

SMEs and traditional business: how to estimate the relation in wages?

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This paper is to explore how to estimate the relation in wages in the segment of SME and traditional segment in Russian regions.

The conceptual framework of the study required to explain the choice of determinants and interpret the obtained results is focused on two models: a simple model of relative demand-supply determining the aggregate segment of small business and model of individual's rational behavior in labor market. It models the transition from the pattern of an individual who wants to supply his labor and maximize his utility to a model of aggregate labor demand-supply on an aggregate segment of small business.

The model of relative labor demand-supply in the segment of small business used for econometric verification of the obtained model relations. The formulated hypotheses presume concurrent examination of two associated regressive equations, that is, estimation of the system of equations where endogenous variables measures of the price (wage) and amount of labor are measured here in relative units. Exogenous variables are social and economic characteristics of Russian regions.

The price (earnings, wage) and quantity of labor are measured in this statement in relative units and the relation of demand to supply is as follows:

$$D = D(w, X)$$

$$S = S(w, Z),$$

where D is aggregate labor demand in small business sector related to that in wage sector,

S is aggregate labor supply in small business sector related to that in wage sector,

w is the ratio of average earnings in the small sector to that in wage sector,

The basic determinants of relative labor demand in the aggregated segment of small business are: relative earning of the small business employed to that of the employed in the wage sector, risks, presence in the region's economy of capital which potentially can be invested in small business, the percentage of inhabitants in the region with entrepreneurial flair. Regional policy, crimes are taken as factors of risk in new enterprise formation.

Basic determinants of labor supply in the aggregate segment of small business are relative earning and factors skewing the curve of supply.

The model estimated by two methods: 2SLS (Two-stage Least Squares) and FIML (full-information maximum likelihood).

The hypotheses are checked on statistical data from 78 (out of 89) Russian regions for the 1990-1992 period. In the formation of the data panel used were data from the RF statistical office (Goskomstat), as well as data obtained in the studies of Russian researchers.

It is confirmed that under higher relative earnings the overflow from wage sector of the economy to the new sector of small enterprises increases – relative labor supply is increasing with increased earnings. In the earning equation the factor of relative employment in small business segment entered with the expected sign and is significant at the 5% level in two variants estimated by methods 2SLS and FIML.

Theoretical propositions about the effect of the proportion of workable population in total population on the amount of relative supply are supported. The variable entered the regression with expected sign, is significant. The variable "proportion of graduates" needs special attention. Its significant effect can be explained by that educated young people are willing to choose new enterprises for their career. Investment in education promotes new enterprise formation and economic growth. Self-employment and small business employment with their higher than in wage sector yield created such advantages which compensated the risks.

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