

# ECONOMIC DEPENDENCY OF SOLO SELF-EMPLOYED INDIVIDUALS IN THE CZECH REPUBLIC

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## Abstract

This study explores the occupational characteristics of dependent self-employed individuals being active in the Czech economy. These often called "precarious" individuals working on the edge between employment and self-employment, i.e., working for a main employer or a dominant client) that decides their working hours, belong to the most vulnerable groups in the labour market. The obtained evidence from the European Labour Force Survey (EU LFS) 2017 data shows that 4.5% of solo self-employed in the Czech Republic are considered dependent. The findings from the applied statistical tools (cross-tabulations and chi-square association tests) show that these individuals primarily work in low-skilled positions (as service and sales workers or craft and related trades workers). The obtained data further illustrate the gender differences in occupations pursued and the industrial distribution of their activities according to the NACE-2 Rev. classification.

**Key words:** dependent self-employment, occupational dependency, Czech Republic

**JEL Codes:** L26, J21, H55

## Introduction

Shadow economy, tax evasion techniques and undeclared work are long-term challenges of the labour markets. The existing research is, however, full of methodological challenges and non-precise estimations, implying that the tax evasion estimates, losses on taxes, and health and social insurance payments provided by the practitioners and scholarly community are relatively broad and inconclusive. One of the commonly addressed issues in the Czech economy is the so-called švarecsystém, capturing "precarious" individuals working on the edge between employment and self-employment, i.e. those legally working as solo self-employed, but in practice being treated as employees, without traditional rights and benefits are given to employees, such as paid vacation or sick leave. These are called dependent self-employed in the scholarly literature (Williams and Horodnic, 2018; Moore and Newsome, 2018). The phenomenon is so common in the country that some researchers consider most solo self-

employed as working under these dependent conditions, which is neither favourable for individuals working under them, nor for public budgets (Strielkowski, 2013; Finardi and Melicharová, 2021; Hájek and Olexová, 2022). Our study argues that dependent self-employment exists in the Czech economy but contributes only to a small proportion of the solo self-employment population. To prove this argument, we adopt internationally recognized criteria, allowing us to distinguish dependent self-employed from the solo self-employed who enjoy the benefits of being an entrepreneur and pursue an independent career without wanting to employ others (Williams and Horodnic, 2018; Ciešlik and Dvouletý, 2019). To do that, we use the European Labour Force Survey (EU LFS) 2017, apply the criteria, quantify the proportions of dependent self-employment and explore their occupational characteristics and motivation.

## 1 Empirical Approach and Data

We work with the EU LFS data, particularly with its 2017 edition, aiming to explore self-employment in Europe (Eurostat, 2018; 2019). We extract the Czech sample of self-employed individuals (N=2,440), which we further restrict to solo self-employed individuals, i.e. those who do not employ besides themselves any other employees (N=2,184). In this sample, we apply the dependency criteria (i.e., to reveal so-called švarcsystém, c. f. Melicharová and Finaldi, 2021), defining dependent self-employed individuals as those "who work full-time as solo self-employed for one client only (or one client is dominating, i.e., generating 75% or more income) and a (dominating) client decides their working hours" (Ciešlik and Dvouletý, 2019, p. 299). This means that self-employed operating under these conditions lose the autonomy to be their own boss and decide the working conditions. Thus, they significantly depend on the "employer's" decisions (Kautonen et al., 2010; Williams and Horodnic, 2018; Dvouletý and Nikulin, 2023).

In the next section, we explore the proportions of dependent self-employed on the overall Czech self-employment activity. Then we use the cross-tabulations and chi-square association tests to reveal their motivation for dependent self-employment; we also explore the skill levels of their professions, gender aspects, and industry distribution according to the NACE-2 Rev. classification.

## 2 Findings and Results

The obtained evidence from the EU LFS 2017 data, statistically weighted to the Czech economically active population, shows that 4.5% of solo self-employed (N=109) in the Czech Republic are considered dependent. Table 1 further illustrates that necessity-driven motivations (such as could not find a job, employer explicitly requesting respondent to become self-employed, or it is a common practice in the sector) prevail over opportunity-driven ones, which is in accordance with the previous literature (Román et al., 2011; Williams and Horodnic, 2018). Even the most frequently represented answer, i.e., the respondent did not want to or plan to become self-employed, but started working as self-employed, is somehow suspicious, indirectly indicating that the individual somehow ended up in this employment situation.

**Tab. 1: Declared Motivation for Dependent Self-employment**

Motivation	Frequency (%)
Could not find a job as an employee	10.2%
The respondent's former employer requested the respondent to become self-employed	10.2%
It is the usual practice in the respondent's field	17.5%
A suitable opportunity presented itself	17.8%
Continued the family business	3.5%
Did not want to or plan to become self-employed, but started working as self-employed	37.3%
Wanted to be self-employed because of flexible working hours	1.4%
Wanted to be self-employed for other reason	2.1%
<b>Total (N=109)</b>	<b>100.0%</b>

Source: Own elaboration based on the Labour Force Survey (LFS) ad-hoc module 2017 data (Eurostat, 2018)

Table 2 provides distributions of dependent self-employed according to the International Standard Classification of Occupations (ISCO) and reveals gender differences. First, it is evident that most of the Czech dependent self-employed (79.8%) work in low-skilled positions (as service and sales workers or craft and related trades workers in the vast majority). The association between the ISCO occupation and gender was found to be statistically significant at a 1% level of statistical significance (Chi-Square test p-value < 0.000, Cramer's

V = 0.6). Quite surprisingly, the gender proportions are relatively balanced. Thus the engagement of females in dependent self-employment is higher compared to the overall entrepreneurial activity in the Czech Republic, where there are, on average, 2.5 times more males compared to females (Dvouletý, 2019; Jurik et al., 2019).

**Tab. 2: International Standard Classification of Occupations (ISCO) and Gender**

ISCO Occupation/Gender	Males	Females	Total Dependent Self-employed
Managers	1.1%	0.0%	1.1%
Professionals	8.0%	7.2%	15.2%
Technicians and Associate Professionals	2.8%	1.1%	3.9%
<b>Total High-Skilled Occupations</b>	<b>11.9%</b>	<b>8.3%</b>	<b>20.2%</b>
Clerical Support Workers	0.0%	3.1%	3.2%
Service and Sales Workers	13.2%	36.1%	49.3%
Skilled Agricultural, Forestry and Fishery Workers	0.8%	0.0%	0.8%
Craft and Related Trades Workers	16.8%	0.5%	17.3%
Plant and Machine Operators, and Assemblers	5.2%	0.7%	5.9%
Elementary Occupations	1.7%	1.8%	3.5%
<b>Total Low-Skilled Occupations</b>	<b>37.7%</b>	<b>42.1%</b>	<b>79.8%</b>
<b>Total (N=109)</b>	<b>49.6%</b>	<b>50.4%</b>	<b>100.0%</b>
Test of association (N=109), Chi-Square = 38.3, p-value < 0.000, Cramer's V = 0.6.			

Source: Own elaboration based on the Labour Force Survey (LFS) ad-hoc module 2017 data (Eurostat, 2018)

Table 3 further shows the distribution across the industry sectors. The highest proportions of dependent self-employed operate in "other services" (44.4%), followed by the construction industry (12.6%) and manufacturing (11.1%). Again, this is not surprising if we consider that all these sectors have a relatively high proportion of low-skilled workers with a higher chance of working legally under the dependent relationship, not guaranteeing rights of the traditional employment contract, such as vacation or sick leave payments (Williams and Horodnic, 2018; Moore and Newsome, 2018; Dvouletý and Nikulin, 2023).

**Tab. 3: Industry Classification (NACE-2 Rev. Section)**

<b>NACE-2 Rev. Section</b>	<b>Frequency (%)</b>
Accommodation and food service activities	2.7%
Administrative and support service activities	2.8%
Agriculture, forestry and fishing	1.5%
Arts, entertainment and recreation	6.4%
Construction	12.6%
Education	2.2%
Electricity, gas, steam and air conditioning supply	0.7%
Financial and insurance activities	1.0%
Human health and social work activities	0.8%
Information and communication	6.8%
Manufacturing	11.1%
Mining and quarrying	0.8%
Other services activities	44.4%
Professional, scientific and technical activities	2.7%
Public administration and defence; compulsory social security	0.0%
Real estate activities	0.0%
Transporting and storage	2.5%
Water supply; sewerage; waste management and remediation activities	0.0%
Wholesale and retail trade; repair of motor vehicles and motorcycles	1.0%
<b>Total (N=109)</b>	<b>100.0%</b>

Source: Own elaboration based on the Labour Force Survey (LFS) ad-hoc module 2017 data (Eurostat, 2018)

## **Conclusion**

This study contributed to a better understanding of the occupational characteristics of Czech-dependent self-employed individuals, working on the edge between employment and self-employment (Thörnquist, 2015), i.e., working for a main employer or a dominant client) that decides their working hours (Dvouletý and Nikulin, 2023). The provided findings show that still, it is a severe issue in the Czech labour market (Strielkowski, 2013; Hájek and Olexová, 2022); however, it is not that extensive if we consider that 4.5% of solo self-employed in the Czech Republic are considered dependent. The EU LFS data for 2017 estimated 668,1 thousand solo self-employed individuals in the Czech Republic, implying that about 30 thousand solo self-employed individuals would work under economic dependency conditions.

Nevertheless, we must remind the scholarly community that even if the individuals work under dependency conditions, they voluntarily opt for this working relationship and have free will to terminate the agreement or change the clients they work for. Thus, it is a question of how long they typically remain working under these conditions, whether this is only a temporary episode or a transition effect for better opportunities in the labour market.

There are also several other research recommendations. To what extent has the COVID-19 pandemic worsened the conditions of the dependent self-employed individuals that could have been pushed out to the very edge of social and employment protection (Gheorghiev, 2023)? Answering this question would require longitudinal and primary research among dependent self-employed individuals, which would require establishing mutual trust between the respondents and the research team, as the topic is still legally and ethically sensitive. Thus it remains a challenge for forthcoming studies whether the most harmful effects would occur among the dependent self-employed working in low-skilled positions, who would otherwise work for the minimum wage (Fialová and Mysíková, 2021).

## **Acknowledgement**

This work was supported by the Technology Agency of the Czech Republic within the ÉTA programme, under no.: TL03000153.

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