

Growing self-employment has been one of the key features of the UK labour market over the last two decades, particularly since the 2008/09 recession. As **Jack Blundell** reports, this group of workers is being hit particularly hard by the crisis.

Covid-19 and the future of self-employment



Policy must meet the needs of the 'precarious' without impeding the flexibility of others in self-employment

There are now more than five million self-employed workers in the UK, making up 15.3% of the workforce. Even before Covid-19, there were many questions about their work experiences and treatment in employment and tax law, but the current crisis has raised a new set of pressing issues, including income protection during lockdown.

Faced with pressure to match the support given to conventional workers through the Coronavirus Job Retention Scheme (CJRS), Chancellor Rishi Sunak described designing a 'deliverable and fair' support package for self-employed workers as 'incredibly complicated', reflecting the difficulties of extending social insurance to these types of workers. The self-employed were offered a lifeline in the form of the Self-employment Income Support Scheme (SEISS), which provides grants of up to £14,250 when both rounds of support are combined.

To understand the impact of the current crisis on the self-employed, first we must look back at the last economic downturn. Using data from the Family Resources Survey, Blanchflower et al (2017) demonstrate that real incomes among self-employed workers declined by more than they did for other workers.

The fall was largest for the solo self-employed. This group has been the source

of all self-employment growth over the last two decades and it is substantively different from self-employed workers with employees (Boeri et al, 2020). Consistent with the self-employed being particularly vulnerable, Cribb et al (2019) use tax records to show that profits among sole traders fell drastically in the years following the 2008/09 recession.

While the detailed study of past recessions is valuable, the nature of the current crisis is clearly distinct. To obtain up-to-date indicators ahead of official statistics, several research groups have administered new small-scale online surveys during the crisis.

Adams-Prassl et al (2020a) find that the self-employed are strongly affected by the crisis, with 75% reporting earning less than usual. As Figure 1 shows, for salaried workers, this number is under 25%.

Another, more targeted survey contribution comes from Blundell and Machin (2020). Their survey also shows a strong negative impact on the hours and incomes of the self-employed. Furthermore, one-third of those who remain in work report feeling as though their health is at risk. This rises to 79% for those using apps to find work.

A third survey (Gardiner and Slaughter, 2020) demonstrates that consistent with Blundell and Machin (2020), there is a lack of understanding among the self-employed

about eligibility for government support.

The evidence suggests that government support has indeed been necessary to protect living standards in the crisis. But the crude nature of the SEISS, whereby the self-employed receive a grant tied not to estimated losses from the crisis but rather to past profits, stands in contrast to the CJRS, in which employed workers' wages are paid by the government only if they are not working.

This exemplifies one of the key challenges in extending social protection to the self-employed: there is no employer to confirm whether or not a self-employed individual is working. Thus, it is almost impossible to assess whether a worker is involuntarily unemployed. Further research is needed on how insurance for the self-employed can be designed in an equitable and efficient manner in the face of these issues, particularly in relation to recovery from the current crisis.

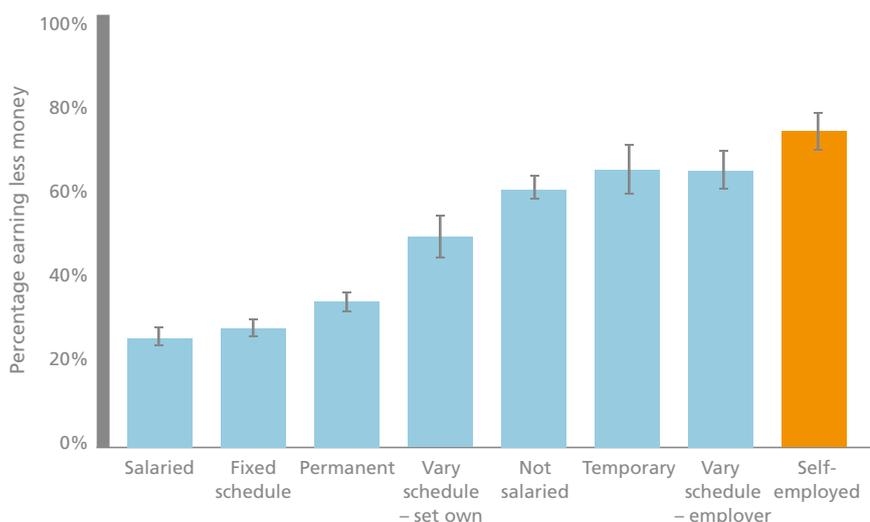
The equalisation of labour taxation across forms of employment will be welcomed by many economists who have long called for the end to the current system, which is said to be unjust and distortionary (Adam and Miller, 2019). A key challenge in equalising the system is deciding who should be liable for employer contributions, which is far from clear for the self-employed. It will also be important to understand how changes to tax incentives will affect who decides to become self-employed (Humphries, 2019).

Closely tied to this is the issue of tax evasion. Advani (2017) shows that 60% of self-employed workers under-report their taxes, and that most revenue is lost due to a small proportion of workers who evade large sums. Particularly given the stresses to public finances caused by fiscal responses to the current crisis, more research needs to be done on how the government can effectively reduce tax evasion among self-employed workers.

There is also a need for research on what motivates people to become self-employed and in particular on their preferences for government support. Is self-employment an active choice taken by those willing to tolerate more risk in exchange for greater flexibility and possible financial gain?

Binder and Coad (2013) show that 'opportunity' entrepreneurship – self-employment as an active choice for those who like the flexibility and control – is

Figure 1:
Share earning less by work arrangement



Note: Share of respondents earning less money than in a typical week by work arrangement. This excludes those who had lost their jobs at the time of the survey. Based on Figure 3 in Adams-Prassl et al (2020b) and used with their permission.

associated with higher life satisfaction than 'necessity' entrepreneurship, in which self-employment is chosen due to a lack of better options.

Research classifying the self-employed into groups (Blundell, 2019; De Moortel and Vanroelen, 2017) tends to find a minority of predominantly solo self-employed workers falling into the latter category – these workers have been labelled the 'precarious' self-employed. This variation points towards a challenging trade-off for policy-makers in meeting the needs of the 'precarious' without impeding the flexibility of others in self-employment.

A promising route towards a more precise mapping of workers' preferences comes from 'willingness-to-pay' experiments, in which prospective workers are asked to choose between different work options, allowing researchers to estimate their valuations for work attributes. These are used in Mas and Pallais (2017) to show that most workers have a low valuation for flexibility, a result echoed for a broader set of atypical work characteristics in Datta (2019).

Further work in this direction would provide valuable evidence to policy-makers seeking to understand how to modernise the social safety net to capture the growing variety of work arrangements found in contemporary labour markets.

A final issue is whether structural changes to the way we work induced by the Covid-19 crisis will make self-employment more or less attractive. After the grand working-from-home experiment taking place in many sectors of the economy, it is possible that for some, this new way of working will stick. Outside the physical confines of the office and separated from colleagues and management, will we see more workers turn towards freelance ways of working?

On the other hand, being able to work from home is a key motivation for many self-employed workers, so perhaps conventional employment contracts will now offer the flexibility that self-employed workers desire? These are important questions for understanding the future of self-employment.

Further reading

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Abigail Adams-Prassl, Teodora Boneva, Marta Golin and Christopher Rauh (2020a) 'Inequality in the Impact of the Coronavirus Shock: Evidence from Real-time Surveys', IZA Discussion Paper No. 13183.

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Jack Blundell is a doctoral student at Stanford University and a research assistant in CEP's labour markets programme.

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The working-from-home experiment may see more people turning towards freelance work