is greater than that of those with employee status. Specifically, in Spain, the net median wealth of households with a self-employed head was 2.8 times greater than that of households whose head was an employee. That placed Spain in an intermediate position among the euro area countries (see Chart 4). Ireland, Austria and Germany, which have a higher proportion of employers among their self-employed, are also the countries in which households whose heads are self-employed have greater wealth than households whose heads are employees.

Within each country, this wealth difference between households with self-employment income and households with employee income shows cyclical behaviour, and the wealth gap is wider at times of expansion and narrower at times of crisis. Hence, drawing on data from the Banco de España Survey of Household Finances (EFF by its Spanish name), it can be seen that at the start of the recession, in 2008, the median wealth of households whose head was self-employed was 1.9 times that of households whose head was an employee. This difference began to widen with the recovery.

See Banco de España (2017) for a definition of the concept of “household head” in this context.
Self-employment is very heterogeneous. The affordable digital tools that have emerged and different technological advances play a very important role, as they pave the way for new working methods (including the collaborative economy through online platforms and mobile applications). They have provided opportunities for the development of new businesses which, despite being small in size, can be competitive. Alongside this group, which contributes great value to the economy, are figures with a different profile, such as the self-employed out of necessity or the economically dependent self-employed.

The phenomenon of economically dependent self-employment encompasses workers who depend on a single client (occasionally their previous employer), and who are in a situation very close to that of an employee in terms of economic dependence and autonomy in the performance of their work, but with less access to the rights and benefits typically associated with employee status. The emergence of this phenomenon has aroused great interest in light of its potential impact on traditional industrial relations and of the consequences for the design of social policies, although identifying them is not straightforward.\(^\text{13}\)

The European Working Conditions Survey (EWCS) seeks to contribute to identifying economically dependent self-employment through questions relating to the number of clients, the authority to hire or fire employees and the capacity to take important decisions about the business. Based on this information, various papers attempt to quantify the phenomenon, and they obtain different data depending on the methodology they use.\(^\text{14}\)

Drawing on information from the sixth wave of the EWCS 2015 on the number of clients, the percentage of self-employed workers who depend on a single client in the euro area ranges from 5% in the Netherlands to 40% in Portugal. Spain stands below the European average, with 12% of total economically dependent self-employment. Generally, this is a phenomenon that clearly prevails among workers with a lower educational level: 25% of...
Economically dependent self-employment is more prevalent among the lower-educated and in agriculture, and in relative terms in Spain, the incidence is higher among youths and women.

The EWCS also provides for the identification of the self-employed who choose to work on their own account owing to the lack of alternatives. This is what the literature has identified as **self-employment out of necessity** or **self-employment as a last resort**, and it is associated with a lower survival of the firm, with lower earnings and with less satisfaction.\(^{15}\) In this respect, the data place Spain above the euro area average, with 26% of the self-employed reporting having started a business owing to there being no other options, a figure only

\(^{15}\) Block and Koellinger (2009), Block and Sandner (2009), Block and Wagner (2010), Binder and Coad (2013) and Zali et al. (2013).
Self-employment out of necessity is more frequent among the lower-educated. In Spain its incidence is notable among the young.

In Spain, the percentage of self-employed out of necessity stands at 26%, above the Euro area average.

1 PERCENTAGE OF SELF-EMPLOYED OUT OF NECESSITY

2 PERCENTAGE OF SELF-EMPLOYED OUT OF NECESSITY

SOURCE: Eurofound (EWCS 2015).

References


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In Spain, self-employment was regulated for the first time in 2007. This marked the first example of systematic and unitary regulation of self-employment in the EU. The aim was to further convergence in terms of social and economic protection among workers registered in the RETA and belonging to the General Regime. This approach is in line with the European Pillar of Social Rights, approved in 2017 by the European Parliament, which has set itself the target of improving the social protection of all workers, irrespective of their employment status. The biggest challenge countries face in this respect is to introduce unemployment benefits for the self-employed either for discontinuation of activity or sickness. These aspects are fundamental if workers are to enjoy the same levels of protection.

Set out schematically below are the main advances made since 2007 in the regulations governing self-employment in Spain:

  - Self-employment is systematically and unitarily regulated for the first time.
  - The obligation to opt for sickness coverage is introduced.
  - Recognition of the economically dependent self-employed, a legal figure subsequently implemented by Royal Decree 197/2009.

— Law 32/2010 of 5 August 2010 establishes specific protection arrangements for the cessation of activity by the self-employed.
  - Voluntary introduction of protection for cessation of activity, which is linked to protection relating to contingencies for industrial accidents and illnesses. The requirements are laid down for opting for entitlement to cessation of activity, derived from an involuntary situation that must be accredited.
  - The amount of the benefit is based on the contribution-benefit principle.
  - Mutual insurance companies are entrusted with financing and managing the benefit.
  - The obligations of the self-employed are regulated and the related sanctions set.
  - Improvement established for the over-60s through an extension of the benefit period.

— Law 14/2013 of 27 September 2013 in support of entrepreneurs and their internationalisation.
  - Flat rate created, involving a series of rebates on the contributions of the self-employed during the initial years of activity.
  - The “limited liability entrepreneur” is defined, safeguarding their personal assets from debt incurred. Likewise, the “second chance mechanism for entrepreneurs” is established through out-of-court agreements.
  - Administrative formalities for business start-ups are made easier by the setting up of Entrepreneur Service Points, offering information, document-processing, advice, training and business financing support services.
  - Tax incentives are offered for investors in business start-ups.
  - Subsequently, some of these measures were extended and amended in Law 31/2015 of 9 September 2015. Further, provisions were made for unemployment capitalisation, enabling the related amount to be earmarked for initial investment in an activity.

  - Surcharge on past-due payment of contributions reduced.
  - Flat rate extended and entry requirements lowered.
  - Measures conducive to work/life balance are set out.
  - Clarification of deductions such as those relating to registered office expenses.

— Royal Decree-Law 28/2018 of 28 December 2018, for the revaluation of public pensions and other urgent social, labour market and employment measures.
  - Obligatory inclusion of all contingencies that were hitherto voluntary: protection for cessation of activity and professional contingencies.
  - Period for receiving benefit doubled to 24 months.
  - The ceiling is increased, as are the maximum and minimum contribution bases.
  - Counter-measures stepped up against the undue use of self-employed status; a new very serious infringement is typified.
  - The new RETA contribution rates are set at:
    - 28.30% for common contingencies.
    - 0.90% for professional contingencies.
    - 0.46% for sickness.
    - 0.44% for permanent disability and death.
    - 0.70% for cessation of activity.
    - 0.10% for vocational training.
Protective action by RETA will comprise:

- Health assistance in the event of maternity, common illness or industrial disease, and all kinds of accidents.
- Economic benefits in the event of sickness, permanent disability, retirement, death and survival.
- Coverage of workplace accidents and industrial diseases.