

Title: *Self-Employment Incidence, Overall Income Inequality and Wage Compression*

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This paper uses the European Commission Household Panel (ECHP) to analyse the impact of self-employment incidence on income inequality in the European countries (EU15). We show that on average self-employed workers earn more than employees in most countries but that this result is reversed once we control for workers personal characteristics and working time. Our analysis confirms that Self-employed worker and households whose main source of income is self-employment are characterized by higher income inequality, and by a slightly higher overtime income volatility. We show that greater income variability together with significant cross-country differences in its incidence make self employment responsible for a significant part of the observed cross-country differences in income inequality. Moreover we detect for several countries relevant self-employment under-representation in the ECHP with respect to the Labour Force Survey, with a significant impact on measured inequality.

Last we test the hypothesis that the incidence of self-employment might partially depend on the distribution of income among employees. Namely we test the hypothesis that a compressed wage distribution might create incentives to quit paid employment at the top of the distribution and to underbid high minimum wages at the bottom, by offering services as self-employed. This hypothesis, however, did not find support in the data.