

**Title:** *Measuring the Role of Self-Employment in Earnings Inequality*

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Income inequality appears to be greater among the self-employed than among other workers. This difference may stem from a number of potential sources, including higher volatility of earnings for self-employed workers or greater variation in the skills and characteristics of the self-employed compared to other workers. However, assessing the magnitude and implications of these differences is difficult because self-employment income is hard to measure.

In this paper, we consider both the measurement and policy issues associated with the greater income inequality of self-employed workers. First, we use the comprehensive data on income, assets, and debts in the United States' Survey of Consumer Finances to construct several measures of self-employment and business income and, more broadly, of wealth. We then examine whether estimates of income inequality, both among self-employed workers and in the aggregate, are sensitive to these differences in definitions.

Second, we explore whether variation in demographic and labor market characteristics explains the greater income inequality among the self-employed and what implications this has for aggregate inequality. In particular, we use rich data on individuals' work history to examine how the propensity of workers from different income groups to become self-employed affects overall inequality. For instance, does entry into self-employment offer a means of softening the economic blow of a job loss, particularly for lower-income workers, and thus reduce overall income inequality?