Two years after the Covid-19 crisis began, incomes of the UK's self-employed remain well below their pre-pandemic levels. **Robert Blackburn** and **Maria Ventura** explain why the solo self-employed, who represent about 85% of self-employment, may be hit particularly hard by high inflation.

Supporting the UK's self-employed

The beginning of 2022 marked the end of Covid-19 restrictions and the resumption of most economic activity. This has come with new economic and geopolitical events that are, once again, challenging self-employed workers.

Working with CEP's director Stephen Machin, we ran a survey in May 2022 to capture how the self-employed are dealing with the aftermath of Covid-19 as well as the new economic challenges. This follows from our previous investigations in May 2020, September 2020, February 2021 and September 2021, allowing us to monitor the experiences of the self-employed for the whole period of the Covid-19 crisis.

Two years after the pandemic started, incomes of the self-employed are still well below their pre-pandemic levels. Our survey data show that after a hint of recovery in August 2021, incomes now look lower than a year ago, with the share of self-employed earning less than £1,000 up five percentage points since April 2021 (see Figure 1). The same is true for profit levels, although weekly hours worked show some weak signs of recovery.

Low financial gains from self-employment are reflected in the recent trends of people moving in and out of the sector. While the number of employee workers is now restored and even above pre-Covid-19 levels, the number of self-employed workers dropped during the crisis and has not yet recovered. Figure 2 shows how the large outflow experienced in the first year of the pandemic has not been matched by a subsequent increased inflow, resulting in a loss of around 800,000 self-employed people.

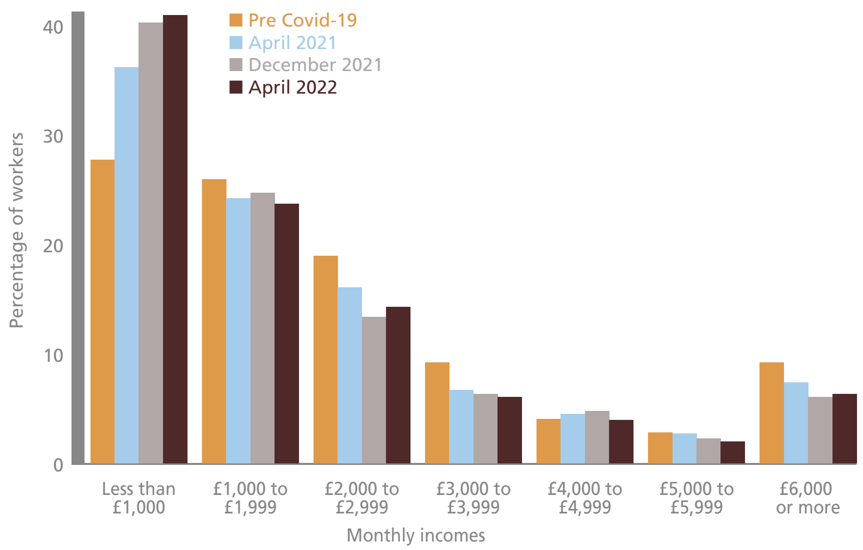
The share of the self-employed still reporting financial difficulties with their daily expenses is consistent with this gloomy picture. One-third of them are struggling with their daily finances, showing no improvement since August 2020.

Workers have also been hit unequally across occupations. For example, those in healthcare support are four times more likely to report trouble meeting basic expenses than those in educational instruction and library work. For the most vulnerable groups, this often translates into having to use their savings to pay potential unexpected expenses, if they are able to do so at all.

The UK has around 800,000 fewer self-employed workers than in March 2020

Figure 1:

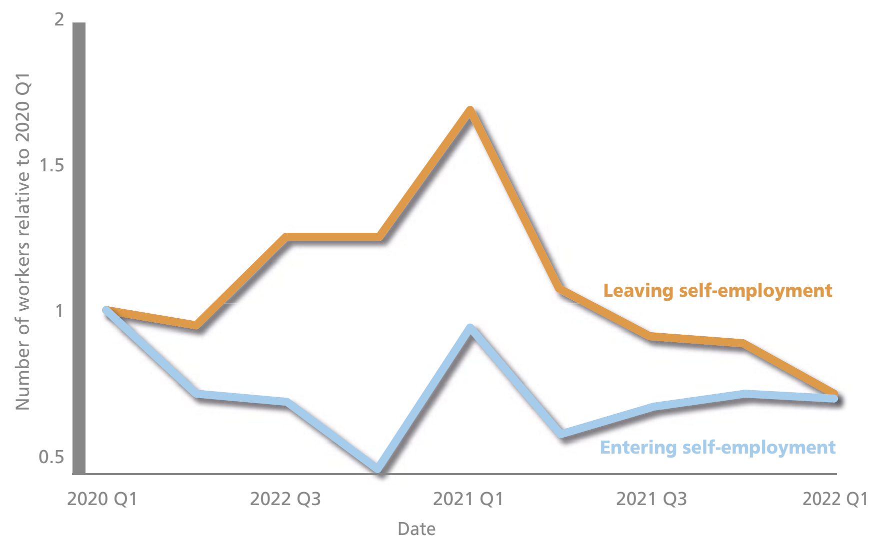
Monthly incomes before Covid-19, in April 2021, December 2021 and April 2022



Source: LSE-CEP Survey of UK Self-employment May 2022.

Figure 2:

Flows in and out of self-employment, relative to 2020 Q1



Source: Five quarter longitudinal Labour Force Survey.

Energy shocks

While the country has started to recover from the end of Covid-19 restrictions, new macroeconomic shocks have struck the economy, pushing inflation to a 40-year high. With smaller businesses being more vulnerable to such shocks, the solo self-employed who, according to the Institute for Fiscal Studies represented 85% of self-employment in 2019, may be hit particularly hard by the increase in input prices.

Our new survey data show the effects of rising inflation on the self-employed. When asked what issues have been affecting them over the last few months, one-third report the cost of energy as the most challenging issue, closely followed by Covid-19.

Nevertheless, almost 50% of self-employed people claim to be affected in some measure by the former, confirming its pervasive aspect. This is exacerbating the already heavy post-Covid-19 burden and poses a concern about whether vulnerable businesses will survive the next few months. As energy bills represent up to 33% of small businesses costs – and prices are set to rise further, these worries seem well justified.

Valuing government support

The past two years have seen an unprecedented effort by the government to fill in the gap of income insurance for the self-employed. Through the Self-Employment Income Support Scheme (SEISS), it has provided five rounds of grants for smaller businesses, covering up to 80% of their monthly profits. Although generous, the scheme has not been able to match the effectiveness of the job furlough scheme for employees, partly because of poor targeting and low awareness of availability and eligibility among workers.

Given the novelty of this policy, at each round of our survey, we have investigated how willing self-employed workers are to pay for structured government support that would be available in times of hardship. We find that throughout the past two years, the desirability of income insurance has remained virtually unchanged. The self-employed would be willing to sacrifice, on average, 10% of their income for a scheme providing systematic income insurance.

Even so, a significant share of self-employed (35%) claim that they would not take the support, even if it was provided for free. A similar pattern emerges among the self-employed who reported not claiming any SEISS grant although eligible, of which 62% declared they did not need it or want it. More generally, these facts seem to reflect the trait of autonomy usually found and valued among self-employed people.

This article summarises 'Covid-19 and the Self-employed: A Two-year Update' by Robert Blackburn, Stephen Machin and Maria Ventura, CEP Covid-19 Analysis No. 28 (https://cep.lse.ac.uk/pubs/download/cepcovid-19-028.pdf).

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A third of self-employed people have struggled to meet basic expenses during the pandemic