Covid-19 and the self-employed - ten months into the crisis

Jack Blundell
Stephen Machin
Maria Ventura
COVID-19 and the self-employed – ten months into the crisis

CEP COVID-19 ANALYSIS

Jack Blundell, Stephen Machin and Maria Ventura

March 2021

Summary

- The third LSE-CEP Survey of Self-employment was undertaken in February 2021, following the previous two of May and September 2020.

- The self-employed are continuing to be hit hard by the crisis, and in January 2021 under third lockdown their economic position in some dimensions has returned to be as bad as it was under the first lockdown of April 2020.

- In January 2021, the distribution of incomes and hours of self-employed workers is broadly similar to the first Covid-19 lockdown last spring.

- Through the crisis, there has been a heavy reduction in new entrants to self-employment.

- There has been a strong increase in transitions from self-employment to employment, but this is driven by self-reclassification rather than actual changes in job.

- While some workers anticipate leaving self-employment due to the crisis, these numbers are not noticeably different to typical rates of self-employment exits.

- Through a hypothetical choice experiment, among self-employed workers for whom a similar employee position exists, the majority show a preference to remain self-employed as they would choose their current status over switching to being employees.

- Badly targeted self-isolation payments have acted to provide poor incentives for workers to isolate when necessary, due to the perceived losses in income.

- School closure during the recent lockdown has increased pressure on self-employed parents, with 80% of women with children being the primary figure in their home learning during the lockdown.

- Although available in multiple forms, government support fails to provide the desired relief to all self-employed workers, leaving more than half of them worse off as a result of the crisis.
Introduction

Almost a year into the crisis, the Covid-19 pandemic still shapes the social and economic life of the country. Though precise international comparisons are not without difficulties, there is now compelling evidence that the UK suffered the greatest contraction in real GDP across the G7 countries (ONS, 2021b). Though there was some recovery over the summer, the latest ONS data shows an uptick in unemployment, falling employment and a stagnation in job vacancies (ONS, 2021a). The government has recently announced a cautious release of the current lockdown. However, even the best-case scenario involves tight restrictions on economic activity for at least another quarter.

This report represents the third in a series of Centre for Economic Performance policy briefs focussed on the experience of self-employed workers throughout the Covid-19 crisis. Since our first release in May, it has become widely acknowledged that the self-employed are disproportionately affected by the crisis (Cominetti et al, 2021). The Self-Employment Income Support Scheme (SEISS), the government’s primary route for supporting self-employed workers, has been extended to April. It is expected that this will be extended further, to reflect the gradual relaxation of restrictions on activity until the summer. Important aspects of the scheme’s design have been widely criticized, not least the exclusion of a large number of workers.

With the crisis fast evolving, there is immense value to producing regular, concise analyses of labour market trends. With this in mind, this policy brief provides an update on the current situation of self-employed workers. From 8-19 February the third wave of the LSE-CEP Survey of UK Self-employment collected new data covering 1,100 workers. The survey covers basic statistics on incomes and hours, interaction with government support and other issues that have become particularly relevant in recent months, such as the impact of having children in the home. The survey is complemented with data from the Labour Force Survey (LFS). By focusing on self-employed workers rather than attempting to capture the whole labour market, this enables a relatively large sample to be obtained and to apply targeted questions. All survey results are weighted by the most recent LFS to be representative. Further details on the survey and data collection process are provided in Appendix B.

Incomes and hours are down in the current lockdown

Previous CEP policy briefs demonstrated that incomes and hours of self-employed workers fell dramatically in the first months of the crisis, before a slight recovery over the summer. Figure 1 shows that, relative to the summer in which some restrictions were eased, incomes have once more dropped precipitously. In January 2021, 57% of surveyed self-employed workers were earning less than £1,000 per month, up from 31% in January 2020 and 46% in August 2020.

The figures for January 2021 are close to those we found in previous work on the impact of the first lockdown. This suggests that while some self-employed workers may have found ways to adapt their work to lockdown constraints as they become more familiar, when it comes to incomes the picture is broadly similar to the first lockdown. This analysis excludes the self-

---

1 Due to outdated records, some of the workers we surveyed were formerly but no longer self-employed. Most of the survey analysis in this report uses the 835 respondents who identified themselves as self-employed at the time of survey taking. Where indicated in the text, we also use information on those who were formerly self-employed but now occupy a different status.

2 These figures do not account for payments from SEISS or other support schemes.
employed who have already left self-employment as a result of the crisis, so is likely an underestimate of the effect of the crisis on those who were self-employed when it first hit.

**Figure 1: Monthly incomes - January 2020, August 2020 and January 2021**

![Monthly incomes chart]


Turning next to the distribution of hours in Figure 2, a similar picture emerges. Over a third (37%) of self-employed workers worked 10 hours or fewer per week in January of this year. This is up from 14.4% a year ago and 23% over the summer.

In Appendix A figures A1 and A2, we see that the same patterns hold for profits, which accounts for changes to business costs for self-employed workers, and household income. Many of these households contain two self-employed adults, making them particularly vulnerable to self-employment specific shocks or policy changes. Of those married or living with a partner, 43% of their partners are also self-employed.

We also asked respondents a broader question on whether they currently have more or less work than usual. Unsurprisingly given the previous results on incomes and hours, over three fifths (62%) report that this is the case. Consistent with our previous surveys, this is higher among those who cannot work from home, and once we control for differences in the ability to work from home, for female workers. As we found in previous surveys, self-employed workers who find their work through apps are faring better. These workers were less likely to have less work than usual, and a substantial minority (21%) report having more work than usual, more than three times the rate of other self-employed workers (6%).
Incomes matter, but a short-term drop in income doesn’t necessarily correspond to noticeably lower living standards. In the case of the UK’s self-employed, our policy brief in May showed that relatively early on in the crisis many workers were struggling financially, with 46% of respondents having trouble paying for basic expenses such as rent, mortgage payments or essentials. This was before any SEISS payments had been made. In the most recent survey, this had fallen to a third (33%), which while lower, still ought to be cause for concern among policy makers. The lower rate of financial distress among self-employed workers in this lockdown relative to the first likely partially reflects the success of the SEISS scheme at keeping some self-employed workers afloat (Delestre et al, 2020). As we will return to later in this brief however, some of those excluded from the SEISS scheme have substantially worse than the average self-employed worker.

**An unprecedented drop in the number of self-employed workers?**

Rising self-employment, particularly solo self-employment, has been a key feature of the UK’s labour market for at least two decades. Figure 3 shows a striking reversal of this trend since the crisis hit. From the end of 2019 to the third quarter of 2020, according to the Labour Force Survey (LFS), self-employment shrank by 500,000 workers, a fall of just over 10%. IPSE’s report from the end of 2020 (IPSE, 2020) uses the Labour Force Survey to give an overview of how this varies across sectors, areas and types of self-employed workers. Here, we highlight some key aspects, discuss data deficiencies and complement with our own survey.

Taken at face value, this decline represents the most significant change to self-employment for decades. Changes to self-employment are driven by shifting inflows (people becoming self-employed) and outflows (workers leaving self-employment). Turning first to inflows, in Figure 4 using the LFS again we plot the number of new self-employed workers, defined as those who became self-employed either in the survey quarter or the previous one. We see that the third
quarter of 2020 saw the lowest number of workers joining self-employment across the plotted period. In fact, looking further back, this is the lowest number for at least two decades. This drop is despite high levels of company incorporations in the latter half of 2020 and first few weeks of 2021 (ONS, 2021c). While there is some evidence of the crisis spurring innovation in industries with new opportunities, for example new online retail businesses, self-employment as an employment status is broad, and bears little connection to this.

**Figure 3: Number of self-employed workers in the LFS**

![Graph showing number of self-employed workers over time](image)

Source: Quarterly Labour Force Survey

The two-quarter longitudinal version of the LFS allows us to follow workers over time. We use this to more directly inspect outflows. Focusing on transitions from the second to third quarter of each year, we see that in 2020, transitions from self-employment to employee jobs were at their highest level in 20 years. Between spring and summer 2020, 6.3% of self-employed workers moved into employment, relative to a previous high of under 4%. There is also an uptick in movement into inactivity, driven mainly by older workers, however the most striking pattern is the sharp increase in self-employment to employment transitions. This increase arises for self-employed workers with employees and solo self-employed, the latter of whom now represent the bulk of self-employment.
Figure 4: Number of new self-employed workers

Figure 5 shows that this uptick is entirely driven by those in the ‘Managers’ occupation group. The majority of these individuals report that they are directors of limited companies, running a business or partners in a business or professional practice. These types of self-employed workers sit at the boundary between self-employment and being an employee. For example, company directors will often pay themselves a small salary via PAYE and will hence be eligible for furlough. With employment status in the LFS based on self-reports, the ONS has argued (Leaker, 2021) that these statistics likely reflect a change in perceived status rather than a real change in job. Their status as employees may have become more salient as a result of the furlough scheme eligibility. Further analysis reveals that most of these individuals remain within the ‘Manager’ occupation class after switching, consistent with this argument.

Indeed, in the LFS there is only a small change in the number of previously self-employed and now employed who report a change in job. In the survey, there are a small number of individuals who were previously self-employed and now report being employed. Over four fifths (81%) of these individuals report that they are in the same job, supporting the argument that this is a change in perception of employment status rather than a real change in job. This issue highlights the challenges with studying the self-employed in the current data environment in the UK.

A minority expect to leave self-employment as a result of the crisis

When asked their perceived likelihood of leaving self-employment as a result of the crisis, 11% reported it being either “likely” or “very likely”. In terms of their probability of being self-employed in five years, 22% report it unlikely that they will be self-employment. Cominetti et al (2021) analyse Understanding Society data, showing that before the crisis, we would expect 16 per cent of self-employed workers to leave self-employment over any two-year spell. While imprecise due to the mismatch of timings, relative to the natural rate of churn between self-
employment and employment, there is little evidence of a planned exodus from self-employment.

**Figure 5: Self-employment to employee transitions by occupation group**

![Graph showing self-employment to employee transitions by occupation group.](image)

Source: Labour Force Survey Two-Quarter Longitudinal Dataset

The LFS provides a consistent measure of how many self-employed individuals are actively searching for a job as an employee. This is shown in Appendix figure A3. While this shows some increase in the first quarter of 2020, it remains well within the range from recent years. In the third quarter of 2020, 1.5% of self-employed workers were searching for an employee position. The broad pattern is similar if we also include workers searching for a job but with no preference over the type of job.

**On average, the self-employed value their status relative to standard employment**

To further gauge the attractiveness of employee positions relative to self-employment, we asked workers to choose a number of times between self-employment and an employee job. This approach is growing in popularity in labour economics and can be used to uncover worker valuations for different types of jobs (Mas & Pallais, 2017). Each respondent was asked three times, for a variety of wages. A key limitation of this approach is that in many cases, a self-employed worker switching to an employee job would represent a change in many features of the job. For example, it would be difficult for a jazz musician to envision switching to an employee job without a significant change to their tasks, duties and responsibilities. To better isolate a preference for the employment status of self-employment in itself, we asked this only of those for whom a ‘similar’ employee job exists, for example an IT contractor who works primarily for one client and could perform much the same job as an employee. In Figure 6 we plot a smoothed curve representing the share choosing the employee job for a set of different wages.
As the wage associated with the employee job option increases (movement to the right of the figure), a greater share of respondents choose the employee position. Looking at the point where the figure crosses the 50% line on the y axis, we find that on average, respondents would take a 3% salary sacrifice for the self-employment position. When the wages are the same, the average self-employed worker would choose self-employment over an employee position, reflecting a preference for self-employment.

**Figure 6: Preferences for equivalent employee position**

Evidence of poor incentives to self-isolate

Coming into the crisis, the UK already had one of the lowest rates of Statutory Sick Pay (SSP) in Europe, giving workers a strong incentive to continue working despite being sick. The crisis has highlighted this issue and raised the stakes substantially. An effective recovery from the crisis relies on workers self-isolating when receiving a positive Covid-19 test or when being prompted to by health officials.

Self-employed workers are not covered by SSP but may be able to obtain a self-isolation payment of £500 from their local council. As has recently been highlighted by the TUC (TUC, 2021), around 70% of those who apply for this financial support are rejected. Eligibility criteria is strict and designed to identify those on means-tested benefits. For those falling outside these criteria, there exist discretionary payments, but the demand of these severely outstrips supply.

Particularly for self-employed workers, who are likely to have substantial control over whether they work or not, insufficient access to support creates a strong disincentive to self-isolate when required. For the aggregate workforce, this fear is confirmed by recently released survey data showing that only 62% of people developing Covid-19 symptoms isolate for the recommended number of days, while 20% of those that have been in contact with someone with symptoms
do not fully isolate (Fancourt et al, 2021). NHS Test and Trace have stated that 40% of individuals asked to self-isolate do not fully comply (House of Commons, 2021).

In our survey, we asked self-employed respondents about Covid-19 testing and self-isolation. Their responses paint a stark picture. Of the 10% of individuals that declared testing positive over the last year, a quarter report never self-isolating. This is all the more striking when we consider that if anything, we would expect these self-reports to be an under-estimate of non-compliance.

The majority of Covid-19 positive workers did self-isolate, and we ask these individuals how self-isolating affected their income. Two in five of these workers report that their income dropped due to self-isolation. While we did not ask directly about access to the support payment, combined with the evidence described above, this presents compelling evidence that the self-isolating represents a real cost to self-employed workers, and unsurprisingly, many workers do not follow the guidance. Given this, we would recommend that the government extends the amount of support available to self-isolating workers outside of SSP coverage and the current one-off payment eligibility criteria.

Self-employed parents are suffering from school closure

For most, school closures since the start of term have meant a return to the home learning we saw last academic year. The full re-opening of schools in England on the 8th of March will no doubt lift pressure from parents. A recent study found that, during the first lockdown and then later this winter, parental stress and depression have increased with the toughening of Covid-19 restrictions (Shum et al, 2021).

Our survey data provides further evidence of the economic challenges associated with the most recent period of home schooling. Among self-employed parents, almost half (48%) report that having children at home has negatively affected their income. This increases to 56% for parents who consider themselves the primary figure for their children’s home learning, which is 80% of self-employed women and 40% of men with children. This figure complements the evidence in Hupkau & Petrongolo (2020), for which during the first lockdown mothers devoted, on average, twice the amount of time of fathers to home production and childcare. Even so, and consistently with the findings of our September survey (Blundell et al, 2020), our shows that, when having children at home, men are more likely than women to see drops in income.

Room for improvement in government support

Throughout the most recent lockdown, the government has continued supporting the self-employed through a third round of SEISS, and it will be offering a fourth grant to cover the self-employed through to April.3 With the Budget coming imminently, it is widely expected that support will be extended to reach the summer months.

Although take-up rates for SEISS are high, they are far from full adoption, which is what would be expected given the scheme’s generosity. One potential explanation is that a non-negligible share of self-employed workers are unsure of their eligibility. Despite the scheme now being in operation for the best part of a year, we find that almost a third (31%) of respondents are not sure whether they are eligible or not. This is lower than our previous surveys (down 10 and 7

---

3 For details on the eligibility criteria and generosity of SEISS, see our previous policy briefs on Covid-19 and self-employment. Eligibility for the current round is much the same, with a slight tightening of the statement workers have to make on the extent to which they are affected by the Covid-19 crisis.
percentage points from our May and September surveys respectively), but remains high. Given this, we recommend that government investigates ways through which it can clarify eligibility, such that all targeted workers are able to confidently apply.

From early on in the crisis, it has been highlighted that the SEISS scheme, while generous for those who get it, has glaring omissions in its eligibility. It excludes those who became self-employed since April 2019, as well as those with large profits, those for whom self-employment is not their main source of income, those making losses prior to the pandemic, and people who are company owner-managers (directors of limited companies). Among those who are ineligible for SEISS, there are high rates of financial distress, with 32% of respondents reporting having trouble with basic expenses over the last month. This is significantly higher among newly self-employed, among whom 58% report struggling with basic expenses. Cribb, Delestre and Johnson (2021) propose practical solutions for fully supporting those with less than half their income from self-employment and for those with large profits. Though more challenging to implement, given the results of our survey we would also propose extending support to the newly self-employed. This could be based on more recent earnings information (from the 2019-2020 tax year), which is now more readily available, and would likely be relatively low-cost, given the small size of this group.

Different sources of support for individuals that are ineligible for SEISS of course exist, and we show the take-up rates from our survey in Figure 7. Among the self-employed that have applied for Universal Credit, the most popular support scheme after SEISS, 83% have done so for the first time in the last year. A majority attribute this first claim to the effects of the Covid crisis. We divide respondents according to their self-reported eligibility for SEISS, where those eligible and not eligible represent roughly the same share of respondents (35% and 34%, respectively). Note that eligibility requirements vary across schemes, and therefore some of them may not be accessible to all self-employed. Unsurprisingly given total application shares, Universal Credit also represents the main alternative for workers that are not eligible for SEISS. Bounce Back Loans are also a popular option for this category. These are accessible to all UK businesses established before March 2020 and provide an interest free loan for the first 12 months, up to 25% of their turnover. Our analysis also finds that higher income individuals and company directors are more likely to apply for these loans.

---

4 Figure A4 in the appendix provides an alternative representation, with shares of self-employed within each SEISS eligibility category that have applied to each support scheme.
Despite the availability of different types of financial support, the self-employed are still suffering the repercussions of the recent economic events. Our survey shows that 62% report being worse off as a result of the crisis, even when taking into account the relief provided by government support. The figure is higher among men, older workers and individuals whose work cannot be easily performed from home.

**Conclusion**

The government’s recently-announced roadmap to normality represents a source of optimism for many. However, this crisis is far from over, and policymakers still have ample room to make policy changes which will affect not only livelihoods today, but also the speed at which the UK can grow when coming out of the crisis. Our work here provides up-to-date descriptive evidence on how self-employment is faring in the crisis, showing in particular that while the current support is helping those who can get it, labour market incomes for self-employed workers at the start of 2021 looked much the same as they did in the first lockdown last spring.

The new evidence reported in this briefing opens up a need for policy interventions for the self-employed. The first is that support for self-isolating workers be extended from current levels, and eligibility criteria be loosened. Evidence presented here demonstrates that the current system creates strong incentives for self-employed workers to disregard self-isolation.
instructions, limiting the effectiveness of this vital component of recovery. A second is the extension of SEISS to groups currently excluded from support. For some groups, such as those with high profits in previous years, this would be relatively easy, whereas for others this will require more creative policymaking. The current system is widely acknowledged as inequitable, and the analysis reported here highlights that many of these excluded workers are in need of further support.
References


Appendix A

Figure A1: Monthly profits - January 2020, August 2020 and January 2021

Source: LSE-CEP survey of UK Self-employment February 2021

Figure A2: Monthly household income - January 2020, August 2020 and January 2021

Source: LSE-CEP survey of UK Self-employment February 2021
Figure A3: Share of self-employed workers searching for employee job

Source: Quarterly Labour Force Survey

Figure A4: Share of self-employed applying for support schemes by SEISS eligibility

Source: LSE-CEP survey of UK Self-employment February 2021
Appendix B

The data collected for this policy brief represents the third wave of the LSE-CEP Survey of UK Self-employment, following the first edition in May 2020 and its follow-up in September 2020 (Blundell & Machin, 2020; Blundell et al, 2021). All data is self-reported and has been collected between 8-19 February. The survey was administrated by a third party, who provided the panel of individuals that have recently registered as self-employed.

Because the panel’s composition is not revised daily, we were able to survey respondents that were self-employed at the time of the last update but have changed their status since. We obtained a total of 1,092 responses. Most of the analysis uses the subset of 836 respondents who report their current status as self-employed. Responses are weighted to be representative of the relevant population using the aggregates from Labour Force Survey, with gender, age and education level as weighting variables. Given the current instability of the labour market, population estimates of shares are likely to become outdated relatively quickly. We have used the September-November 2020 LFS, the latest version available at the time of writing.
About the authors

Jack Blundell is a PhD Economics candidate at Stanford University and an occasional research assistant at CEP.

Stephen Machin is director of the Centre for Economic Performance and professor of economics at LSE.

Maria Ventura is a PhD candidate at London School of Economics and a project support assistant at CEP.

For further information, contact:

Jack Blundell: j.r.blundell@lse.ac.uk

Stephen Machin: s.j.machin@lse.ac.uk

Maria Ventura: m.ventura@lse.ac.uk

Helen Ward, communications manager, CEP: 07970 254872, h.ward1@lse.ac.uk

Romesh Vaitilingam, press and public relations, CEP: romesh@vaitilingam.com
The Centre for Economic Performance is a world-leading economics and policy research institute. CEP studies the determinants of economic performance at the level of the company, the nation and the global economy by focusing on the major links between globalisation, technology, the educational system and the labour market and their impact on productivity, inequality, employment, stability and wellbeing. It is part-funded by the Economic and Social Research Council and based at the London School of Economics and Political Science.

cepinfo@lse.ac.uk | cep.lse.ac.uk | @CEP_LSE