

FAX FROM THE FRINGE/Jim Stanford



Goodbye, Amway

Canada's job-making machine has continued to charge ahead, so far shrugging off concerns about a US economic slowdown. The economy has added 440,000 paid jobs in the last year, and total employment has topped the 15 million mark for the first time ever.

In the midst of this robust expansion, however, one segment of the labour market has been suffering a deep, quiet recession. Even as the help-wanted signs multiply in business windows across the nation, self-employment has declined by 175,000 positions, or some seven per cent, in just the last nine months. Only about 2.3 million Canadians are now self-employed, the fewest in four years. Since 1999 the self-employed sector has suffered proportional job losses about three times as deep as those endured by the labour market as a whole during the last recession.

This contraction marks a sharp reversal from the pattern of the last decade. During the gloomy 1990s, many Canadians bravely tried to create their own work. Self-employment accounted for an incredible 75 per cent of all net job growth between 1990 and 1997. The self-employed portion of the workforce grew from 14 to 18 per cent during the same period. It's now 15.7 per cent.

Ironically, Canadians are abandoning self-employment at the very moment when it should be easier to run your own business than at any time in recent memory. Small business profits will total over \$62 billion this year, an all-time record. Incomes are rising, consumers are spending, and taxes are falling. If ever there was a time to make that dream of running a small business come true, this is it.

Yet self-employed Canadians are putting up the shutters in record numbers. And perhaps the reason this deep recession has been so invisible is because many of these would-be entrepreneurs are actually glad to once again become humble working stiffs.

About 60 per cent of self-employed Canadians work on their "own account," meaning they have no employees other than themselves. These smallest of small businesses generate average incomes of less than \$25,000 per year—far less than Canadians earn in paid jobs. They are the consultants and the Amway salespeople and the shopkeepers who were downsized from governments or corporations in the lean 1990s and gamely tried to find their fortune as self-reliant entrepreneurs. Productivity is low, hours are long, and most can't be sure where their next cheque will come from. Even being able to write off mundane household costs as "legitimate business expenses" doesn't do much to improve a lousy bottom line. Little wonder they jump at

decent paying work when it becomes available. Despite the folklore that surrounds "being your own boss," entrepreneurs are not actually very free. Small-business owners may not have a boss looking over their shoulder but their actions are dictated and ordained nevertheless—by more faceless forces like supply and demand and lethal competition from thousands of other would-be entrepreneurs.

Should we be alarmed by this shake-out among the smallest of small businesses? Perhaps we should be celebrating it. As more and more Canadians abandon dubious business undertakings for real paying work, incomes will rise, and productivity will grow. Indeed, the growth in self-employment between 1990 and 1997 single-handedly dragged down average productivity in Canada by some two per cent; we now have a chance to repair that damage.

Government coffers will also benefit from the decline in self-employment. Despite their rugged, self-reliant image, small businesses in Canada benefit from a cornucopia of tax loopholes and special subsidies that would make an HRDC jobs-grant bureaucrat drool. The special federal tax rate paid by small businesses saves them \$3 billion per year, and similar provincial schemes cost at least another billion. A spate of other hand-outs, ranging from special EI grants to venture capital credits to preferential capital gains loopholes, further drains the public purse.

Small-business owners love to rant against the evils of big government. But if it weren't for these juicy subsidies, even more of them would be going out of business. And the faster Canadians return to old-fashioned paying jobs—which generate higher earnings, unreduced by "home office" expense deductions—the better off we'll all be.

Strangely, the downturn in their ranks has only intensified the pressure tactics of the potent small business lobby. No one gets a friendlier hearing from politicians of all stripes—even the NDP—than representatives of the plucky small business community. In Ontario small-business taxes will fall to just four per cent by 2005, hardly worth the bother of collecting them.

The dramatic shrinkage in self-employment suggests these subsidies are ill-advised. Hundreds of thousands of small-business owners are quietly voting with their feet. The tax subsidies are nice, thank you very much, and it was fun being my own boss (for a while, anyway). But wage slavery is starting to look like a much better deal.

Jim Stanford is an economist with the CAW. A version of this article appeared in The Globe and Mail.