Covid-19 and the self-employed: Six months into the crisis

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CEP COVID-19 ANALYSIS

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Summary

• The second LSE-CEP Survey of Self-employment was undertaken in September 2020.¹ Here we report results, updating and extending our analysis from earlier in the year.

• Between April and August, the self-employed experienced little economic recovery, with hours and incomes being significantly lower than the same time last year, and 58 per cent reporting having less work than usual in August. Solo self-employed and older workers continue to be the most negatively affected.

• Self-employed individuals who find work through apps - such as private hire drivers - are among the least negatively affected, with a third reporting having more work than usual. At the same time, many consider their health to be at risk but continue to work due to concerns about losing their job, strongly suggesting a one-sided flexibility in these “gig economy” jobs.

• One fifth of workers consider it likely that they will leave self-employment. This is higher among less risk-averse workers, younger workers, and those excluded from government support.

• Self-employed workers were seemingly overly optimistic during the lockdown, as they are now pushing back their expectations on when their business will be back to normal.

• Schools reopening has lifted some of the pressure off self-employed parents, whose work was adversely affected by the intensified caregiving responsibilities during the lockdown.

• The self-employed have benefitted from the renewed availability of government support but, even six months into the crisis, their awareness of some of the schemes on offer remains limited.

¹ We thank the LSE COVID-19 Fund for funding the data collection and analysis underlying this brief. The LSE-CEP Survey of Self-employment September 2020 was approved by the LSE Research Ethics Committee.
Introduction

Six months after Covid-19 first hit, it is clear that it is the greatest economic crisis of the modern age. The economy has contracted far more rapidly than in previous crises, with GDP dropping by a record 19.5 per cent in April (ONS, 2020b), and despite four subsequent consecutive monthly increases since then, remaining 9.2 per cent below the February 2020 level in August. Early indicators suggest at best a slow recovery that is stalling (IHS Markit, 2020) as the country faces a new wave of cases and harsher and localised restrictions on economic activity. The Centre for Economic Performance’s finding of a disproportionate effect of the crisis on self-employed workers back in May has now been corroborated in other studies and confirmed in official statistics (Cominetti et al., 2020; Reuschke et al., 2020; ONS, 2020a).

We have now moved into a new phase of the crisis, characterised by more sector-specific restrictions, less direct government support for workers and local lockdowns, and a second month long national lockdown coming into place. The Self-employment Income Support Scheme (SEISS) delivered much-needed support to many self-employed workers throughout the Spring and the Summer. In his Winter Economy plan, the Chancellor announced that the scheme would be extended until next April. The policy details are changing at a rapid pace. At the time of writing, future generosity levels have been restored to those of the first SEISS grant.2

Most recently the government has discussed its vision for the post-Covid economy,3 framing the crisis now as a structural change rather than a short-term shock to be weathered. With a new policy emphasis placed on re-skilling workers, it is likely that the make-up of the workforce in the next decade will differ substantially to that of the last decade. In light of their vulnerability to Covid-19 risks and associated policy responses, the self-employed will not be exempt from this.

Given this rapidly changing environment, in this short policy brief we provide an update on how the self-employed are faring in the crisis. From 9 - 13 September we ran an online survey of 1,500 self-employed workers covering their working lives, concerns and expectations for the future. Responses are weighted to represent the population of self-employed workers using the latest aggregates from the Labour Force Survey. While our results do not replace official statistics, by tailoring our survey we are able to zoom in on the issues that are particularly relevant to self-employed workers and shed light on their beliefs and expectations in a way that other surveys are not.

Hours and incomes are still significantly lower than usual

More than half (58 per cent) of self-employed workers report having less work than usual in August 2020, 15 percentage points lower than the comparable April figure (73 per cent) from the previous survey in May (Blundell and Machin, 2020).4

Hours and incomes paint the same picture of a marginal recovery. Figure 1 compares reported hours just before the crisis (February), at the peak of the first lockdown (April) and over the summer (August). While the share of workers with fewer than 10 hours worked each week fell from 40 per cent in April to around a third (32 per cent) in August, this is still significantly higher than the 16 per cent figure in February. Figure 2 shows the same to be the case for incomes. The share of workers earning under £1,000 over the month of August is 50

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2 This includes the changes announced on 5 November.
4 If anything, this could underestimate the impact of the crisis on the self-employed as some self-employed workers will have already become unemployed due to the crisis and updated their information with the survey company. To be eligible for the survey, participants must be registered as self-employed at the time of the survey.
per cent, barely lower than the equivalent figure for April (52 per cent) and significantly higher than the February figure of 33 per cent.

Figure 1: Weekly hours in February, April and August 2020.

Notes: Self-reported hours worked in February, April and August 2020.

Figure 2: Monthly income in February, April and August 2020.

Notes: Self-reported income from main job in February, April and August 2020.
In statistical regression analyses, reported in Table A.1 in the Appendix, we show that the qualitative patterns found in our previous brief using April data very clearly persisted through the summer. Those with the largest losses are older workers, those without employees and those who cannot work from home. Women are also more negatively affected than men, being 8 percentage points more likely to report having less work than usual in August once we account for differences in the ability to work from home.

**App-based workers are different, with strong evidence of one-sided flexibility**

A growing set of self-employed workers find work through digital apps. These workers are the most associated with the “gig economy” and include private-hire drivers, parcel delivery drivers and food delivery drivers. These workers make up 8 per cent of our survey participants, are younger and are more likely to be from a minority ethnic background than other self-employed workers.

In terms of how they are being affected by the crisis, these workers exhibit significantly different patterns to others in self-employment. Between a quarter and a third (28 per cent) of these workers actually report having more work than usual in August, relative to 8 per cent of other self-employed workers.

App workers are unusual in that their work cannot in general by performed remotely, yet they continue to work at similar levels to before the crisis. Given this, it is unsurprising that over three out of every four (78 per cent) app-worker respondents perceived their health to be at risk during work throughout the crisis. Among other self-employed workers, the figure is 23 per cent.

So why did these workers continue to work despite the risk? One explanation is of course that there were strong financial incentives. Exceptional growth in online shopping fuelled a strong demand for parcel delivery and concerns over eating out drove consumers to ordering in food, so it could be that wages were good and workers were prepared to take the risks. Furthermore, workers have bills to pay and may not have the luxury of not working temporarily. Indeed, in Figure 3 we see that across the three main types of app workers, around 60 per cent of workers report pay as being a key reason why they continued to work despite health risks.

**Figure 3: Motivations to work despite health risks**

Notes: Responses to the question “Given the health risks, what was it that motivated you to work?”. Sample limited to app workers who report feeling that their health was at risk while working.

A key argument made by app-based companies is that their workers have the flexibility to choose when they work. Despite this claim, we find that 54 per cent of parcel delivery drivers and 52 per cent of private hire drivers work out of a fear of losing future work. At least in the eyes of many workers, flexibility is distinctly one-sided. This finding has strong implications for discussions over whether gig economy workers represent ‘bogus’ self-employment.

The remaining self-employed will be less risk-taking, lower income and older

Here we explore how self-employment is likely to change as a result of the crisis. By the summer, there had already been a sharp fall in the number of self-employed workers (ONS, 2020c). This could primarily reflect the sector-specific nature of the shock, but for some will be the result of an increased salience of the risks that self-employed workers bear. The Covid-19 crisis has vividly illustrated the social insurance available to different types of workers, with many for the first time experiencing the basic safety net of Universal Credit (Brewer and Handscomb, 2020).

We asked respondents whether they were likely to leave self-employment as a result of the crisis and pooled these with the small number of workers who reported leaving self-employment recently but remained in the survey pool. On aggregate, a fifth of respondents find it likely that they will leave. Figure 4 shows how the subjective likelihood of leaving self-employment due to the crisis relates to risk aversion. We see a strong relationship, with those who consider leaving likely exhibiting a far greater willingness to take risks. The least risk-averse individuals are more than twice as likely to report being likely to leave self-employment as the most risk-averse individuals. This could reflect the fact that switching out of self-employment and into a new working arrangement is itself risky.

Figure 4: Risk aversion and likelihood of leaving self-employment

Notes: Risk aversion measure as in Falk et al. (2016, 2018). Y axis variable pools those answering “likely” or “very likely” to the question “Are you likely to leave self-employment as a result of the crisis” and those who already left self-employment by the time of the survey.
As well as the less risk averse, we also see that higher income and newly self-employed workers report a higher likelihood of leaving self-employment. These groups are ineligible for government support. Younger workers are also more likely to report it being likely that they will leave self-employment, with 59 per cent of self-employed workers under 25 years old, answering positively relative to 19 per cent of 35-44 year olds. This could reflect having more flexibility over career path due to having made fewer occupation-specific investments.

**The self-employed have become less optimistic on work returning to normal**

The prolonged uncertainty over economic conditions, as well as the protracted negative effect on income and hours, has caused self-employed workers to revise their expectations on when their activity will go back to normal. Figure 5 compares the distributions of beliefs in May (from the previous survey) to those in the latest September survey. In the most recent data, 21 per cent of respondents say they have returned to normal business levels, and only about 20 per cent expect to resume their regular activity by December. Moreover, while in May 2020, a fifth of respondents believed their normal activity would only resume after the end of the year, a third of them now thinks this is only likely to happen after February 2021. Overall, the distribution is significantly less optimistic than it was in May. This is also consistent with the increased business uncertainty reported in the Bank of England’s Decision Maker Panel (Bloom et al., 2020).

**Figure 5: Expectations for the future**

![Bar chart showing expectations for the future](image)

Notes: Responses to question “When do you expect your work to go ‘back to normal’ after the current crisis?"  
Schools reopening has lifted some of the pressure off self-employed parents

The re-opening of schools has lifted quite some pressure from self-employed working parents. Among those with children under 18 years of age, more than half (57 per cent) state that having them at home during the lockdown significantly affected their capability to work. This is consistent with the analysis of time-use data found in Andrew et al. (2020).

The vast majority (87 per cent) of respondents report that their children were back in school full time at the time of the survey. This is particularly relevant given that the median self-employed individual reports carrying out about 75 per cent of their job from home. Interestingly, and even though women are more likely, on average, to have kept more of their work from home, the presence of children at home during working hours is self-reported as being more work-disrupting for men. As highlighted by Hupkau and Petrongolo (2020), men typically take on a minor share of caregiving responsibilities. Reporting biases could play a role in explaining the patterns on perceived disruption in our survey.

The self-employed have benefitted from the renewed availability of government support, but their awareness of the available schemes is limited.

During the last months, the government has renewed their offer of financial support towards self-employed workers. The first Self-Employment Income Support Scheme (SEISS) grant benefitted 2.7 million individuals, for a total of £7.8 billion (HRMC, 2020). Applications for the first SEISS grant closed on 13 July 2020 and following this, a second round of grants opened for applications on 17 August 2020. Eligibility requirements have not changed5, but the scheme has reduced its generosity, providing a payment worth 70 per cent of profits, covering a three-month period up to a total of £6,750. Workers can make a claim for the second grant regardless of whether they had applied for the first one earlier this year.

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5 Applicants need to exhibit profits below £50,000, earn at least half of their income from self-employment and have traded in tax year 2018 to 2019. Company directors are excluded.
We found that 28 per cent of workers had filed an application for a second grant, about a month after the scheme’s opening. However, there are knowledge and awareness issues over the policy. Out of those who had not applied for either grant, 38 per cent were not sure of their eligibility. Uncertainty also extends to generosity, with 45 per cent of the self-employed reporting they are not sure about how the second grant compares to the first one, and about 19 per cent (incorrectly) thinking it is at least as generous.

Very few have applied to other support schemes that are available to the self-employed. Only 27 per cent had filed applications to at least one of these schemes. Moreover, as Figure 6 shows, there is wide heterogeneity in the degree to which they are aware of what type of support is available. It is worth noting however, that some of these schemes will only be available to a small share of self-employed workers.

**The newly self-employed**

An important characteristic of the SEISS is that it excludes those who have not filed a tax return in tax year 2018-19, leaving out those who started their self-employment after April 2019. To plug this gap, national governments have introduced small grants targeted towards these workers. The Scottish and Welsh governments made available grants of £2,000 and £2,500 respectively.
Our survey is not large enough to directly test how these grants have affected the self-employed. However, we do find that among those not covered by these additional grants, the newly self-employed are more than twice as likely to report having trouble with basic expenses when compared to other self-employed workers (52 per cent vs 23 per cent). This is not explained by the newly self-employed seeing a greater loss of work during the crisis. Newly self-employed workers are less likely to be able to cushion negative shocks, and the lack of government support is only exacerbating their vulnerability.

**Conclusion**

Six months into the crisis, the self-employed are still experiencing substantially lower income and hours. While there has been some recovery, more than half still have less work than expected for this time of year. For gig economy workers, economic prospects are rosier, however the pandemic has laid bare pre-existing policy concerns over the true degree of flexibility these workers experience.

Government support to date, while valuable for those eligible, has not reached all self-employed workers and the newly self-employed appear to be particularly vulnerable. The extension of support through to April 2021 and the recently announced changes to generosity further widen the gap between those eligible and those ineligible for SEISS grants.

A key question for UK labour market policy going forward is the extent to which the crisis represents a permanent shift versus a short-term shock. Looking ahead, workers are becoming increasingly pessimistic on the chances of work returning to normal in the near future, and we are seeing changes in the type of people who choose self-employment over more conventional employment relationships. The growth of self-employment (especially of the solo own account form) was one of the key trends in the labour market in the past two decades, and there are now early signals that this trend could be set to reverse. Over the coming months we will continue to survey self-employed workers, to monitor these patterns of change and to document the evolution of the crisis as the labour market continues to adjust to rapidly changing conditions.
References


Brewer, M. and Handscomb, K. (2020) This time is different – Universal Credit’s first recession: Assessing the welfare system and its effect on living standards during the coronavirus epidemic, Resolution Foundation.


### Appendix

Table A.1: Reduction in work in August 2020, compared to August 2019, Regression Estimates

<table>
<thead>
<tr>
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<th>Dependent variable: Less work in August 2020</th>
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<tbody>
<tr>
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<td>(1)</td>
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<tr>
<td></td>
<td>(2)</td>
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<tr>
<td></td>
<td>(3)</td>
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<tr>
<td>Age 25-34</td>
<td>0.036</td>
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<td></td>
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<tr>
<td>Age 35-44</td>
<td>0.181***</td>
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<td></td>
<td>(0.066)</td>
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<td>Age 45-54</td>
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<td></td>
<td>(0.065)</td>
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<td>Age 55 and above</td>
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<td>Work from home</td>
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<td>Male</td>
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<td>Solo self-employed</td>
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<td>Constant</td>
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<td>Observations</td>
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<tr>
<td>R-squared</td>
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</table>

Notes: Robust standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1. OLS regressions. All specifications use probability weights to match LFS aggregates. The dependent variable equals 1 if the respondent reports having “A lot less work” or “Somewhat less work” in August 2020 compared to August 2019. Age reference category is 18-24. “Work from home” is expressed on a scale from 0 to 1.
About the authors

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