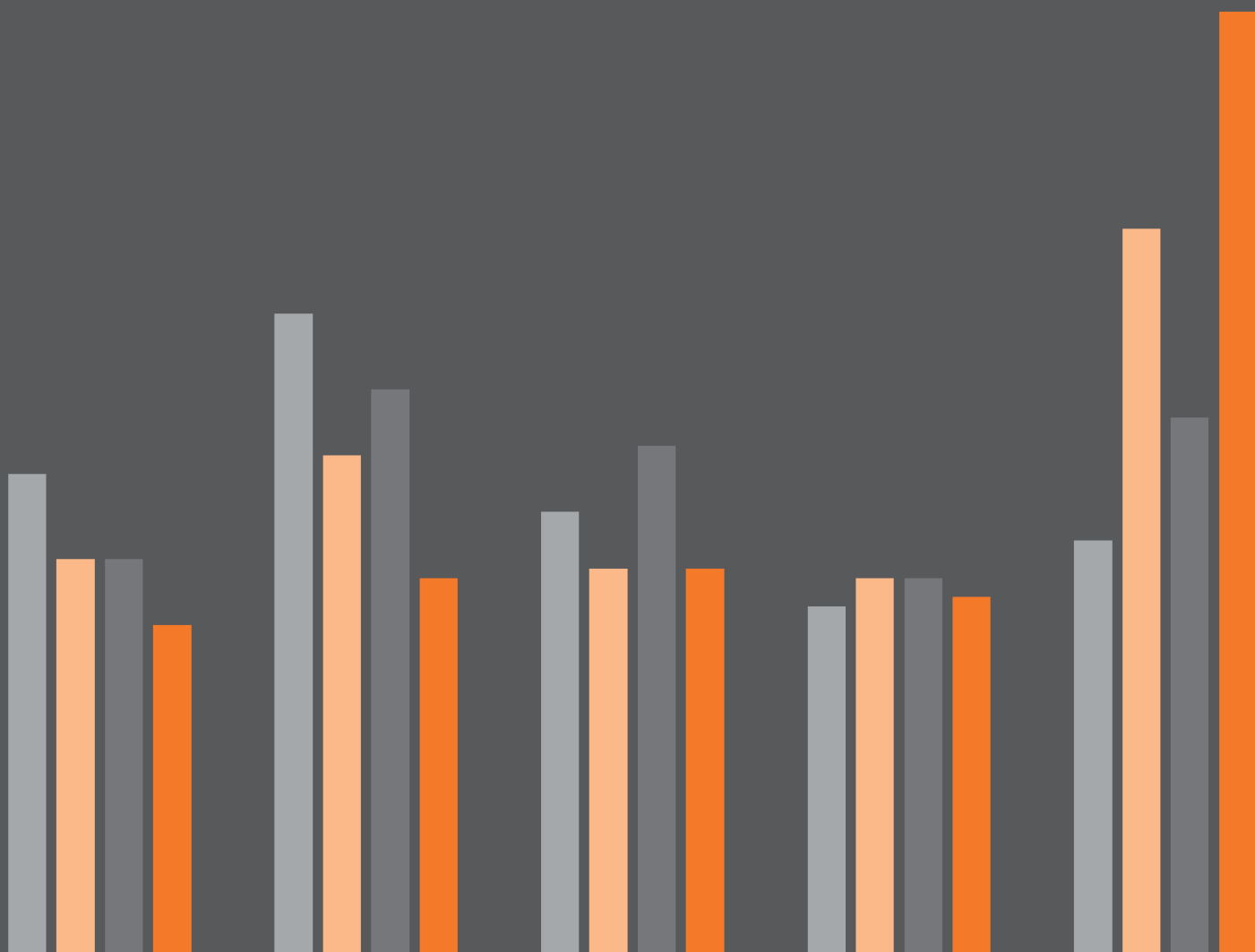


JANUARY 2018

# MEGA TRENDS

MORE SELFIES?  
A PICTURE OF SELF-EMPLOYMENT IN THE UK



The CIPD is the professional body for HR and people development. The not-for-profit organisation champions better work and working lives and has been setting the benchmark for excellence in people and organisation development for more than 100 years. It has more than 145,000 members across the world, provides thought leadership through independent research on the world of work, and offers professional training and accreditation for those working in HR and learning and development.

# MEGA TRENDS

## The trends shaping work and working lives

### MORE SELFIES? A PICTURE OF SELF-EMPLOYMENT IN THE UK

## Contents

Foreword	2
Executive summary	3
What does the evidence say?	4
What are the potential explanations?	22
What are the implications?	30
References	37
Endnotes	45

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Any remaining errors are of course the author's responsibility.

# Foreword

The main story of the Spring 2017 Budget was the attempted increase in the rate of National Insurance contributions paid by the self-employed, a proposal that lasted for just a week before it was withdrawn.

Apart from the obvious reasons why the Government seemed to get itself into trouble – a visible tax increase proposed by a low-tax party in the face of an apparent manifesto commitment – it revealed two connected facts about the self-employed.

First, the ‘self-employed’ are not a homogeneous group. While they include an increasing number of highly skilled professionals, most of the more than 4 million self-employed still work in industries and occupations where the self-employed have traditionally been prevalent, such as agriculture, the building trade and hairdressing. And, while their numbers have grown since the last recession, their earnings have not. Although their earnings are difficult to measure, their real incomes have fallen more since 2008 than those of employees.

Second, the reasons why they become self-employed vary. Some are self-employed for financial reasons: they can – or believe they can – earn more, or keep more of their earnings. But others trade the financial rewards for less easily valued factors: independence, autonomy, flexibility over when they work. Upsetting the financial balance, even if it makes sense in its own terms, can have unforeseen effects on this equation.

This report documents the increase in self-employment, beginning first in the 1980s and, more recently, since the last recession. There has sometimes been a tendency to see the latter increase as a sign of labour market weakness, as a last resort if a regular job can’t be found. The evidence suggests this motivation accounts for only a small proportion of the change. What is more of an issue, perhaps, is how to stop being self-employed. We don’t know whether growth in those over 65 being self-employed is due to people being unwilling or unable to retire.

Some of the self-employed work for themselves out of requirement, not choice – a longstanding issue in construction. It reminds us that the choices facing people are shaped by factors outside their control.

The so-called ‘gig economy’ adds a contemporary twist to this debate. Companies such as Uber and Deliveroo are being challenged in the courts over their use of self-employed contractors to provide services, with unions claiming they are in fact treated as though they are workers and should qualify for associated employment rights. The Taylor review of Modern Working Practices (2017) suggested some options for updating legislation and its effectiveness, to try and clarify the grey area around employment status. But our research suggests that only a small proportion of the workforce – approximately 4% – are currently working in the gig economy, and three-fifths of these have regular employment, so the gig economy should not drive the debate on employment rights – not yet, at least.

The increase in self-employment looks unlikely to rewind. Organisations will need increasingly to factor the self-employed into their business and HR strategies. As the transaction costs that bind organisations together reduce and change, they will need to decide which activities are best managed directly and which are best handed to one of a distributed network of one-person businesses. Even those people regarded as the core business may have another source of employment. At present this is a small proportion of the workforce, but the ‘gig economy’ raises the possibility of many more employees having their own business at the same time. A ‘bit on the side’ can be threatening to a relationship. How can someone ‘go the extra mile’ for their employer and themselves? But before pulling up the drawbridge with restrictive clauses and covenants, employers need to remember: aren’t we all looking after number one?

A handwritten signature in black ink that reads "Peter Cheese". The signature is fluid and cursive, with the first name and last name clearly distinguishable.

Chief Executive, CIPD

# Executive summary

## What does the evidence say?

Self-employment in the post-War period in the UK was stable, at times rising, at others falling, but the level increased rapidly during the 1980s and again over the last 15 years. About one in seven of those in employment are currently self-employed. The increase in self-employment between March 2008 and March 2017 accounted for almost a third of total employment growth.

Historically, the self-employed have been disproportionately male and aged over 50. They have tended to work longer hours than employees and be concentrated in specific industries (agriculture, construction) and occupations (especially skilled trades). However, the relative and absolute growth of self-employment has been accompanied by a rise in the share of those who are female and who work part-time, and by growth in a broader range of industries and occupations providing personal services and professional advice.

The self-employed have seen the gap in earnings with employees widen (to their disadvantage) rather than narrow over this period. Nevertheless, a higher proportion of the self-employed (than employees) have the very highest levels of job satisfaction: they derive greater value from the nature of their work and say they have more control over it, appearing to find it easier to manage work pressures and reconcile their business with other aspects of their lives.

Self-employment in the UK is close to the European average. It has been increasing, whereas, measured as a share of total employment, it has continued to decline in many other countries.

## What are the potential explanations?

While self-employment is sensitive to labour market conditions, only a relatively small proportion of the increase in recent years could be characterised as being driven exclusively by necessity, the inability to find dependent employment. Job loss was the event that originally led some people to switch to self-employment, but even here job loss could have triggered a change that an individual had thought about, or aspired to, in any case, with necessity and opportunity coming together.

There is no convincing evidence of the increase being driven by employers exploiting their position, forcing 'bogus' self-employment on the people working for them. Indeed, if there has been any change in the numbers of 'bogus' self-employed, this could just as easily have been the result of changes in tax law or its enforcement and of individual preference.

Technological advances mean that the cost of setting up a business and selling the fruits of one's labour have dramatically reduced in many sectors. This is of wider importance than the status of 'gig economy' workers, which accounts for a small percentage of the UK workforce.

Regulation in the UK aims to encourage setting up new businesses. There are probably more opportunities for self-employment than a decade ago. The evidence suggests there is a sufficiently large pool of people in the UK favourably inclined towards self-employment for this to translate into more people remaining self-employed. An ageing population has also played a supporting role since older people are more likely to attempt self-employment.

## What are the implications?

More self-employment may be a factor behind the UK's poor productivity record lately, judging by the apparent earnings of the self-employed. And the self-employed may find it more difficult than larger businesses to make the investments required to improve their performance. However, the self-employed are at least as happy with their lives.

Employers probably need to pay the self-employed more attention. Own-account traders and freelancers have been long-standing features of some labour markets, and firms have always used them. Some of their employees will also have their own business, not necessarily 'gig economy' work. How do employers manage this relationship? Can an employer expect an employee to 'go the extra mile' when they're trying to grow their own business? And should they? Why shouldn't employees put their own interests first?

There has been an awakening of interest in the self-employed in political parties and think tanks. It seems difficult to justify policies that *promote* self-employment, even if policies that facilitate entry to, and exit from, self-employment are still needed. Arguably, the balance of rights and responsibilities has shifted in favour of the self-employed, but moves to secure the tax base and remedy this through rises to National Insurance contributions have been shelved. The introduction of Universal Credit may have profound implications for the low-earning self-employed.

Technology is reducing the transaction costs that are the reason why we have firms, creating more space for sole traders and micro businesses. Most of the self-employed are probably doing work that is not immediately vulnerable to automation. But the future is uncertain because markets colonised by large numbers of sole traders can be vulnerable to the novel ways of organising work offered by platforms.

# What does the evidence say?

## Defining self-employment

Self-employment is a category in both tax and employment law. Status is typically defined retrospectively. For example, while case law and statute lay down some of the principles that differentiate self-employment from the alternative categories of *employee* and *worker* that exist in employment law, such as the degree of control exercised by the work-provider, only an employment tribunal, taking account of all relevant facts, can decide on an individual's employment status (Burchell et al 1999, Nyombi 2015, Pyper 2017). It will take account, but not give primacy to, any written contract (if one exists). Hence either (or both) party can choose (or coerce the other party into accepting) an employment status that is subsequently found to be invalid.

## What is self-employment?

Dictionary definitions of self-employment emphasise earning a living from your own efforts rather than by being employed – a clear advantage when employment was associated with the master-servant relationship and employees were prevented from acts of civic responsibility, such as voting, because it was assumed they would do their employer's bidding.<sup>1</sup> Nevertheless, the employment relationship became the most common means of regulating and classifying the relationship between the provider and doer of work (Deakin and Wilkinson 2005). But self-employment never died out and it's been on the rise again for most of the last 50 years. Is this a trend set to continue?

## Data sources

For statistical purposes, the labour force is divided between 'employees' and 'self-employed' with the choice typically made by the individual concerned. For example, the Labour Force Survey (LFS) asks respondents who are in work, or who have worked in the last eight years: *were you working as an employee or were you self-employed?*

This means that an individual may describe themselves as self-employed when they may not be regarded as such under either tax or employment law. A survey in 1998 found that, of those describing themselves as self-employed, 35% had unclear employment status after answering questions designed to mimic the tests applied by a tribunal (Burchell et al 1999). Unless otherwise stated, the data presented in this report, and the research on which it draws, is based on individuals' own definition of their employment status.

The primary source used by the Office for National Statistics (ONS) to produce regular statistics on self-employment in the UK is the LFS, a survey of over 40,000 households. More information on the survey can be found at [www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/methodologies/labourforcesurveyuserguidance](http://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/methodologies/labourforcesurveyuserguidance)

A follow-up survey of 1,423 people who said they were self-employed in the main LFS during 2014 was reported in BIS (2016a). Details of the survey and its questionnaire can be found in ONS (2015).

The CIPD's *Employee Outlook* survey has sometimes included self-employed in its sample. The *Labour Market Outlook* survey only samples businesses with at least one employee, so sole traders are not included.

Comparisons are made between employees and the self-employed using the *Skills and Employment Surveys*, which has taken place periodically since 1986; and *Understanding Society*, a large-scale panel study with waves every year since 2009/10.

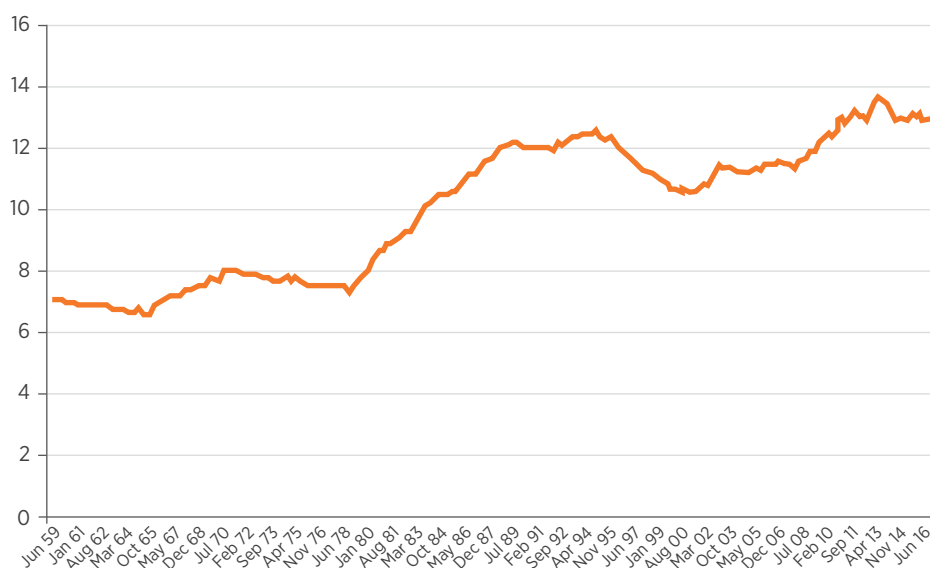
## How has self-employment been changing over time?

Self-employment was about 14% of UK employment during the latter half of the nineteenth century (Thomas and Dimsdale 2016). During the twentieth century, it progressively fell from 14% before the First World War to about 8% by the 1950s. Self-employment as a share of total employment was static for most of the 1960s

and 1970s before increasing sharply during the 1980s. During the second half of the 1990s, self-employment fell in both absolute and relative terms. Since 2001, self-employment has been rising faster than total employment, both counted in terms of jobs (Figure 1) and people (Figure 2). Increased self-employment has been a distinguishing feature of the UK labour market's recovery from the last recession (Blanchflower 2015a).

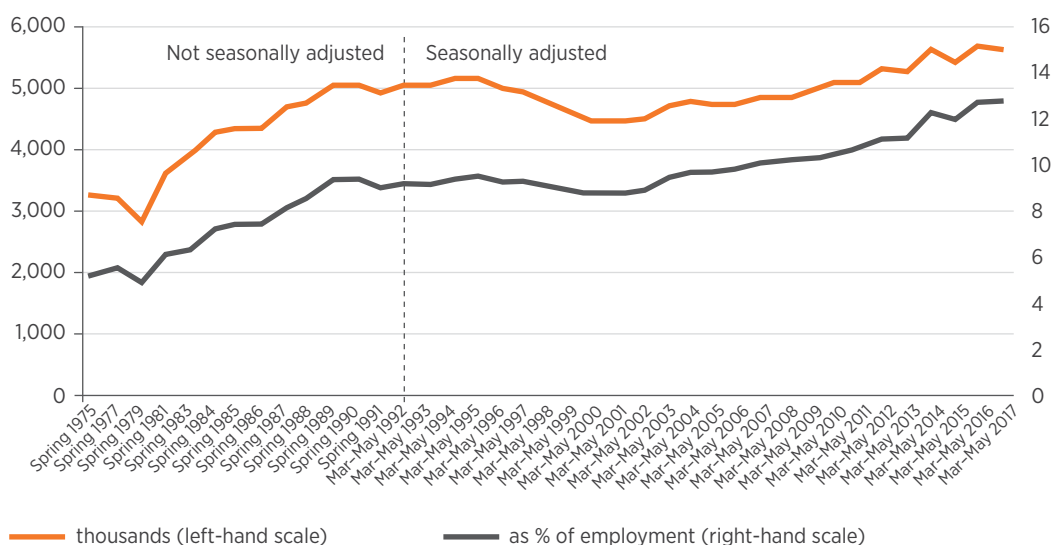
**Figure 1: Self-employed jobs, 1959–2017 (%)**

(UK, seasonally adjusted, percentage of total workforce jobs)



Source: Workforce Jobs Series

**Figure 2: Self-employed, 1975–2017 (%)**



Source: Labour Force Survey

The LFS and most other major employment-related surveys collect data on the job an individual considers their main or primary job (sometimes taken to be the job involving the most hours worked on a regular basis or averaged over a period). About 5% of people who describe themselves as an employee say they have a second job, whereas the proportion is over 10% for the self-employed (Figure 3).

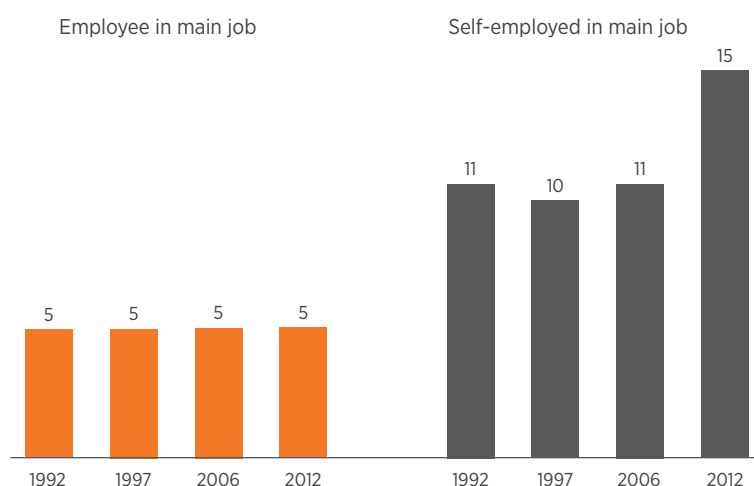
## What are the characteristics of the self-employed? Who are most (and least) likely to be self-employed?

Most of the self-employed are men, but an increasing proportion are women, although women are less likely than men to want to be self-employed (Verheul et al 2011). This may help explain the increasing share of the

self-employed who say they work part-time, which is over half of the growth in self-employment since 2001 (Amankwah and Wales 2016).

The self-employed work, on average, longer hours than employees (Figure 4). However, the gap has narrowed since the 1980s because of a fall in average hours worked among the self-employed. This is a consequence of both more people being self-employed on a part-time basis and a reduction in the proportion of self-employed working long hours (for example, the 75th percentile of the distribution of hours worked for the self-employed was 60 hours in 1986 and 55 hours in 1997, but it fell to 50 hours in 2001 and remained the same in 2006 and 2012). Control over working hours may be more important than the actual number of hours worked (Citizens Advice 2015d).

**Figure 3: Proportion of individuals with a second job, 1992–2012 (%)**



Source: Skills and Employment Surveys

**Figure 4: Mean hours worked in main job, 1986–2012 (%)**



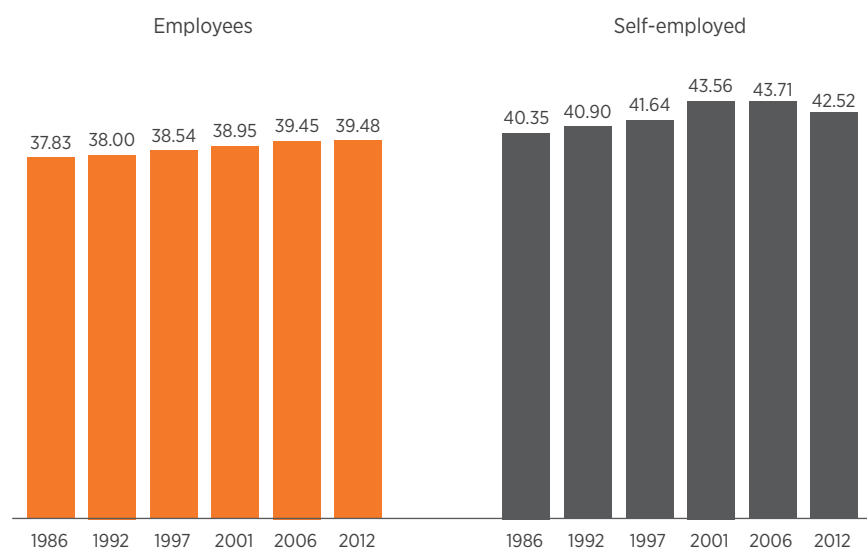
Source: Skills and Employment Surveys



The self-employed are on average older than employees (Figure 5). The difference in mean age between employees and the self-employed widened from about 2.6 years in 1986 to 4 years by 2006 before narrowing in 2012 because of the increase in self-employment coming from a slightly younger age group.

However, older age groups are more likely to be self-employed (Figure 6). The increase in over-65s employment is in large part due to the self-employed continuing in employment.

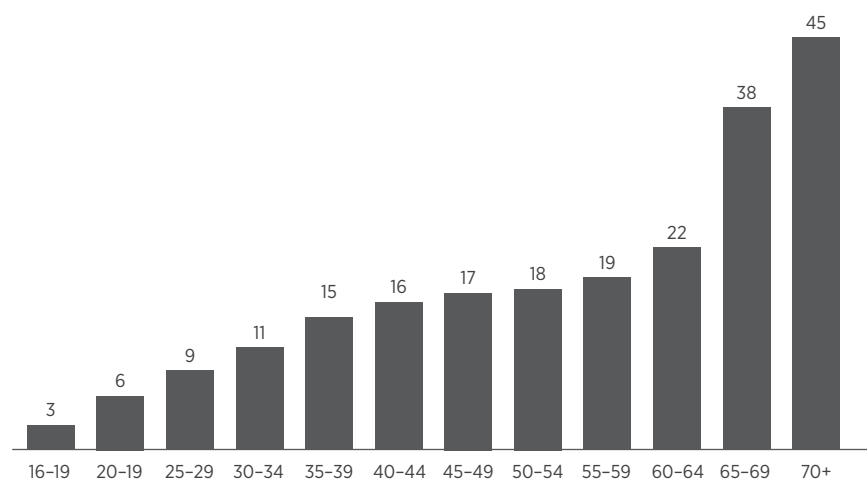
**Figure 5: Mean age, 1986–2012 (%)**



Source: Skills and Employment Surveys

**Figure 6: Self-employment, by age, 2017 (%)**

(UK, not seasonally adjusted, percentage who are self-employed in their main job as a percentage of employees plus self-employed)



The LFS excludes households where all members are age 75 or over  
Source: Labour Force Survey, April–June 2017

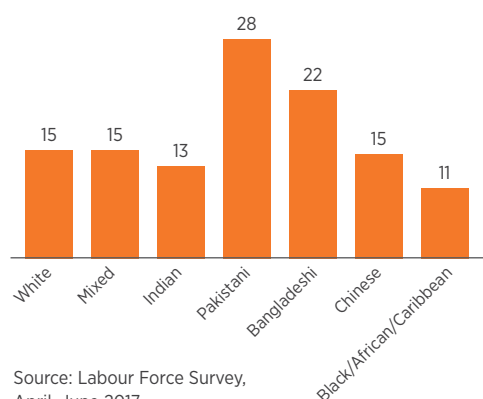
People in some ethnic groups historically have relatively high rates of self-employment (Figure 7).<sup>2</sup> Self-employment among new migrant groups is variable and tends to be in the same economically marginal activities as for longer-established immigrant groups (Jones et al 2012). Self-employment rates by ethnic group reflect both an opening up of new opportunities for some groups and continued disadvantage in other cases (Broughton 2015).

There is a small amount of variation in self-employment rates between regions and countries within the UK (Figure 8). But there is persistence of areas with high and low self-employment (Robson 2010).

Self-employment is commonplace in some industries, especially in agriculture, construction, and 'other service activities', which includes repairs of household equipment, dry-cleaning and hairdressing (Figure 9). However, the proportion self-employed has increased in nearly all industries since the late 1970s. While some industries have always had more opportunities available for the self-employed, the self-employed have found more 'room' for themselves in just about every market.

**Figure 7: Self-employment, by ethnic group, 2017 (%)**

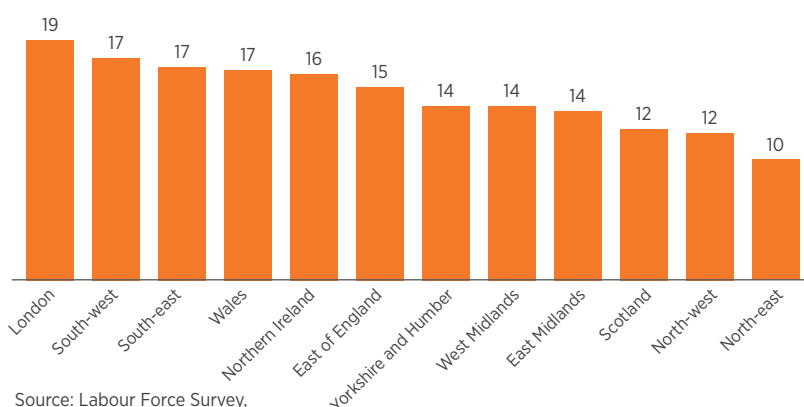
(UK, not seasonally adjusted, percentage who are self-employed in their main job as a percentage of employees plus self-employed)



Source: Labour Force Survey, April-June 2017

**Figure 8: Self-employment, by region/country, 2017 (%)**

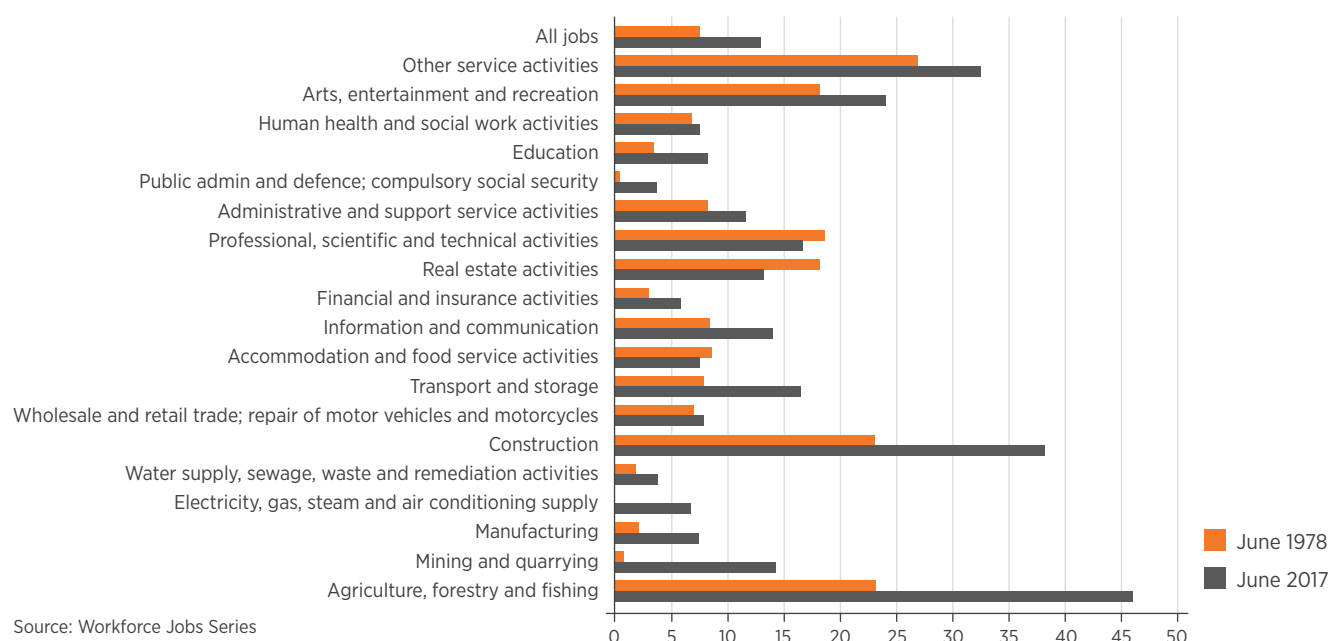
(UK, not seasonally adjusted, percentage who are self-employed in their main job as a percentage of employees plus self-employed)



Source: Labour Force Survey, April-June 2017

**Figure 9: Self-employment, by industry, 1978-2017 (%)**

(UK, not seasonally adjusted, self-employed jobs as a % of workforce jobs)



Source: Workforce Jobs Series

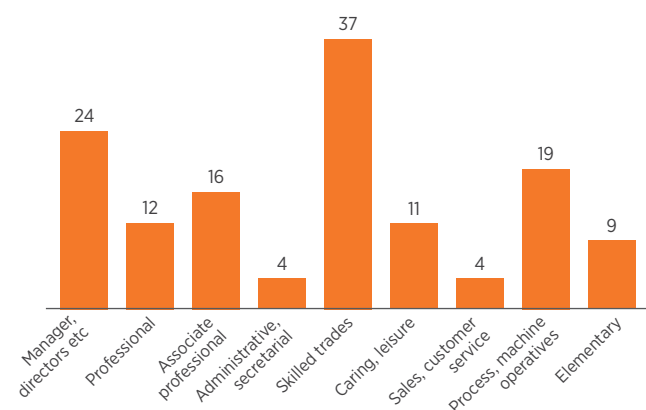
People in skilled trades are most likely to be self-employed, followed by managers, directors and senior officials (Figure 10).<sup>3</sup> Growth in self-employment between 2004 and 2014 was highest in highly skilled occupations, but there was also growth in elementary and caring, leisure and other service occupations (Citizens Advice 2015b). At a more detailed level, several minor occupational groups had self-employment rates above 50% in 2017 – in other words, more people self-employed than employees. These were ‘building and finishing trades’ (74%), ‘agricultural and related trades’ (69%), ‘managers and proprietors in agriculture related

services’ (69%), ‘artistic, literary and media occupations’ (66%), ‘construction and building trades supervisors’ (63%), ‘hairdressers and related services’ (56%), and ‘managers and proprietors in other services’ (50%).<sup>4</sup>

Self-employed men are slightly less likely to hold higher-level qualifications (Level 3 and 4) than employees, whereas the reverse is true for women (Figure 10). But the self-employed are much more likely to have completed a trade apprenticeship. Regardless of their skill level, the self-employed undertake less training (Meager et al 2011).

**Figure 10: Self-employment, by major occupation group, 2017 (%)**

(UK, not seasonally adjusted, self-employed as percentage of employees plus self-employed)



Source: Labour Force Survey, April–June 2017

**Figure 11: Highest NVQ qualification level attained, 1986–2012 (%)**

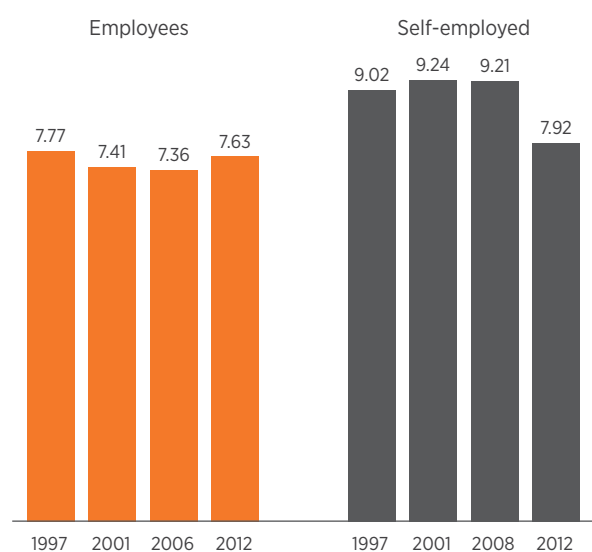


Source: Skills and Employment Surveys

To the extent that 'length of service' can meaningfully be compared, the self-employed have been working for themselves longer than employees say they have been with their current employer (Figure 12). This may in part be due to the self-employed being older. Mean length of service for employees increased slightly between 2006 and 2012, consistent with other data showing that job separation rates have fallen this century (CIPD 2013).

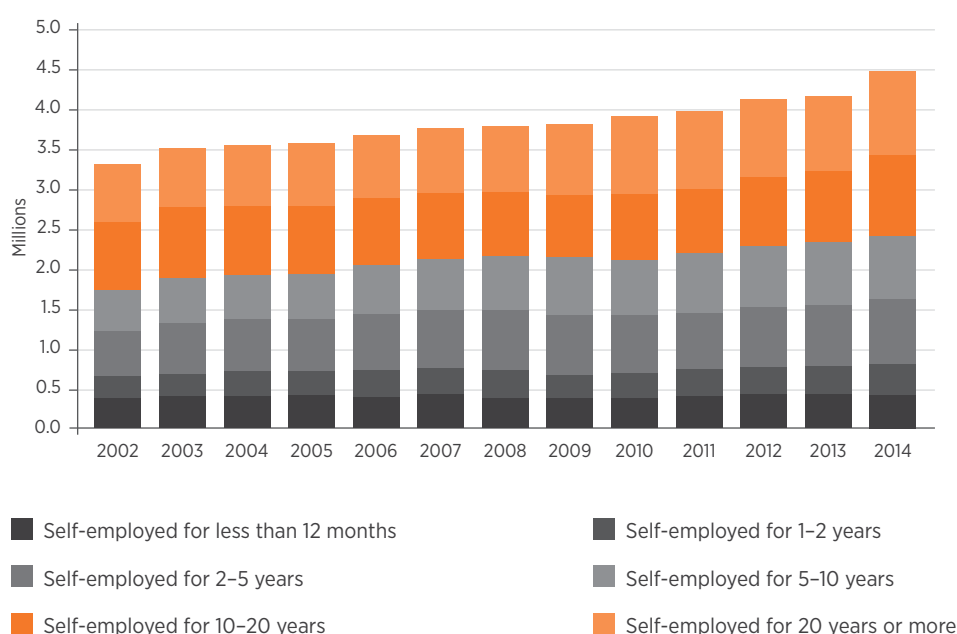
The difference, however, narrowed greatly between 2006 and 2012. This is consistent with an increased share of new job 'inflows' being into self-employment, but the absolute number of new self-employed has hardly changed (Figure 13). The 'outflow' from self-employment (to a job or inactivity) has fallen, meaning the number of long-duration self-employed (those self-employed for ten or more years) has increased.

**Figure 12: Mean length of time working for current employer or time spent self-employed, 1997–2012 (%)**



Source: Skills and Employment Surveys

**Figure 13: Length of time self-employed, 2002–14**



Source: BIS analysis of non-seasonally adjusted Labour Force Survey, average four-quarter data

## What type of businesses do self-employed people run?

Most of the self-employed are sole traders and, where they do employ people, it is in most cases just one or a very small number. At the start of 2016, 76% of UK registered businesses had no employees.<sup>5</sup> One tenth of all businesses in 2016 had no employees at the time but expected to take on employees in the coming 12 months (BEIS 2017). *'Most of those without employees were just not considering it or said they don't have enough work – few of them mentioned more specific barriers'* (BIS 2016a).

Some self-employed people work as freelancers or sub-contractors where to an extent they fit within the structure and working practices of the organisation(s) they are working for. One in ten adults in 2014 said they had been a contractor at some point in their life and 11% had been a freelancer (REC 2014). Although they may regard themselves as self-employed, their working arrangements might at times mean they could veer into the 'worker' category (BIS 2015b). A small number of people who describe themselves as self-employed in the LFS also say they are agency workers, and are not responsible for their tax and National Insurance contribution payments, which means they could also be a 'worker' (Tomlinson and Corlett 2017).

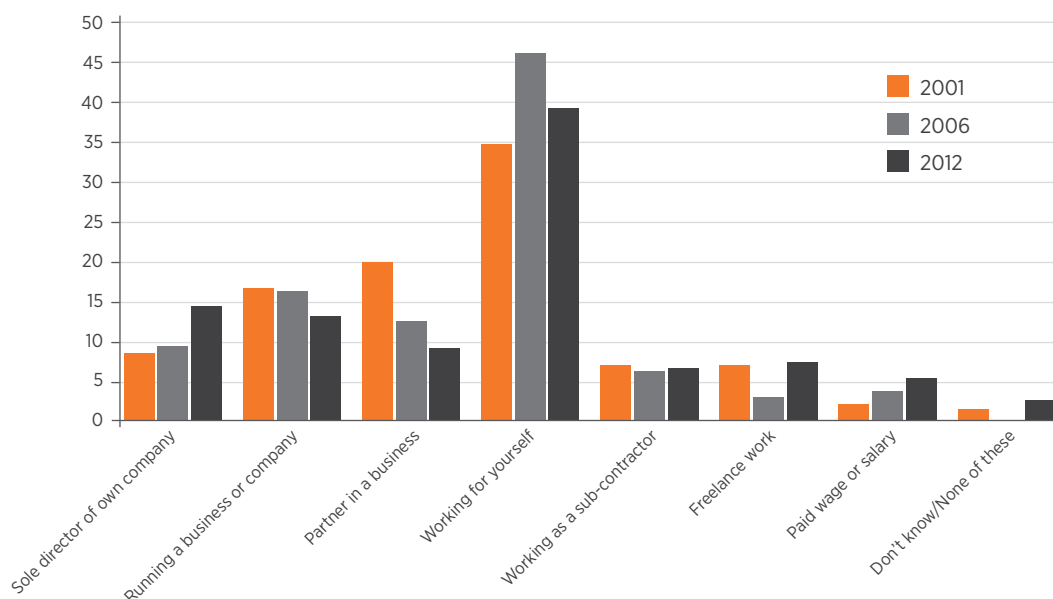
In 2012, about four-fifths of the self-employed said they were running their own business (with or without a partner) or working for themselves (Figure 14). The other fifth described themselves as a sub-contractor or freelance worker or said they were being paid a wage or salary.<sup>6</sup> In some industries, such as arts, media and similar creative occupations, freelancing is a common way of working and the number of self-employed reflects trends in both the demand for, and supply of, these types of work (Kitching 2016).

### Self-employment and entrepreneurship

The figure of the entrepreneur is central to economics, yet his or (less often) her role has largely been written out of neoclassical economic theory (Foss et al 2008). Theories of entrepreneurship centre on their role in dealing with pervasive uncertainty and their skill in identifying business opportunities and taking advantage of them.

Self-employment has traditionally been used as a measure of entrepreneurship, although it can be a poor measure of new-firm formation, particularly in low-income countries (Desai 2017).

**Figure 14: Breakdown of the self-employed, 2001-12 (%)**



These data refer to the primary self-employed job. Some self-employed people have more than one self-employed job.  
Source: Skills and Employment Surveys

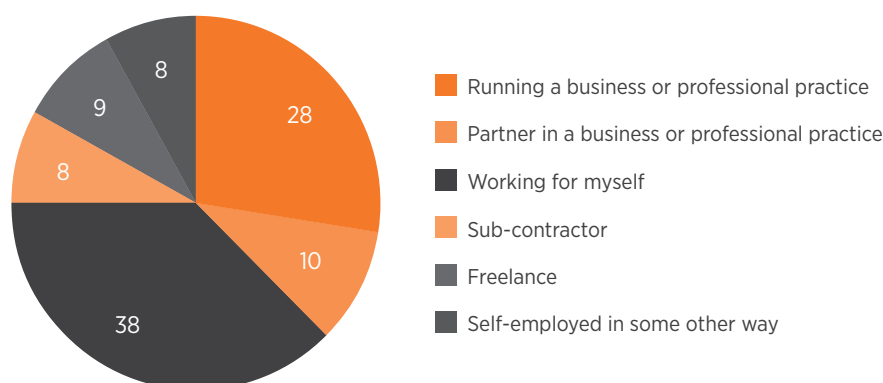
Comparing these results with those for 2001, there was a small increase in the proportion in these latter categories (up from 17% to 20%). The main change, however, was a decline in the proportion who said they were in a business partnership from 20% in 2001 to 8% by 2012. More recent Understanding Society data show similar results (Figure 15).

## What about working conditions and well-being?

Earnings of the self-employed are difficult to estimate. Data on them is often not collected. Where it is, calculation and interpretation is complicated by factors such as which earnings are declared and the hours the self-employed work.<sup>7</sup> There are self-employed people both with very high and very low earnings (Murphy 2013). Nevertheless, the evidence suggests that average hourly earnings for the self-employed are lower than for employees (Figure 16) and *'the typical self-*

*employed person now earns 40 per cent less than the typical employed person'* (D'Arcy and Gardiner 2014). Controlling for factors such as age, gender, education and region increases the 2014/15 'penalty' from self-employment from 37% to 44% (TUC 2017).<sup>8</sup> The 'penalty' only becomes a 'premium' for those in the top 5%. The incomes of those who have been self-employed for some time have held up better than the newly self-employed (BIS 2016b, Dellot and Wallace-Stephens 2017). The self-employed have on average lower earnings, and on average more dependants to support, which means a greater proportion are 'at risk of in-work poverty' than employees (20.1% of the self-employed without employees in 2014 versus 7.1% of employees, Horemans and Marx 2017). Yet they are less likely than employees to be feeling 'material deprivation' (defined in terms of lack of goods), perhaps because of income and wealth acquired at other points in the life-cycle (Carter 2011).

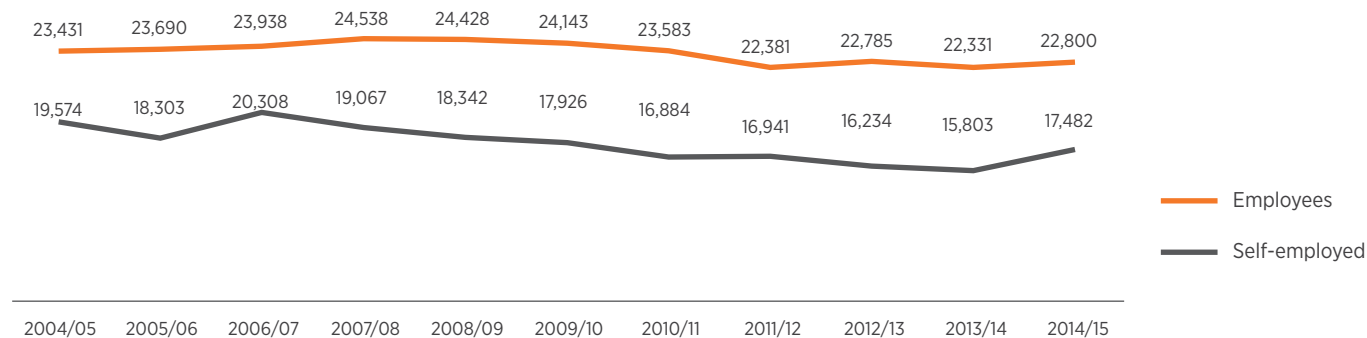
**Figure 15: Breakdown of the self-employed, 2014/15 (%)**



Source: Understanding Society Wave 6

**Figure 16: Median real income of the self-employed and employees, 2004/05–2014/15 (%)**

(£ per year, 2014/15 prices)

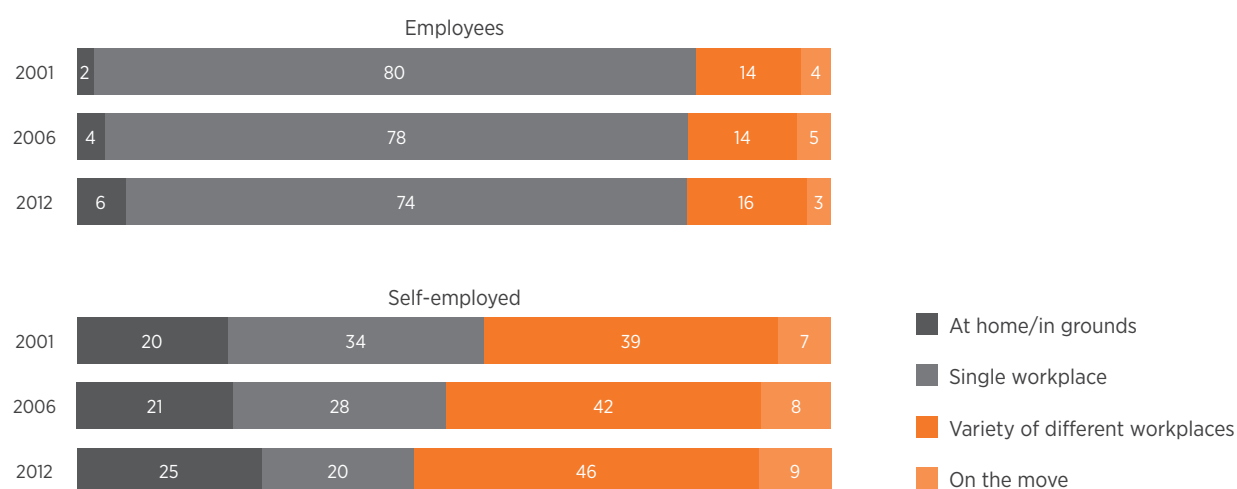


Source: DWP, Family Resources Survey

The self-employed have traditionally been more likely than employees to work from home or use home as their base (Felstead et al 2005). In 2012, a quarter of the self-employed worked from home (or in the grounds of their home) and nearly half worked from a variety of different places – presumably, in many cases, where clients or customers were located (Figure 17). In 2017, over 90% of employees said they have a workplace separate from their home; for the self-employed, the proportion was less than one half.<sup>9</sup>

Somewhat surprisingly, the self-employed are not more likely to put a high weight on pay than employees are (Figure 18). But they are less likely to value highly a job's security, promotion and training prospects, whereas they are more likely to value highly aspects of the work, such as its variety, and choice over their working hours.

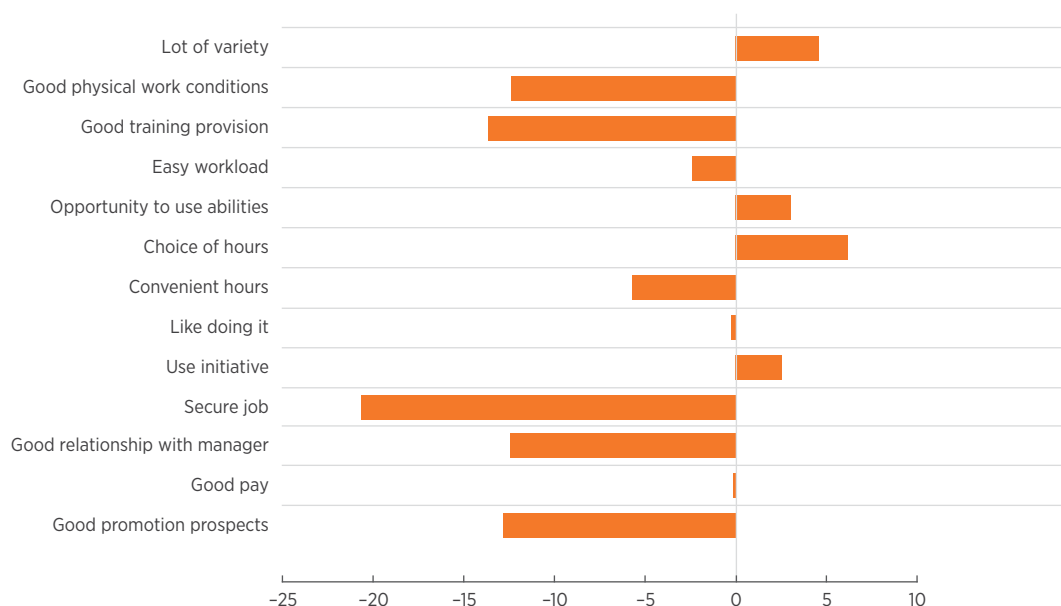
**Figure 17: Location of work by employment, 2001–12 (%)**



Source: Skills and Employment Surveys

**Figure 18: Important attributes of a job, 2012 (%)**

(% of self-employed saying essential/very important minus % of employees saying essential/very important)



Source: Skills and Employment Survey 2012

And despite earnings from work typically being lower than for employees, expressed satisfaction with pay is the same – quite low – as it is for employees (Figure 19). But the self-employed are more likely than employees to report high levels of satisfaction with the work itself, its variety and the opportunities it gives.

Looking across the range of job-related characteristics, the self-employed are as satisfied or more satisfied with their working life than employees and this translates into higher levels of overall job satisfaction, especially in the proportion exhibiting the very highest satisfaction levels – a finding that seems to be common both over time and from different data sources (Figures 20 and 21).

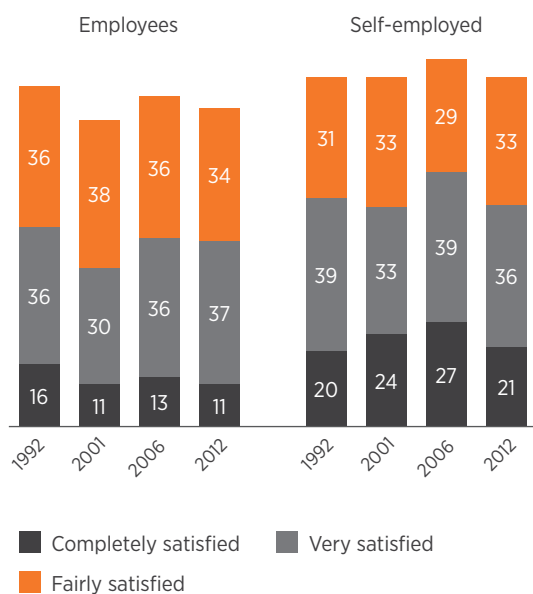
**Figure 19: Satisfaction with attributes of job, 2012 (%)**

(% of self-employed saying they are completely/very satisfied minus % of employees saying they are completely/very satisfied)



Source: Skills and Employment Survey 2012

**Figure 20: Job satisfaction, 1992–2012 (%)**



Source: Skills and Employment Surveys

**Figure 21: Job satisfaction, 2009/10 to 2014/15 (%)**



Source: Understanding Society Waves 1 to 6

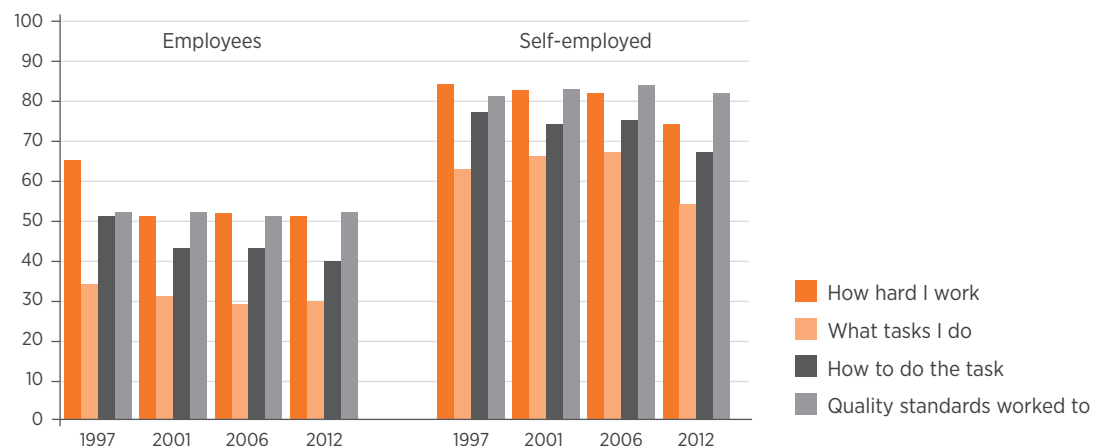


The self-employed have more autonomy over their work (Figure 22). People who become self-employed seem to consciously trade autonomy for earnings (Croson and

Minniti 2012). Of those self-employed in 2014, 46% said having more time or flexibility was the main advantage (BIS 2016a).

**Figure 22: Perceptions of personal influence over work, 1997–2012 (%)**

(% saying they had ‘a great deal’ of personal influence)



Source: Skills and Employment Surveys

**Table 1: Perceptions of work intensity and working conditions, 1992–2012 (%)**

	1992	1997	2001	2006	2012
<b>How much effort put into job beyond what is required ('a lot')</b>					
Employees	67	71	69	69	70
Self-employed	82	82	82	80	74
<b>'Often have to work extra time, above formal hours of job, to get things done' ('very true/true')</b>					
Employees	53		52	51	53
Self-employed	78		72	68	62
<b>How often comes home from work exhausted (always/often)</b>					
Employees		51	47	47	48
Self-employed		52	46	47	45
<b>'My job requires that I work very hard' (strongly agree)</b>					
Employees	30	39	37	41	44
Self-employed	46	54	49	53	52
<b>'I work under a great deal of tension' (strongly agree/agree)</b>					
Employees	49		59	59	60
Self-employed	45		55	56	50
<b>Work involves short, repetitive tasks (often/always)</b>					
Employees		44	47	48	51
Self-employed		42	42	39	47
<b>Work involves working at very high speed (three-quarters or more of time)</b>					
Employees	23		39	38	41
Self-employed	22		33	34	35
<b>Work involves working to very tight deadlines (three-quarters or more of time)</b>					
Employees			53	55	58
Self-employed			48	52	58
<b>How closely supervised (very/quite closely)</b>					
Employees		33	39	37	44
Self-employed		15	18	16	18
<b>Health and safety at risk because of work</b>					
Employees	29		32	28	25
Self-employed	31		36	35	30

Source: Skills and Employment Surveys

Areas where the self-employed are in general more content include the nature of the work they do, its variety, and the ability to use their initiative and skills (Tables 1 and 2). Analysis of the CIPD *Employee Outlook* survey suggests that three factors explain this higher job satisfaction: the self-employed are more likely to feel

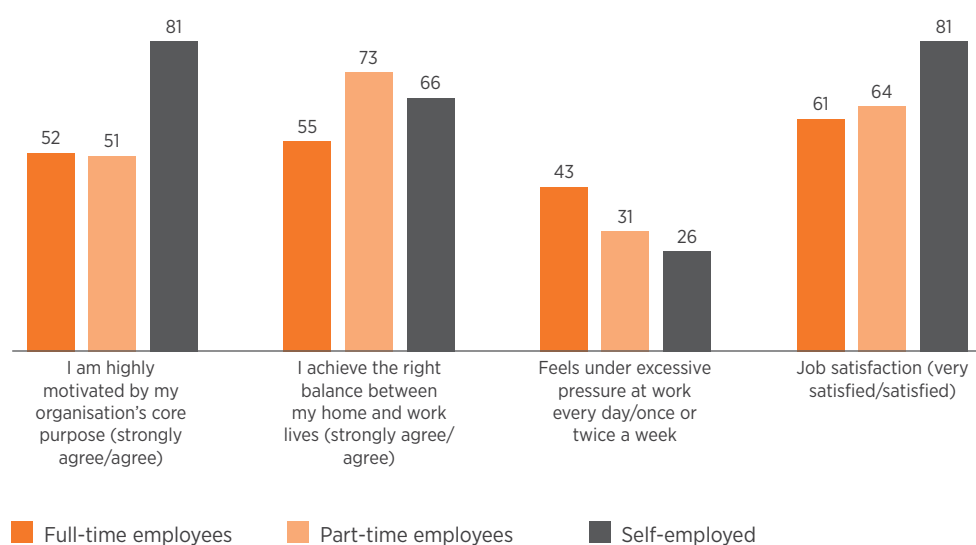
highly motivated by the core purpose of their business (unsurprising as in most cases it's their business); the self-employed are less likely to feel under excessive pressure on a regular basis; and the self-employed are less likely to feel their work and home lives are not in balance (Figure 23).

**Table 2: Perceptions of job challenge, variety and worker discretion, 1992–2012 (%)**

	1992	1997	2001	2006	2012
<b>'In my current job I have enough opportunity to use the current knowledge and skills I possess' (strongly agree/agree)</b>					
Employees			81	83	87
Self-employed			90	89	89
<b>'My job requires that I keep learning new things' (strongly agree/agree)</b>					
Employees	76		81	82	82
Self-employed	77		81	85	83
<b>'A great deal' of variety in job</b>					
Employees		34	33	31	31
Self-employed		48	51	46	43
<b>Has 'a great deal of choice' over way in which job done</b>					
Employees		45	38	36	29
Self-employed		62	66	68	54
<b>'My job allows me to take part in decisions that affect my work' (very true/true)</b>					
Employees	61		63	71	68
Self-employed	93		89	95	89

Source: Skills and Employment Surveys

**Figure 23: Measures of work-related well-being, 2015 (%)**



Source: CIPD *Employee Outlook*, autumn 2015

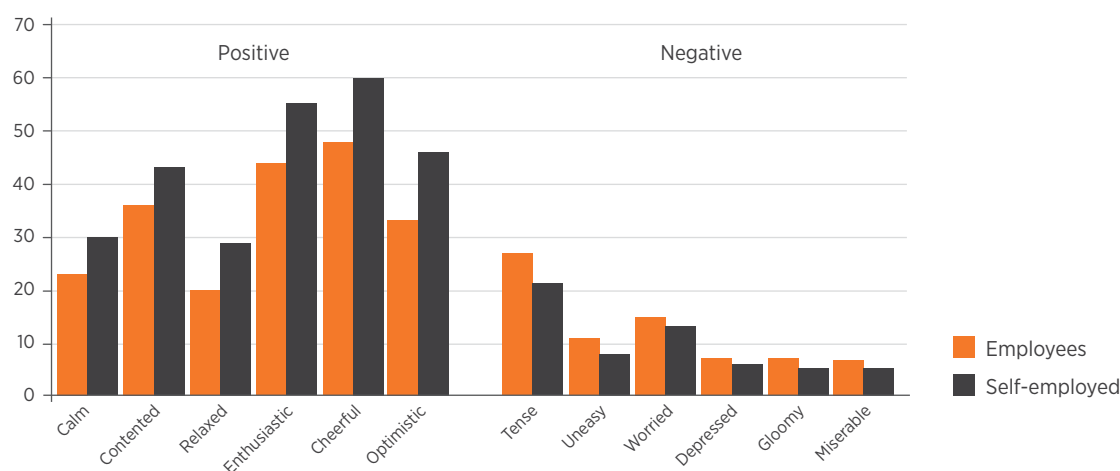
The self-employed are also more likely to say that their work leaves them in a positive frame of mind (for example, feeling enthusiastic or optimistic) than employees for much of the time, while being no more likely to report negative feelings (Figure 24). Of course, this could be the result of people with a sunnier disposition choosing self-employment rather than being the effect of self-employment on their state of mind.

But, of those self-employed in 2014, 86% thought they had more job satisfaction, compared with being an employee, and 4% thought they had less (BIS 2016a).

Job satisfaction among those self-employed who said they were doing freelance work was lower than for other forms of self-employment (Figure 25).

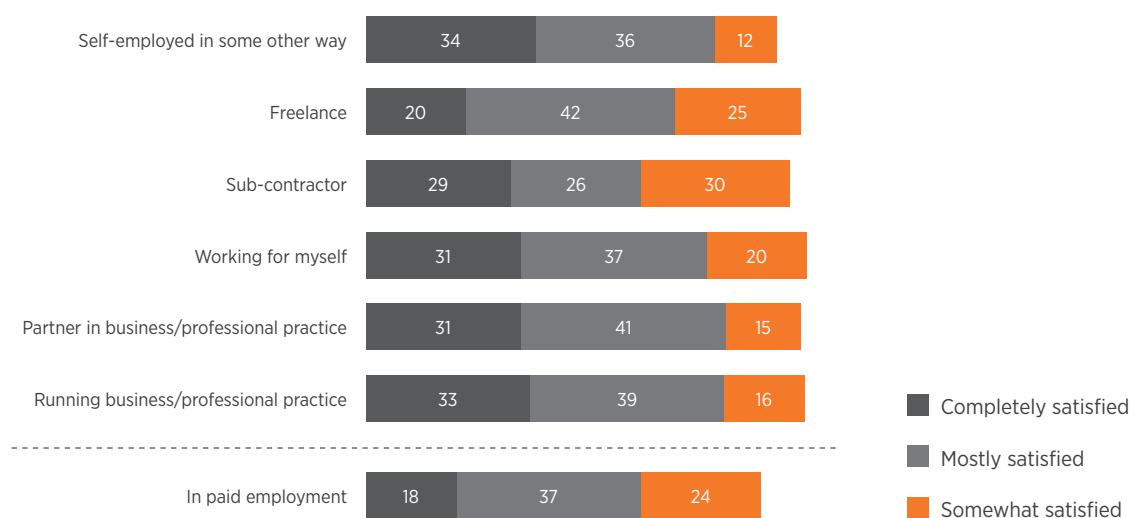
**Figure 24: Positive and negative feelings about work, 2012 (%)**

(% feeling this way much/most/all the time)



Source: Skills and Employment Survey 2012

**Figure 25: Job satisfaction, 2014/15 (%)**



Source: Understanding Society Wave 6

A 2014 RSA/Populous survey of the self-employed found that 84% of them were more satisfied than they had been in paid work (Dellot 2014). Higher job satisfaction was in general matched by slightly higher levels of more general well-being, although this wasn't the case for financial well-being (Figure 26).<sup>10</sup> Of those self-employed in 2014, 84% thought their life overall was better in self-employment compared with being an employee, with 7% saying they were worse off (BIS 2016a).

## How does the UK compare with other countries?

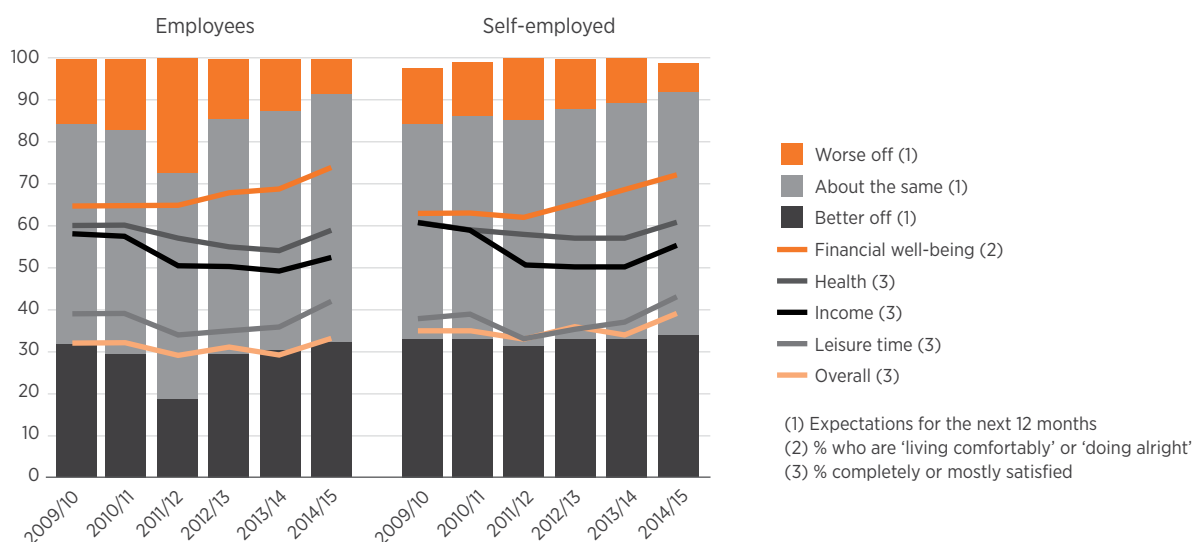
The long-term trend in most OECD countries during the twentieth century was for self-employment to fall as a

share of total employment. The UK, New Zealand and Portugal were unusual in seeing the non-agricultural self-employed share rise during the 1980s and 1990s (Blanchflower 2000). In Europe, self-employment increased between 2008 and 2014 faster in the UK than anywhere except the Netherlands (Blanchflower 2015b).

In the UK, self-employment as a share of total employment is close to the OECD average (Figure 27). The long-term trend has been for the self-employment rate to fall in most OECD countries, as the agricultural sector becomes less important and average income increases.

**Figure 26: Wider measures of well-being, 2009/10–2014/15**

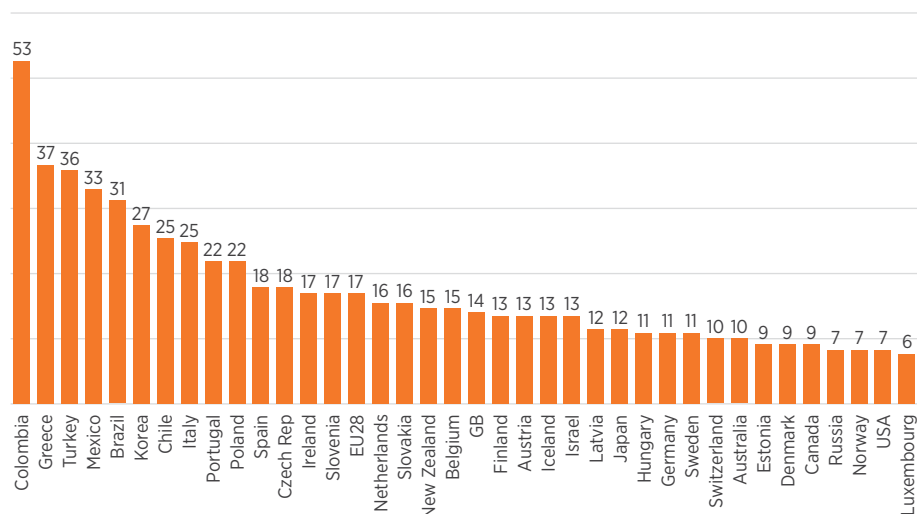
(% of people in employment)



Source: Understanding Society, Waves 1 to 6

**Figure 27: International comparisons of self-employment, 2013**

(self-employed in main job aged 15 and over as % of employment)



Source: OECD

In contrast, the self-employment rate is highest in 'low income' countries (IMF definition) and the Middle East and North Africa (Gindling et al 2016).

In 14 'high income' countries (IMF definition, includes the UK), the self-employed faced an average wage penalty of 24% relative to employees (Gindling et al 2016). The combination of lower income but comparable standards of living seen in the UK is seen in other European countries (Horemans and Marx 2017).

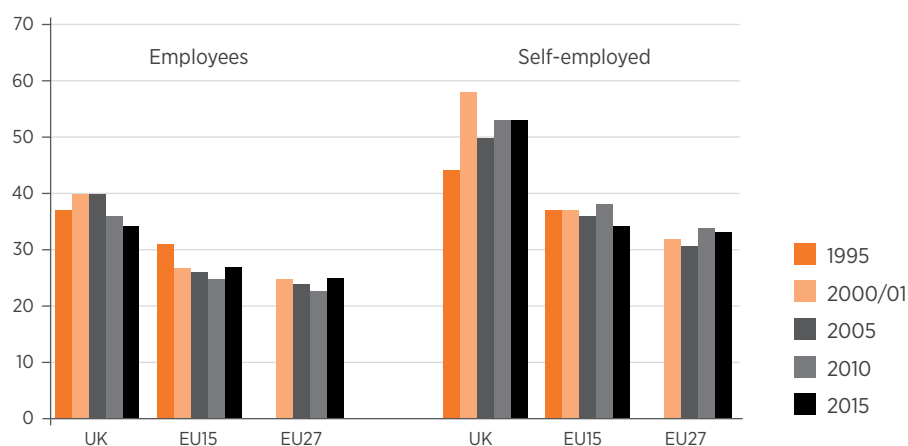
The finding that the self-employed report higher levels of satisfaction than employees with their working conditions appears to be common across most of Europe (Figures 28–31).

For job satisfaction, it appears to apply even after controlling for other variables (Blanchflower 2015b). Mean life satisfaction scores among the self-employed are greater than those for employees in all European countries except Austria and Norway (Figure 32).<sup>11</sup>

However, this may be a 'rich country' effect: self-employment only adds a premium to well-being in Western Europe, North America and Australasia, whereas it is a negative in many parts of the world (De Neve and Ward 2017). Analysis of European data for 2013 finds no well-being premium (Eurostat 2016). This might be because dissatisfaction with life and with society can push people into self-employment (Noorderhaven et al 2004).

**Figure 28: Satisfaction with working conditions across the EU, 1995–2015 (%)**

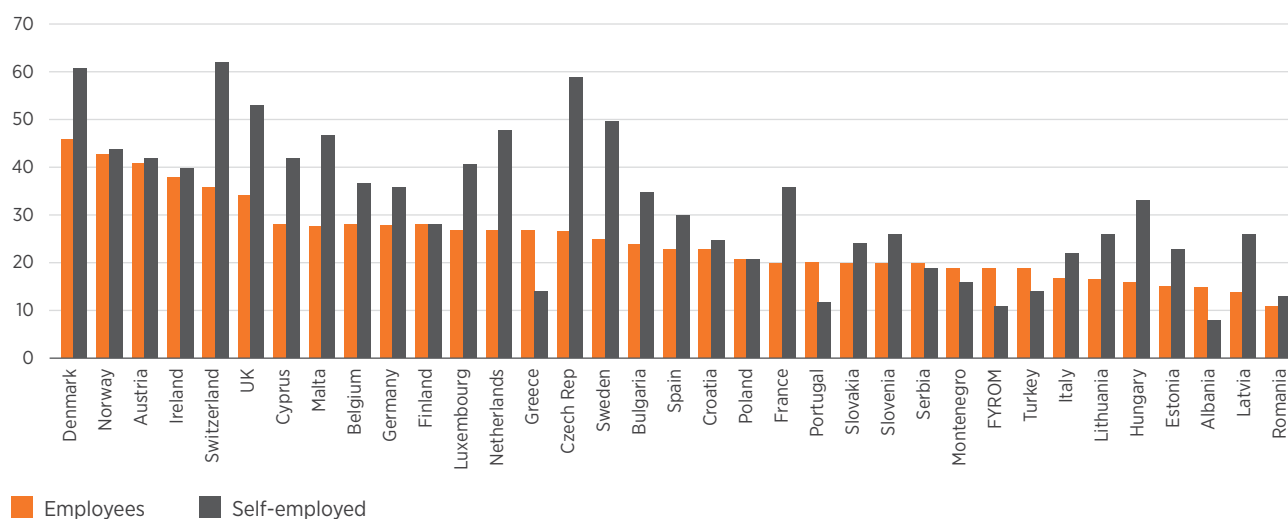
(% 'very satisfied' with working conditions in main paid job)



Source: European Working Conditions Surveys

**Figure 29: Satisfaction with working conditions across Europe, 2015 (%)**

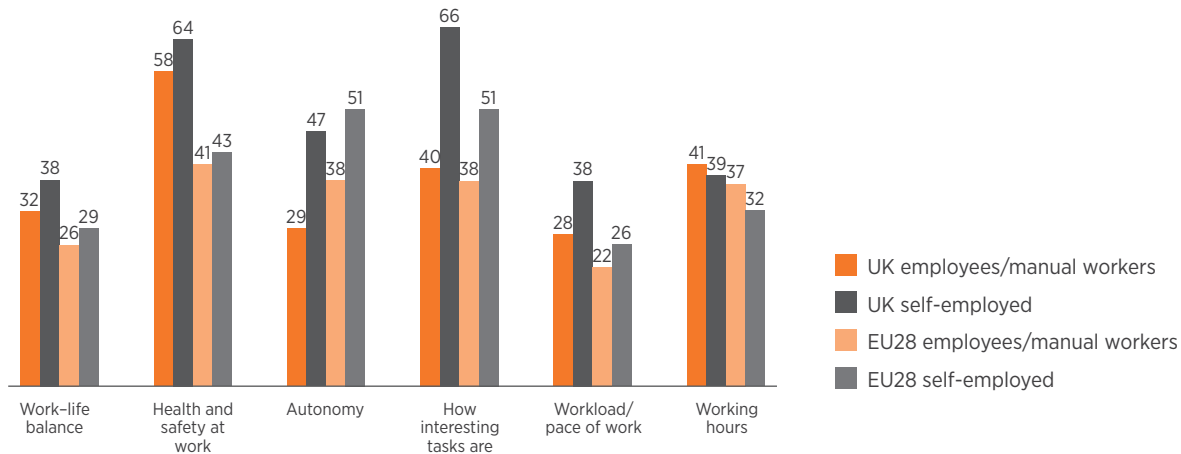
(% 'very satisfied' with working conditions in main paid job)



Source: European Working Conditions Survey 2015

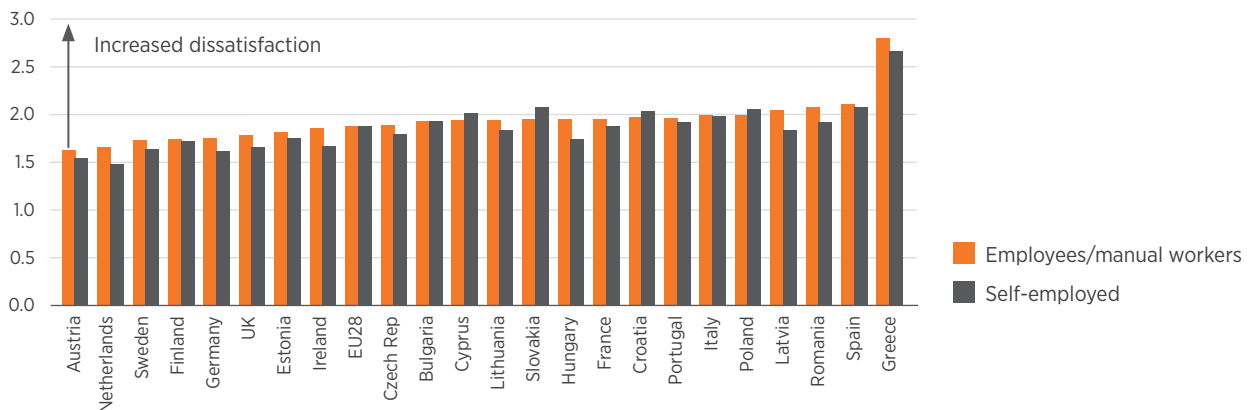
**Figure 30: Satisfaction with working conditions across the European Union, 2014 (%)**

(% 'very satisfied')



Source: Flash Eurobarometer 398

**Figure 31: Summary measure of satisfaction with working conditions, 2014**



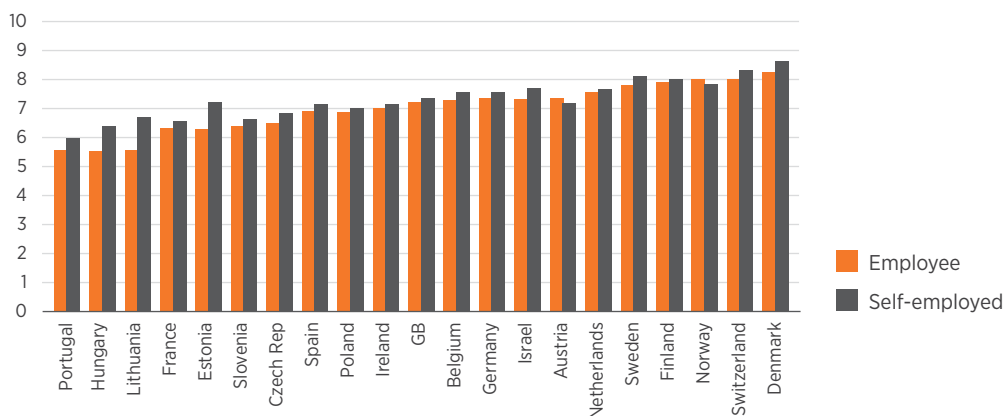
The index takes the value from 1 (where all employees are 'very satisfied' with all six aspects of working conditions) to 4 (where all employees are 'not at all satisfied' with all aspects of working conditions).

Figures not reported for Belgium, Denmark, Luxembourg, Malta and Slovenia because (unweighted) for self-employed n<50.

Source: Flash Eurobarometer 398

**Figure 32: Life satisfaction of self-employed and employees in Europe, 2014/15**

(Mean life satisfaction score, all aged 15+)



The score takes a value from 0 (extremely dissatisfied) to 10 (extremely satisfied). Excludes refusals, do not know and no answer.

Source: European Social Survey 7

## Conclusions

The last 15 years has seen self-employment in the UK increase again following a period beginning with the early 1990s recession when self-employment was stable or falling as a share of employment. Since 2008, self-employment has been even more prominent as a source of employment growth to the extent that the increase in self-employment between March 2008 and March 2017 accounted for almost a third of total employment growth.

Historically, the self-employed have been disproportionately male and aged over 50. They have tended to work longer hours than employees and be concentrated in specific industries (such as agriculture and construction) and occupations (especially skilled trades). However, the relative and absolute growth of self-employment has been accompanied by a rise in the share who are female and who work part-time

and by growth in a broader range of industries and occupations, including more highly skilled managers and professionals and a range of industries providing personal services and professional advice.

The self-employed have seen the gap in earnings with employees widen (to their disadvantage) rather than narrow over this period. Nevertheless, the self-employed continue to have higher levels of job satisfaction than employees: they derive greater value from the nature of their work and appear to find it easier to manage work pressures and reconcile their business with other aspects of their lives.

Self-employment in the UK, at 15%, is close to the European average and has been increasing, whereas, measured as a share of total employment, it has continued to decline in many other countries.

# What are the potential explanations?

The factors that affect the choice of whether to become self-employed are often characterised in terms of 'push' and 'pull' factors. 'Pull' factors are the positive aspects of working for oneself that attract people to the lifestyle. 'Push' factors are those that lead people into self-employment even though this may not be their preference, such as economic necessity.

Some of the changes likely to have encouraged or discouraged the growth of self-employment do not fit easily into this push-pull dichotomy. Factors such as the cost and ease of starting a business may be *enabling* or *disabling* – they make it easier or harder for someone who wishes, or feels compelled, to exercise that choice. Changes in the *structure* of the economy or the population are also likely to have an impact on the total number of self-employed.

Perceptions of the advantages and disadvantages of being self-employed may change over time because circumstances change, because views on what is important in work and life change, and because of experience. Retrospective accounts of the motivations for choosing (or rejecting) self-employment may shift with time. Even if the opportunities and constraints influencing a choice of whether to become self-employed change, this might not translate consistently into changes in behaviour. For example, if economic recovery means more jobs with employee status become available, people who became self-employed because of a lack of employee jobs may not automatically switch back to employee status: they may have chosen self-employment 'involuntarily' but then find they prefer the lifestyle.

The most common reason given by both men and women for being self-employed in 1999–2001 was independence or having a change (Dawson et al 2009). However, the second most common reason given was 'nature of the occupation'. Individuals' choices are constrained to an extent by prevailing business models and labour market structures (such as freelancing being a common arrangement in many occupations, for example, broadcasting and therapy (Kitching 2016)).

## Is it because of the economy?

The classic 'push' factor is lack of alternative employment options. People set up their own business because they have lost their previous job and cannot find another one. The post-2008 recession therefore pushed some people into self-employment.

In the 2001 Skills and Employment Survey (SES), the proportion of those who were self-employed at the time of the survey but who had been unemployed in the previous five years was 15%, slightly lower than the proportion for employees (18%). A similar pattern was observed in the 2006 SES (13% of the self-employed had been unemployed compared with 15% of employees). However, this pattern reversed itself in the 2012 SES, when over a quarter (26%) of the self-employed had experienced unemployment in the post-2007 period, whereas the proportion for employees changed little (17%). In other words, those (relatively) new to their current self-employed role in 2012 were more likely than their predecessors to have recent experience of unemployment.<sup>12</sup> However, nearly three-quarters of the newly self-employed in the 2007–12 period had still not experienced recent unemployment.

The UK is one of the (small) number of OECD economies where a rise in unemployment is associated with increased self-employment (Halicioglu and Yolac 2015).

Looking at the post-crisis period, 2009–13, though, self-employment increased fastest in areas with high earnings and relatively *low* unemployment (Henley 2015). Just 27% of those in 2014 who had become self-employed in the preceding five years had done so to escape unemployment or the prospect of joblessness (Dellot 2014b). While a Resolution Foundation survey of the self-employed found that 84% said their decision to become self-employed involved some element of personal choice, and 83% of them would prefer being self-employed rather than an employee, these proportions were lower among those self-employed for less than five years (that is, post-crisis) (D'Arcy and Gardiner 2014). Of those self-employed in 2014, 16% said a contributing factor to their choice [to be self-employed] was not being able to get a suitable job as an employee (BIS 2016a). In the 2015 European Working Conditions Survey, 77% of the self-employed UK respondents said that being self-employed was their personal preference, compared with an average of 59% across Europe (Eurofound 2016).

But even if unemployment only explains a small proportion of movements into self-employment, it might understate the impact of economic conditions. A subsidiary hypothesis is that a lot of the people who became – or, in some cases, remained – self-employed since 2008 were 'odd-jobbers', people self-employed by necessity, perhaps scratching out a living from whatever work they could obtain in their relevant line



of business. The number of *paid* hours worked by these people might be relatively low, although, in some cases, hours worked in total might be higher because they spent a disproportionately large amount of time looking for paid work (in competitive markets, the ability of self-employed contractors to pass the costs of their marketing activities onto clients may be limited). Employees can be made redundant if they fail a test of economic viability; the self-employed cannot make themselves redundant and their threshold for economic viability – avoiding bankruptcy – may have allowed more of them to remain in the labour market, at the possible expense of reduced income.

### Is it because of employers?

A related ‘push’ factor is the behaviour of employers. Self-employed labour – as sub-contractors or freelancers – is one form of contingent labour available to employers, which might also include fixed-term contract or agency temporary workers, zero-hours contract workers, and other forms of labour. Hence employers looking for greater flexibility over *how much* labour they use may seek self-employed labour for this reason (there are, of course, other reasons why employers might use self-employed labour, such as the need to bring in specific skills for a limited period or because the type of labour firms are looking for *prefer* to work as sub-contractors or on a freelance basis).

In some cases, though, employers may combine the imperatives of flexibility and reducing labour costs at the expense of the individual through so-called ‘bogus’ or ‘disguised’ self-employment, which means work that is described as self-employment but which for all intents and purposes looks and feels like dependent employment. Organisations using labour in this way can save costs because using ‘self-employed’ labour means they no longer are required to pay certain non-wage costs (such as National Insurance contributions) and because the self-employed are not covered by unfair dismissal legislation and requirements for sick pay or holiday pay. Although the stated form of employment is not the decisive factor governing status in tax or employment law, employers may take a chance on individuals not being aware of the legal position, or that the inherent uncertainty and expense involved makes it unlikely that people will exercise their rights.

In addition to such behaviour being – by design, sometimes – on the margins of legality, underlying employment status is difficult to operationalise for statistical purposes. Furthermore, it may be difficult to differentiate between situations where employers impose ‘self-employment’ on a take-it-or-leave-it basis from situations where both employer and individual

agree to describe the work as ‘self-employment’ (because the individual can use self-employed status to reduce their tax liability). Two of the informants to a pan-European study described this as a ‘grey area’ (Mackay et al 2012).

Boheim and Muehlberger (2006) estimated that, in 2002, there were ten times as many independent self-employed as there were dependent self-employed in the UK.<sup>13</sup> Roman et al (2011) find that countries with strict employment protection legislation (unlike the UK) have higher rates of ‘false’ self-employment, but the UK has a significantly lower rate of transition to ‘false’ self-employment<sup>14</sup> than would be expected given the characteristics of UK individuals and institutions.<sup>15</sup> Citizens Advice (2015a) claim that 10% of a sample of clients might be ‘bogus’ self-employed, which would scale up to 460,000 people. The TUC (2016) quote a Social Market Foundation estimate of there being 1.7 million low-paid self-employed who earn less than the National Living Wage (Broughton and Richards 2016); it is claimed this group are unable to offset the risks of self-employment, such as lack of sick pay and holiday pay.<sup>16</sup>

‘Bogus’ self-employment has been a significant issue in the construction industry (Elliott 2014, Behling and Harvey 2015), where 400,000 self-employed are estimated to be ‘bogus’ (Harvey and Behling 2008).<sup>17</sup> Across Europe, the construction sector, transport (lorry drivers) and the creative industries are ones with both a high incidence of self-employment and problems with the boundary between dependent employment and self-employment (Eichhorst et al 2013). Situations where workers remain ostensibly self-employed but constitute a highly flexible on-demand workforce appear to be present in parts of the service sector too, such as personal fitness training and hairdressing (Harvey et al 2016).

However, the extent of employer collusion (or coercion) shouldn’t be overstated: just 6% of those self-employed in 2014 were encouraged into self-employment by their (then) employer and an even smaller proportion were dependent on that employer for work when they started their business (BIS 2016a).

In 2016, self-employed contractors or freelancers were used by businesses accounting for just over a quarter (27%) of employment in workplaces with one or more employees (Figure 33).<sup>18</sup> Their use was not as widespread as temporary labour or agency temps. Almost a quarter of employers used none of these sources – apparently relying on open-ended hires alone.

A 2010 European Employment Observatory review based on national correspondents’ reports concluded

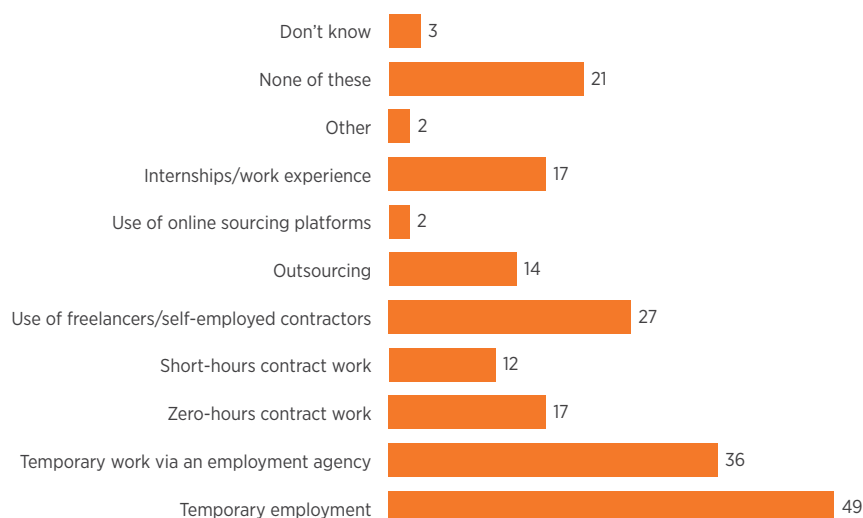
that: 'Furthermore, there seems to be an increasing trend [presumably across Europe] for workers to be "forced" into self-employment, in part so that employers can avoid the costs associated with social security contributions' (European Employment Observatory 2010). But the grounds for this judgement and its applicability to the UK are unclear.

## Is it because of changes in regulations?

More generally, if stringent employment regulation discourages employment at the margin, and if the self-employed are generally exempt from its provisions, more people can be expected to become self-employed to obtain work free of these constraints.

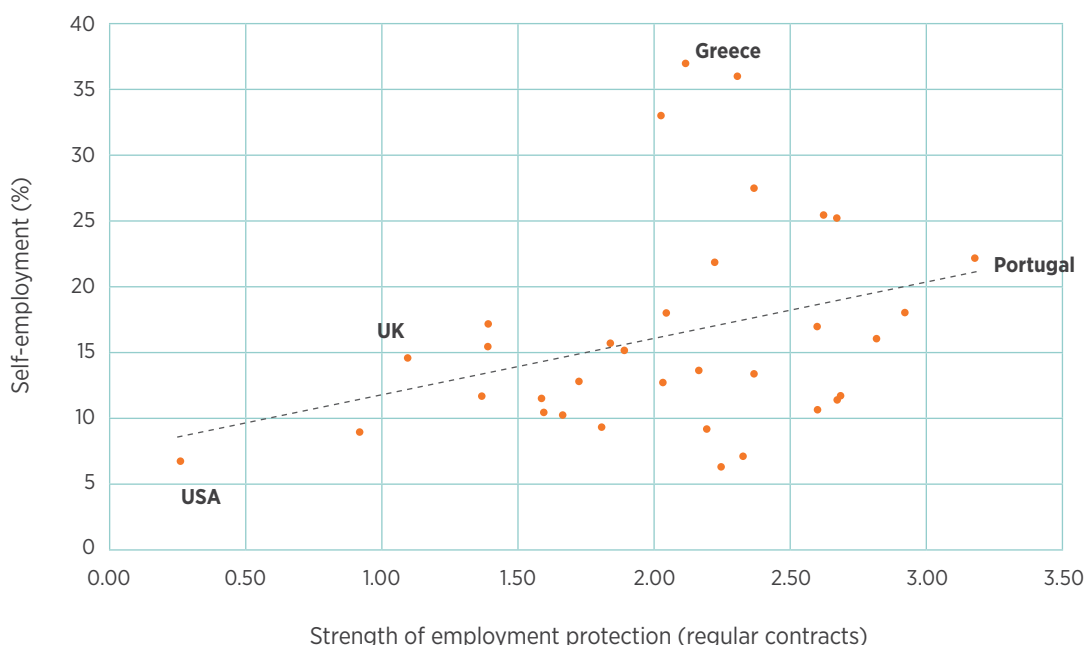
**Figure 33: Employers' alternative sourcing of staffing needs, 2016 (%)**

(UK, percentage of employers with one or more employees who met some of their staffing needs in the last 12 months by using this type of labour)



Source: CIPD *Labour Market Outlook* survey, spring 2016

**Figure 34: Self-employment by strength of employment protection legislation, 2013**



Source: OECD

There is a positive association<sup>19</sup> between self-employment as a share of total employment and stringency of employment protection legislation (EPL) – as measured by the OECD's indices of EPL (Figure 34).<sup>20</sup>

Similarly, if tax arrangements for employees and the self-employed are different – as they are in the UK – we might expect this to influence marginal choices between working as an employee and working for oneself.<sup>21</sup> There is also the impact of the threshold for VAT registration: in 2016, 45% of UK businesses were registered for VAT or PAYE.<sup>22</sup> Some people keep their business income below the VAT threshold deliberately.

Regulation more generally might also have an impact on the number of people running their own businesses.<sup>23</sup> Product market regulations in general, and sector-specific regulations, might expand or contract the opportunities for small firms in general – and sole traders in particular – although these may be difficult to predict in general terms. For example, tough laws preventing the formation of monopolies or curbing abuse of market power may not necessarily work to the advantage of sole traders. Entrepreneurs often operate activities that are illegal but seen by many as legitimate (Webb et al 2009). Across 35 countries in 2013, there was a positive association between the OECD assessment of barriers to entrepreneurship and the proportion self-employed; in other words, those countries with high self-employment rates tended

to be ones where barriers to entrepreneurship were relatively high.<sup>24</sup> The UK improved (reduced) its score for barriers to entrepreneurship between 2008 and 2013 – like most countries – with the greatest progress being in communication and simplification of rules and procedures. But there is more to increasing self-employment than simplifying processes.

One factor is the size of the shadow economy, which is affected by the structure of taxes and regulations (Schneider 2012). In the UK, most undeclared work is self-employment (Williams 2005). But the UK has one of the smallest informal sectors in the EU (Williams 2014). Hassan and Schneider (2016) assume a country's self-employment rate is positively related to the size of its informal economy. Their model estimates the UK informal economy to be just over 14% of measured GDP over the period 1999–2013, although increasing as a share of GDP because self-employment is rising. The shadow economy might have increased since the crisis by 3% of GDP, and more self-employment would be consistent with this (Goodhart and Ashworth 2014).

### Is it because of a renewed spirit of entrepreneurialism?

The attraction of working for oneself – relative to working for someone else – is the 'pull' factor encouraging self-employment. Other things equal, an increase in self-employment as a share of total employment could then arise from one (or both) of

### Is working for yourself in the blood?

Studies have linked the likelihood of being self-employed to specific genes (Nicolaou et al 2009, Shane et al 2010, van der Loos et al 2010), although the results of these studies can be contentious (van der Loos et al 2011) and, outside studies of twins, commonly found genes account for a very low proportion of sample variance (van der Loos et al 2013). An explanation has even been advanced: higher testosterone levels (Greene et al 2014, Bönte et al 2016, Nicolaou et al 2017). Lindquist et al (2015) estimate that an average of 28% of the variation of self-employment between siblings can be explained by factors in common such as genes and parental self-employment, which means that outcomes are far from pre-determined.

Personality traits can also create an entrepreneurship-prone personality, and this type of person is more likely to become self-employed (Zhao et al 2010, Obschonka et al 2014, Barirani et al 2017). Entrepreneurial behaviour can be associated with what are usually seen as personality disorders, such as Attention Deficit and Hyperactivity Disorder (Thurik et al 2016). It is even argued that entrepreneurship is one of our innate 'factory settings' as revealed by its presence in language (Miller 2014).

Alternative explanations focus on the environment, including parental example (Henley 2007) and culture (Marcen 2014). Religiosity is even associated with self-employment: the correlation across 74 countries in 2012 between entrepreneurial activity and the percentage of individuals in a country practising evangelical-charismatic or Pentecostal forms of Christianity was 0.575 (Henley 2014).

Yet *"the "born or made" debate about entrepreneurs might not be especially helpful, because the answer is actually that people are born with more or less entrepreneurial talent, but, crucially, depend on circumstance and opportunity if they are to fulfil that talent"* (Freeman 2014).

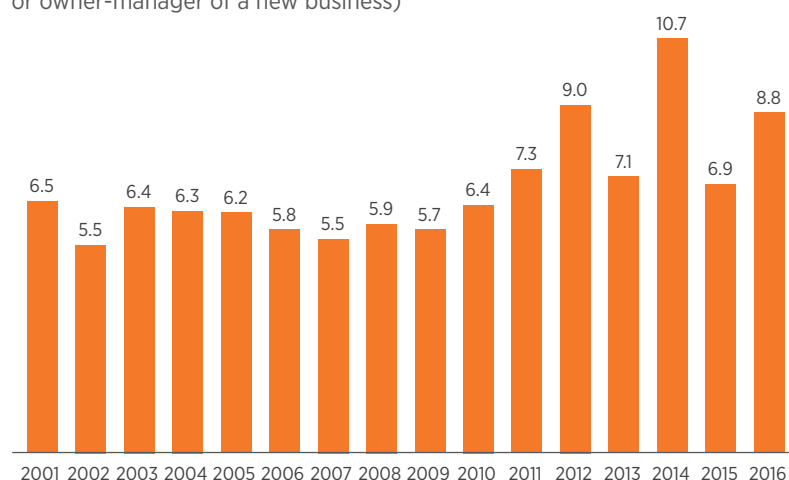
two changes. One might be that the perceived rewards of self-employment increase relative to the perceived rewards of working for somebody else (for example, if employers increased the intensity of work without any compensating changes in autonomy or perceived support, which may have happened, some employees may switch to self-employment to regain a sense of control over their working day). An increase in self-employment could also arise if there was a shift in preferences within the population of working age which meant that people placed a higher value on those job characteristics where self-employment was seen to compare favourably with employee status. The latter

might be captured by measures of entrepreneurial intention or inclination, such as the number of people who say they would like to work for themselves or have thought about working for themselves. People evaluate risk, independence and income when deciding whether to go it alone (Douglas and Shepherd 2002). The portrayal of entrepreneurs in the media can influence this choice (Konon and Kritikos 2017).

The Global Entrepreneurship Monitor does suggest there has been an increase in entrepreneurial activity in the UK post-2010 (Figure 35).

**Figure 35: Total entrepreneurial activity, 2001-16 (%)**

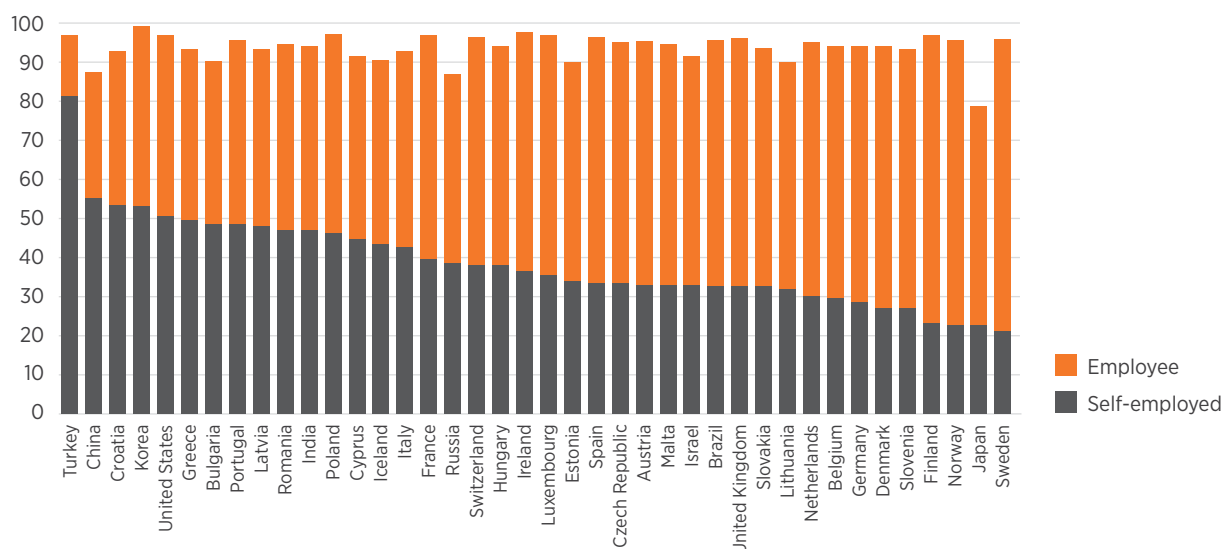
(UK, percentage of 18-64 population who are either a nascent entrepreneur or owner-manager of a new business)



Source: Global Entrepreneurship Monitor

**Figure 36: Preference for self-employment, 2012 (%)**

*If you could choose between different kinds of jobs, would you prefer to be...?*



Totals do not add to 100% because 'don't know/no answer' are not reported.

Source: Flash Eurobarometer 354

The desire to become self-employed, rather than an employee, is relatively low in Britain (Blanchflower 2004). But, in 2012, a third of the adult population still said they would prefer to be self-employed rather than an employee (Figure 36).<sup>25</sup> Becoming self-employed, though, can still be a matter of chance, not planning; many people become self-employed without first having made plans for running a business (Henley 2007).

Housing assets often ease the path into self-employment, especially for those initially using home as a base (Kwong et al 2009, Sena et al 2010, Sila and Sousa 2014, Reuschke 2016), so the budding self-employed may have drawn on appreciating asset values. In 2017, 73% of the self-employed owned or were buying their home, compared with 68% of employees.<sup>26</sup> Business owners, especially those with employees, have high levels of wealth and assets and, for those already better off, entrepreneurship makes them wealthier (Mwaura and Carter 2015).

When asked to choose specific alternative working patterns, such as changes in their hours, about 8% of employees said they would like to become self-employed (CIPD 2014).<sup>27</sup> This provides what is possibly a realistic estimate of unfulfilled demand for self-employed status.

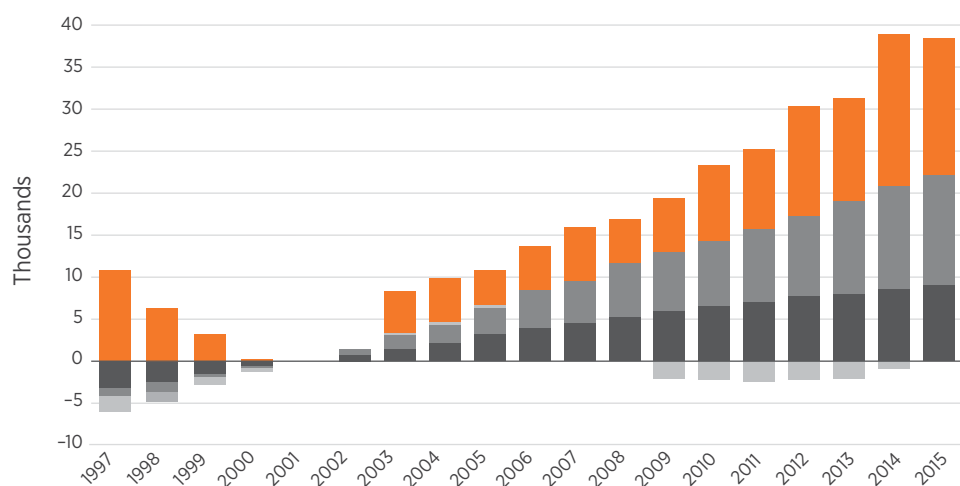
## Is it because of demographic changes?

Self-employment typically varies by demographic characteristics (Simoes et al 2016).

Self-employment is more common in older age groups (Figure 6), which are growing as a share of the population, so this is likely by itself to increase aggregate self-employment. Factors behind this are both a desire to keep working and necessity (a lack of adequate provision for retirement). The self-employed are now less likely than employees to be making contributions to a pension (D'Arcy 2015). In some cases, the business is their pension (Citizens Advice 2015b, 2016a). The outcome, though, is an increasingly elderly population of entrepreneurs (Naudé 2016).

An ONS analysis showed that demographic changes (a bigger and older population) account for a small proportion of the growth in self-employment during this century, with most of the increase coming from increased labour force participation and a greater propensity to be self-employed (Figure 37).<sup>28</sup>

**Figure 37: Decomposition of growth in self-employment, 2001–15**



Source: Amankwah and Wales (2016)

- Demographic change
- Change in participation rates
- Change in employment rates
- Change in self-employment propensity

## Is it because technology has made it easier to work for yourself?

Technological change creates new goods and services and the ICT sector itself is a source of freelancing and consulting opportunities.

Modern technology also reduces set-up costs in many industries, and allows people to start their own business from home rather than lease office or workshop space. This greatly reduces the cost of market entry and provides the means to start building a customer base and avoid exploitative work practices (Cheng 2014). But it also reduces the commitment and costs borne by whoever provides the work, with a transfer of economic risk onto the individual (Friedman 2014). What is here termed the online, on-demand economy – see box below – arguably contains modern versions of some very old ways of organising work: the hiring hall and the ‘putting-out’ system used for the manufacture of goods (De Stefano 2016, Finkin 2016).

The internet also brings a whole world of consumers. There is the potential to sell globally and specialise. The internet has also brought new ways of organising economic activity, with opportunities to sell labour on a freelance basis. From the work provider’s perspective,

online talent platforms reduce labour costs by up to 7% (Lund et al 2016). For the individual, there is the chance for people to make money from a hobby alongside a full-time job (Dellot 2014a). But this can produce permanent labour market changes: people with a second job are twice as likely as those without to move into self-employment a year later, and multiple jobs are also a way to prepare the ground for occupational mobility (Panos et al 2014).<sup>29</sup>

Maselli et al (2016) and Brinkley (2016) think the gig economy is likely to increase the numbers who are self-employed and freelancing. Online platforms, though, can offer similar work to sub-contracting and casual work or freelancing and thus provide an alternative to low-level entrepreneurial activity for the unemployed or underemployed (Brawley and Pury 2016, Burtch et al 2016). Online platforms can offer people control over their hours and the work they do (Teodoro et al 2014). As these are often the reasons people choose self-employment, they may attract people who would otherwise attempt traditional self-employment. However, some crowdsourcing platforms appear to *require* the people supplying labour to be self-employed, independent contractors (Bergvall-Kåreborn and Howcroft 2014).<sup>30</sup>

### What’s in a name? The online, on-demand economy

The most common phrase perhaps is the ‘gig economy’, which the Office of Tax Simplification defines as ‘*an environment in which temporary positions are common and organisations contract with independent workers for short-term or on-demand engagements*’ (OTS 2017). This is an example of a definition that focuses on the contingent nature of labour. Temporary and casual employment are included, and are numerically significant, but they have been around for decades, centuries even, and recruitment methods can be unsophisticated (such as cards in a window). McKinsey Global Institute (2016) and EY (2016) place all temporary labour in their definition. But although this talks up the ‘gig economy’, it downplays what might be novel about it: the technological platforms that bring together buyers and sellers of labour. The CIPD (2017) used a pragmatic definition – ‘*people having temporary jobs or doing separate pieces of work, each paid separately, rather than working for an employer*’ – but in practice this was providing transport, food delivery and finding work via online platforms. However, unprompted awareness of the term ‘gig economy’ may be low; in late 2016, just 20% of adults had heard of the term, the proportion amongst gig economy workers being just 35% (CIPD 2017).

The ‘collaborative economy’, as defined by Nesta, ‘*involves using internet technologies to connect distributed groups of people to make better use of goods, skills and other things*’ (Stokes et al 2014). Nesta estimate 64% of UK adults have participated with or without internet technologies – but this could include an occasional visit to a charity shop.

Another term often used is the ‘sharing economy’. Indeed, in 2014 there was an independent review conducted for the Government with the predictable aim of the UK being the world’s ‘leading sharing economy’ (Woskko 2014). But the term has been criticised because ‘sharing’ often comes with a fee (Balaram 2016).

Two recent terms used are the ‘platform economy’ (Kenney and Zysman 2016) and the ‘matchmaker economy’ (Evans and Schmalensee 2016). They focus attention on the role of technology platforms in enabling the matching of supply and demand.



McKinsey Global Institute (2016) estimates that 11–25% (6–14 million) of the UK workforce are engaged in ‘independent work’, a similar proportion to other large European economies but a smaller proportion than in the USA. Many of these individuals are also employed. But a more modest definition of the ‘gig economy’ leads to a more modest estimate of its size, 4% of the UK workforce (CIPD 2017). A majority of these have a regular job alongside their ‘gig economy’ work.

However, a strengthening economy may reduce the supply of workers available to the online, on-demand economy. There are indications that growth in participation in online labour platforms in the USA (which is less than 1% of the labour force) may have peaked (Farrell and Greig 2016).

Challenges in the employment field include the legal status of workers in the online on-demand economy (De Stefano 2016, Donovan et al 2016). The labels of self-employed and dependent worker may feel increasingly unsuited for the nature of the work being done (Eichhorst et al 2016). Indeed, the Taylor Review proposed an alternative label instead of ‘worker’ for some of those working in the ‘gig economy’. Other issues include who is responsible for compliance with labour standards, insurance, and the fidelity, storage and use of data.

To be successful still requires skills and expertise, albeit different ones. For example, marketing in this world is very different from traditional advertising (utilising techniques such as search engine optimisation). Well-resourced large firms may still have the advantage – if they know what expertise to look for.

## Conclusions

The debate about push and pull may be one of degree. While self-employment is sensitive to labour market conditions, only a relatively small proportion of the increase could be characterised as being driven exclusively by necessity. Job loss may have been the event that originally led people to switch to self-employment, but in some cases this could have triggered a change that an individual had thought about, or aspired to, in any case, with necessity and opportunity coinciding. Whatever the original impetus, people can have a successful business career (Stephan et al 2015).

There is no convincing evidence of any increase in the extent to which employers have been exploiting their position by forcing ‘bogus’ self-employment onto the people working for them. Indeed, if there has been any change in the numbers of ‘bogus’ self-employed, this could just as easily have been the result of changes in tax law or its enforcement and individual preference.

Technological advances mean that the cost of setting up a business and selling one’s services – or the fruits of one’s labour – have dramatically reduced in many sectors. Combined with a regulatory climate in the UK that is encouraging towards the formation of new firms, this provides greater opportunities for self-employment. The evidence suggests there is a sufficiently large pool of people in the UK favourably inclined towards self-employment for this to translate into more people remaining self-employed. Demographic changes have also played a supporting role.

# What are the implications?

The RSA expect the number of self-employed to exceed the numbers working in the public sector by 2018 (Dellot 2014b, Figure 38).

There has been an explosion of interest in having something meaningful to say to this portion of the population. Both the Government and the opposition have commissioned reviews to generate ideas for policies that better reflect the needs and circumstances of the self-employed (BIS 2016c, Labour Party Small Business Taskforce 2014). And they have not been short of suggestions (for example, Dellot and Wallace-Stephens 2017).

## What are the implications for the economy?

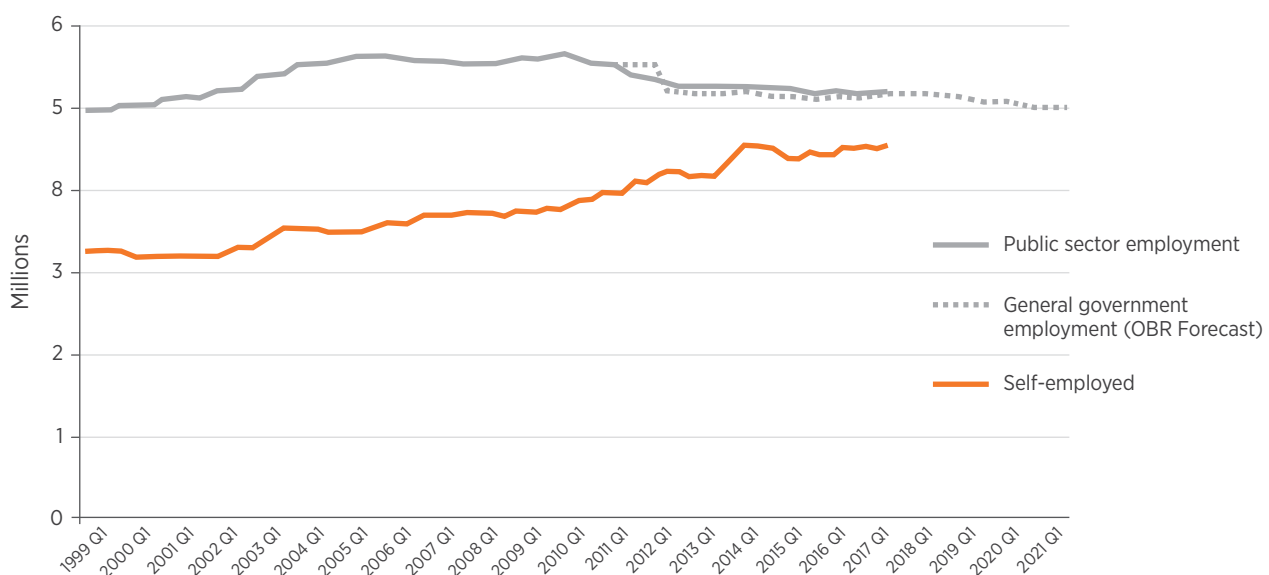
More self-employed might be part of the reason for the UK's poor productivity performance. In some cases, sole traders might have limited access to capital and be too small to exploit economies of scale and scope. The self-employed may be content with this trade-off but, in aggregate, it could (negatively) affect the overall growth rate (Blanchflower 2000).<sup>31</sup>

The counter-argument is that growth in self-employment is a necessary (if not sufficient) condition for the UK to see an increase in the number of high-

growth firms that are responsible for the lion's share of growth in (dependent) employment in advanced economies (Bravo-Biosca et al 2013).

There is little apparent correlation across countries between overall numbers self-employed and formation of new businesses employing people, especially once account is taken of the level of income in countries (Desai 2017). Only a very small proportion of the self-employed are innovative entrepreneurs likely to account for job growth (Kritikos 2014). Most of the economic impact of new firms is due to a small proportion of atypically successful high-growth firms, so an increase in self-employment is not guaranteed to lead to higher output or employment (Nightingale and Coad 2013, Moreno and Coad 2015). Only a small fraction of sole traders (5% of non-employers in 2007) go on to take on employees (Allinson et al 2013). Business growth depends on, though is not determined by, the owners' attitude and aspirations for growth. Many self-employed don't want to grow quickly (Theodorakopoulos et al 2015). And the founders of high-growth firms tend to acquire their business skills working within larger companies rather than from scratch while working for themselves (Mason and Brown 2010, Maschke and zu Knyphausen-Aufsess 2012).

**Figure 38: Self-employment and public sector employment**



Sources: Office for National Statistics, Office for Budget Responsibility



Faggio and Silva (2012) find a positive relationship between self-employment growth and new business start-ups, but only in urban areas of the UK. Sanandaji and Sanandaji (2014) find no grounds for encouraging self-employment because it does not produce more 'super-entrepreneurs'. Van Stel et al (2014) suggest that each of the 26 OECD countries they studied had its own unique optimal level of solo self-employment (without employees) and deviations from this – positive and negative – were equally costly. This implies the optimal rate of self-employment for an economy is largely a function of history and external factors, and

that whether self-employment is above or below the optimum matters little for growth anyway – unless entry to, and exit from, self-employment is difficult.

Those remaining self-employed may also be slowing down the process of 'creative destruction' and acting as a drag on productivity (see box below). Nevertheless, the self-employed are slightly more likely than full-time employees to rate their personal productivity highly, though this may be a misreading of long hours or effort for productivity (Figure 39).<sup>32</sup>

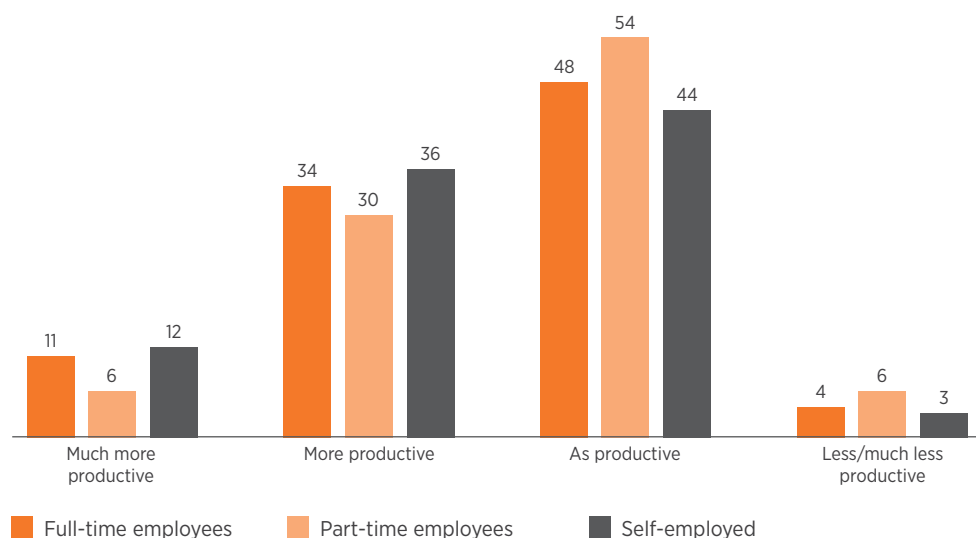
## Do we have self-employed zombies?

A 'zombie company' has been characterised as one that is struggling financially but can remain in business while the cost of servicing its debt is low because of historically low interest rates. Furthermore, lenders are reluctant to foreclose because they would then have to record a loss on the balance sheet; better to allow it to meet its minimum debt repayments. Although 'zombie companies' preserve employment, the disadvantage is that low-productivity businesses stay afloat and higher-productivity rivals are prevented from entering the market or growing. Such firms exist in many countries (in some cases being far more common than in the UK) and can slow down investment and productivity growth (Adalet McGowan et al 2017).

Discussion has focused on companies, but what about one-person businesses? An increasing number have been self-employed for a very long time (Figure 12). Because they train less than employees, and can lack access to investment finance, their capacity for organic productivity growth may be limited. But exit from the market may be a protracted affair: if they own property (as most self-employed do), they could make a low income and chalk up losses for a long time, funded by drawing down equity from residential or commercial property and/or the business, without having to call it a day.

**Figure 39: Self-rated productivity, 2015 (%)**

*We would like you to think about your work productivity in relation to your colleagues.  
Would you say you are more, less or as productive as your colleagues?*



Source: CIPD *Employee Outlook*, autumn 2015

The Bank of England believes that most of the recent growth in self-employment is structural, rather than cyclical, so it does not represent a significant additional source of spare capacity (Tatomir 2015).

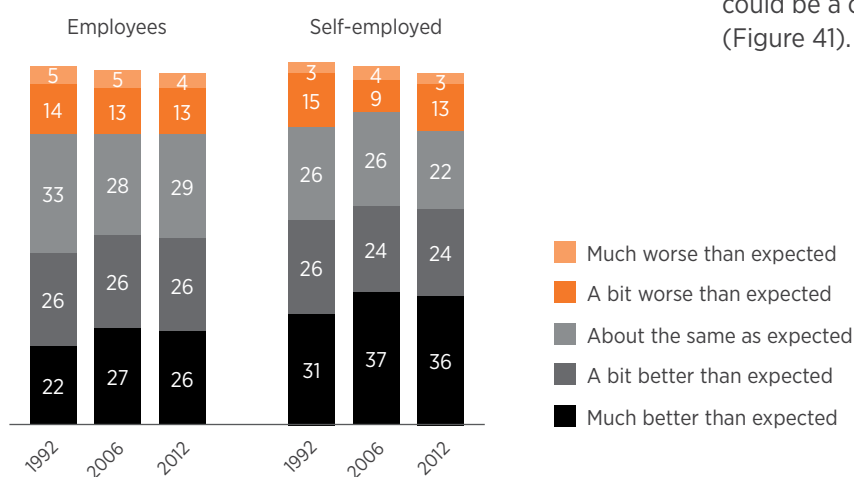
There are implications for measures of the size of the economy and the labour market, especially through online, on-demand markets, which could expand or contract the market economy versus the household production sector.<sup>33</sup> The lack of common definitions is a potential barrier to measurement (ONS 2016).

## What are the implications for the self-employed (and those wanting to follow in their footsteps)?

Self-employment doesn't come with added satisfaction guaranteed. Self-employment comes with potential costs – not least the possibility of lower lifetime income – as well as potential benefits. The nature of these means it will not be a lifestyle for everybody, although it may be a source of (greater) stability for men and women who find it difficult to stay in a job for long (Failla et al 2014).

The self-employed are more likely than employees to think their working life has exceeded expectations (Figure 40). But they can end up working longer hours and have increased dissatisfaction with the quantity and quality of leisure time (Binder and Coad 2014). Work has greater importance to those who are self-employed: this could be a cause or consequence of being self-employed (Figure 41).

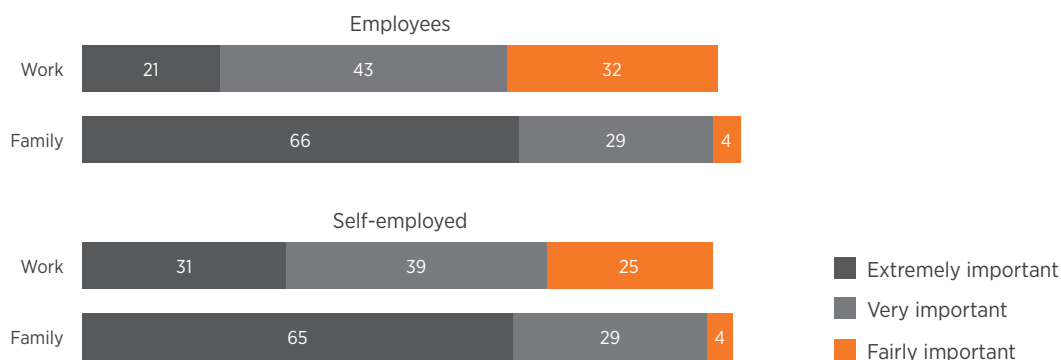
**Figure 40: Perceptions of how well people have done so far in working life compared with expectations, 1992–2012 (%)**



Totals do not necessarily sum to 100% because small proportions of 'don't know' responses and refusals to answer the question are not reported.

Source: Skills and Employment Surveys

**Figure 41: Stated importance of work and family, 2012 (%)**



Totals do not necessarily sum to 100% because the small proportions saying work/family was 'not very important' or 'not at all important' are not reported.

Source: Skills and Employment Surveys

Of those self-employed in 2014, about a third thought they were financially worse off, rising to half for the small percentage planning to become an employee (BIS 2016a). The self-employed are on average less risk-averse and are more optimistic about their prospects than employees, and this optimism can lead to some of them having a rosy view of their earnings prospects, even when they earn less working for themselves (Hmielski and Baron 2009, Åstebro et al 2014, Dawson et al 2015). It is an example of how the qualities needed to work for oneself can have their dark sides (Miller 2015).<sup>34</sup> Over half (56%) of those self-employed in 2014 had experienced one or more 'big problems', most often not getting paid for taking time off, through sickness or holidays, and not saving enough (BIS 2016a).

But many self-employed are willing to trade lower earnings for independence, autonomy or more control over when and how much they work; one estimate of the value of 'being your own boss' to low-skilled British men is 49% of their average hourly wage when self-employed (Bradley 2016). They also take on risk: many attempts to work for oneself fail and, while this can be a vehicle for learning and future entrepreneurial success in some cases,<sup>35</sup> it can also be a source of personal distress (Ucbasaran et al 2013, Ucbasaran et al 2010). The self-employed can find dealing with financial problems more difficult, on average, than employees (Citizens Advice 2016b). Preparation and training can help both entry into, and survival of, the self-employed (Henley 2007).

There are probably now more opportunities for people to 'sample' self-employment, to find where their talents lie or simply to use their time more intensively by being self-employed in a second job. However, more complex working patterns create new challenges, such as managing tax liabilities rather than leaving it to an employer (OTS 2017).

## What are the implications for (existing) employers?

Some employers already have people working for them who double up running a business of their own. Almost a fifth (19%) of those describing themselves as self-employed in 2014 started earning from self-employment while they were still a paid employee (BIS 2016a).<sup>36</sup> However, other sources produce even more modest estimates. Understanding Society Wave 6 (2014/15) produces an estimate of less than 2% of people who said their main job was as an employee with a self-employed second job. The Labour Force Survey gives an estimate of 1% of employees (320,000) having a self-employed second job in 2015/16, with this proportion having changed little since 1992 (Corlett and Finch 2016).

Employers need to think about the protection of intellectual property, client contacts or the use of corporate resources (such as IT or stationery). In some cases, there is possibly even the risk of direct competition. A more general issue is likely to be one of commitment and discretionary effort. Can an employee 'go the extra mile' both for an employer and for themselves? But is this a reasonable expectation in any case? Won't an employee always be motivated by self-interest?

The zero-hours contract debate has drawn attention to exclusivity clauses. These are one means of trying to manage a potential conflict, but the question is whether they are self-defeating (and indeed enforceable). In spring 2015, 45% of employers said they had *no* restrictions on their employees working for another company (CIPD 2015).<sup>37</sup>

A better approach might be to recognise there are potential advantages for both sides. Self-employment is an alternative development route for talented people alongside internal progression. Employees are more motivated and productive if they think they have opportunities to learn and grow – these need not be just for a better job within their own organisation. Employees will develop skills from their own business that they bring to the workplace.

The small proportion of employees with their own business means that some employers, smaller firms with less internal HR capacity, might decide to take a chance on it not being an issue, and deal with problems as and when they arise.

Employers who decide to anticipate this issue will probably need some clear boundaries, such as the use of corporate resources, intellectual property and avoidance of conflicts of interest, which need to be identified and clearly set out. But, within these limits, it may be better to be encouraging rather than discouraging. The technology sector may provide inspiration in its encouragement of spin-outs and corporate venturing, and the professional service firms in recognising alumni as an asset to be managed.

More on-demand workers, so-called 'free agents', creates challenges for the HR function in sourcing and managing a portfolio of skills and expertise, some of whom are not controlled directly (Horney 2016).

Employers also need to be clear about their rationale for using self-employed contractors and that the contractual relationship benefits both the organisation and the individuals concerned and remains within the spirit and letter of the law. HR leaders and managers need to

ensure that the contract and the reality of the working relationship is consistent and that there is not a grey area which means that while an individual is classified as self-employed in their contract they are in reality treated like a worker and entitled to certain employment rights.

## What are the implications for government policy?

Since the end of the 1970s governments have promoted 'enterprise' and, to varying degrees, self-employment has been regarded as a means of increasing employment as well as releasing individuals' entrepreneurial spirit. The difference in tax treatment, especially not being charged employer National Insurance contributions for their labour, is arguably an implicit subsidy for self-employment (Corlett 2013, Tomlinson and Corlett 2017). The increases to National Insurance contributions proposed in the Spring Budget 2017 but then withdrawn did not address this issue.

The policies that governments have adopted under this banner have varied and their direct relevance to the choice people make about whether to become self-employed is equally variable. For example, successive governments have spent considerable amounts of effort (as well as money) on access to finance for small businesses (Greene and Patel 2013). While some of these policies will be of general relevance to someone contemplating self-employment, other policies (such as the various schemes designed to facilitate R&D or investment capital or mezzanine finance) will only be of interest or relevance to a small minority of those considering self-employment (Stenholm et al 2013). This does not mean such policies should not be followed; it simply means they are tackling problems that affect a much narrower population of businesses.

The evidence on productivity provides little support for a policy stance that *promotes* self-employment over dependent employment. Policies [to promote self-employment through the education or tax system] may be '*wasteful and counter-productive*' (Urwin 2011).

Governments may promote or deter self-employment for other reasons, reflecting their views about the broader economic and social implications of self-employment, such as a belief that more self-employment leads to a more entrepreneurial and independent citizenry, or that self-employment can encourage myopic and potentially anti-social behaviour, such as evading taxes or regulations, or not saving sufficient funds for one's retirement. Governments may even have a (possibly misguided) belief that the self-employed are more likely to hold certain political, economic and social views (Crum

2015, Jansen 2016). Looked at through the lens of national well-being, the effect of an increase in self-employment is neutral (Blanchflower and Shadforth 2007) or negative (El Harbi and Grolleau 2012).

There is still a case for trying to clarify the law on employment status to reduce 'bogus' self-employment and its social costs (Kautonen et al 2010, Behling and Harvey 2015, Citizens Advice 2015a, BIS 2016c, TUC 2017). However, this is not simple: governments have tried before (Seely 2014, Pyper 2017).

A position of neutrality does not mean an absence of policies. For example, ever since the original Enterprise Allowance Scheme, a programme to help the unemployed become self-employed has usually been part of the offer to the unemployed and has been used by some jobless claimants (BIS 2012). Nor does it mean that the same policies should apply across the board. People working for themselves are in some areas treated differently from dependent employees by the state – such as not having tax deducted at source, not having to pay employer National Insurance contributions, and not being covered by auto-enrolment. They also can be treated differently by lenders and landlords, for example. Depending on one's viewpoint – which may well change with age, experience and personal circumstances – these can be advantages or disadvantages and seen as fair or unfair. But they need to be considered in the context of the broader package – many (most?) self-employed people like working for themselves precisely because of its difference from life as a dependent employee, and policy-makers should therefore think carefully before designing policies that attempt to mimic those in place for dependent employees, such as arrangements for sick pay or maternity pay (BIS 2016c). A guiding concept of neutrality or a level playing field does not necessarily mean the same policy for everyone – although, in some cases, that is likely to be the preferred approach.

Self-employment has been a form of work 'outside' the formal labour market, the 'deal' being that the state left them alone to manage their lives as they pleased, but with fewer benefits and less reassurance than dependent employees. A perception that the bargain had changed to the advantage of the self-employed was behind the proposed NIC rises.<sup>38</sup> But policies bringing the self-employed 'inside' the formal labour market risk an unintended consequence – a move into the informal sector. Some self-employed already test the water in the informal sector first (22% of men and 13% of women in 2012, Williams and Martinez 2014). Hence self-employment will also be influenced by policies to tackle informal employment.<sup>39</sup>

The proposed treatment of the self-employed under Universal Credit, especially the requirement to report income monthly and the Minimum Income Floor, may dissuade some self-employed with low and variable incomes from receiving income support from the state. Some self-employed may as a result pack it in altogether (Sainsbury and Corden 2013).

Potential entrepreneurs crave advice and inspiration (O' Leary and Wind-Cowie 2012). This reinforces the argument for a concerted campaign to make people better informed about their employment rights using channels of advice likely to reach the self-employed. The SME market is highly segmented, and most of the

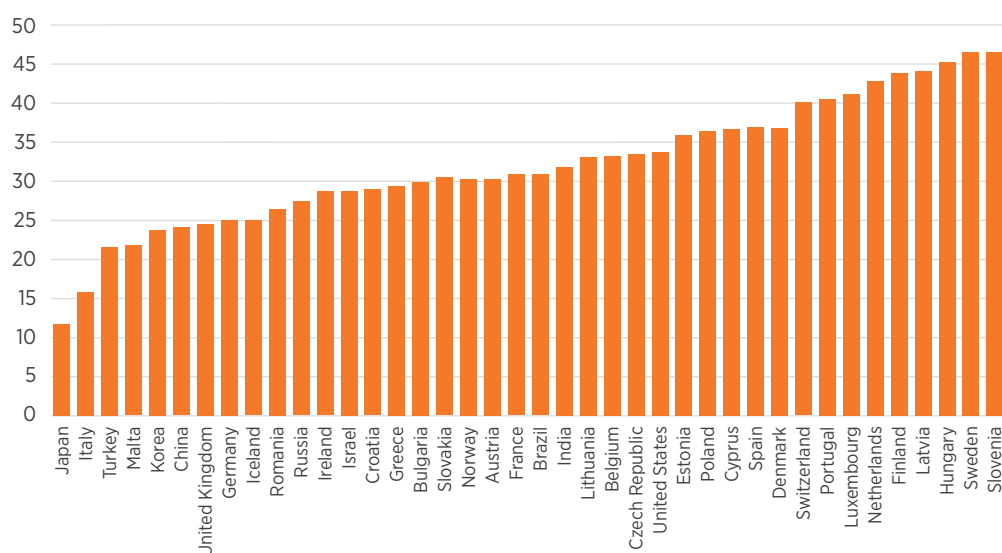
self-employed (sole traders) can best be characterised as 'lifestyle' businesses not interested in growth, although that doesn't mean they wouldn't benefit from access to advice and support (Blackburn 2012).

In addition, a set of 'entrepreneurship skills' can be identified that are distinct from management and leadership skills, primarily concerned with opportunity identification and exploitation and correlated with business success (BIS 2015a). At least an acquaintance with the skills and ideas is now a common feature of education curricula in most advanced economies. In some countries, nearly half of young people received a grounding (Figure 42).

**Figure 42: Participation in entrepreneurship education, 2012 (%)**

Percentage of population aged 25–34

*At school or university, have you participated in any course or activity about entrepreneurship or setting up a business?*



Source: Flash Eurobarometer 354

There is a possible role for unions or other bodies to develop collective forms of support and security for the self-employed and small firms, possibly with government encouragement (Watson in Fabian Society 2012, Thompson 2014).

Improvements to the physical and digital infrastructure should benefit independent workers most (O'Leary 2014, IPSE 2014).

## **Measures to support the self-employed and other 'atypical workers'**

CIPD believes there are a range of measures Government and other stakeholders can take to support the self-employed, help provide more clarity over employment status and ensure that individuals are not falsely classified as self-employed by employers to cut costs:

- Government, working with organisations such as Acas, Citizens Advice Bureau, trade unions and professional bodies, should run a high-profile 'know your rights' campaign, which would set out information on the different types of employment status and the associated employment rights people should expect, as well as where to go if they have concerns or want to make a complaint.
- Government should launch a consultation to consider whether a clearer basis of demarcation is possible between 'employee', 'worker' and 'self-employed' that distinguishes more clearly between them and adds intuitive sense to distinctions between them while also mapping clearly across employment rights, tax and benefits.
- Government should ensure the new Gangmasters and Labour Abuse Authority (GLAA) is given sufficient resources so it has the scope to meaningfully monitor and enforce compliance with existing employment rights across the economy where there are abuses and ensure people are not being falsely categorised as self-employed.
- Public investment in lifelong learning needs to be significantly increased to reverse the recent decline in investment in adult skills to ensure that the self-employed, who are much less likely to receive workplace training, have access to skills development.
- The National Careers Service needs to be resourced adequately to ensure it can provide advice and guidance to people at different stages of their lives.
- Professional associations, trade unions, trade bodies such as Sharing Economy UK (SEUK) and individual organisations should work together to develop better ways of representing the views of atypical workers, as well as robust codes of conduct and collective support packages in areas such as insurance, and training and development.
- The Office for National Statistics should publish annually data on the patterns of atypical working, including the extent individuals actively choose to work in this way or are doing so because they cannot find 'regular' employment.

## What about the future?

Self-employment has made it back from the margins of the UK labour market. Will it stay there? Technology has started to reduce the transaction costs that are the reasons why firms exist. Existing economic models centred on the firm could be chipped away. In the 'gig economy', this is already being seen with a plethora of competing one-person 'businesses' and the technology platform as market-maker. But similar trends enable more firms to transfer at least part of their work from direct hires to distributed networks of the self-employed (possibly alongside other forms of contingent labour).

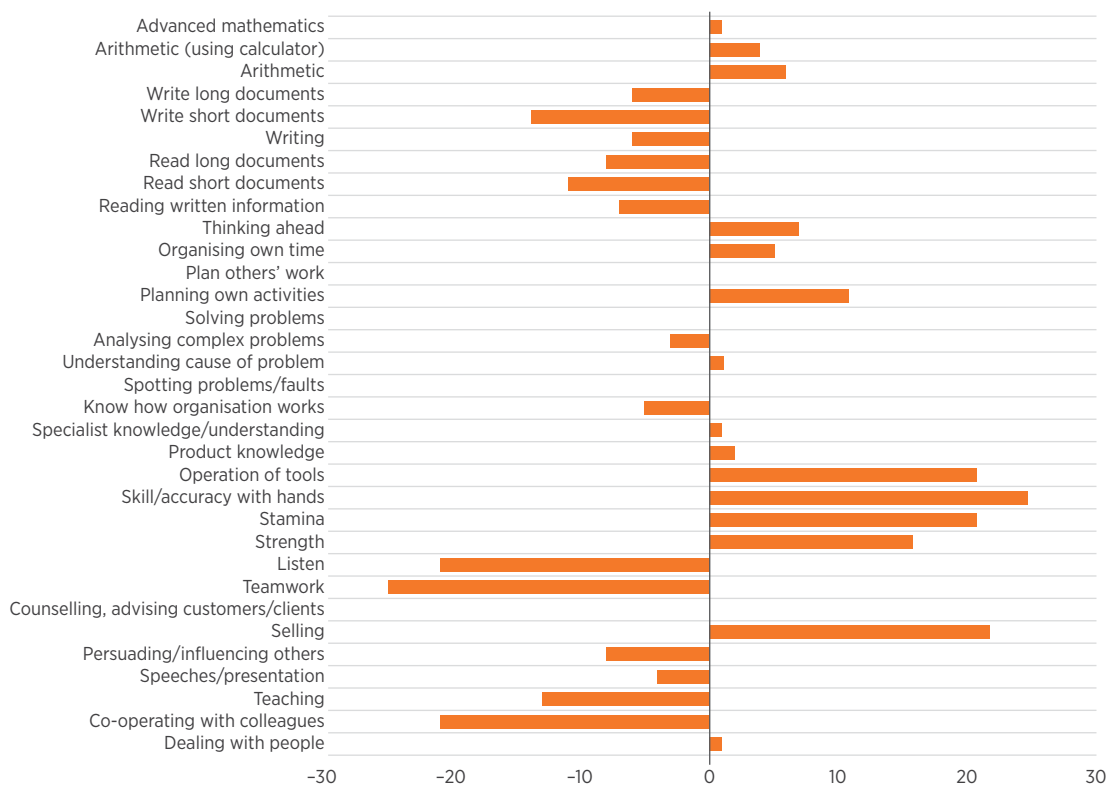
The question is whether self-employment will be affected as much by technology as conventional employment. The self-employed – apart from a small proportion working in computer-intensive professional roles – have jobs perhaps less vulnerable in their entirety

to automation because they demand a broader range of skills than employees, some of which will be difficult to automate (Lechmann and Schnabel 2011). While the self-employed are less likely than employees to say that working with others, or as part of a team, is important in their job, they are more likely to regard strength, stamina, dexterity, self-organisation and selling as important (Figure 43).

But the self-employed are vulnerable to new platforms entering markets, putting together those requiring and those supplying labour services and standardising what was previously a varied (and sometimes variable) offering. This is already starting to happen in professions, where the sole practitioner or partnership model is coming under pressure (Susskind and Susskind 2016), as well as in forms of work more traditionally the preserve of the semi-skilled or skilled trades.

**Figure 43: Important skills needed in work, 2012 (%)**

(% of self-employed saying essential/very important minus % of employees saying essential/very important)



Source: Skills and Employment survey 2012



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# Endnotes

- 1 In the nineteenth century, the self-employed were outside the scope of the Master and Servant Acts used to discipline agricultural and industrial workers, apart from when they had employees themselves (Deakin 2009).
  - 2 A similar pattern by ethnic group is visible in 2011 census data (Clark et al 2015).
  - 3 Note that the SOC major group 'managers, directors and senior officials' includes those running shops, farms, garages and hairdressing salons.
  - 4 Labour Force Survey, April–June 2017.
  - 5 Business Population Estimates, 2016.
  - 6 Freelancers and sub-contractors are disproportionately represented among the small minority of the self-employed with more than one job.
  - 7 US data suggest under-reporting of income by sole traders may be substantial in occupations with high levels of informal working (such as street food and gardening), with actual income between 20% and 50% greater than that declared on tax returns (Alm and Erard 2016).
  - 8 Calculated at the median of the relevant distributions.
  - 9 Labour Force Survey, April–June 2017.
  - 10 The move into self-employment is associated with an increase in job satisfaction, but, for some, this wears off over time (Georgellis and Afees 2016). And dissatisfaction with the job is a powerful predictor of exit from self-employment (Georgellis et al 2006). Self-employment is also a factor improving an individual's 'conversion efficiency' translating resources into well-being (Binder and Broekel 2012). There is a similar positive effect on general health as for general well-being; however, Rietveld et al (2013) suggest this is because of healthier people choosing self-employment, not because self-employment has a positive effect on health.
  - 11 Crum and Chen (2015) find the effect only applies for 'high income' economies (IMF definition) and then only to women.
  - 12 Unemployment could have been the result of losing or leaving an employee job or the result of a previous business venture failing or otherwise ceasing to operate.
  - 13 The dependent self-employed were estimated as all self-employed with no employees and just one customer.
  - 14 Measured by people whose date of entering employment precedes when they became self-employed.
  - 15 The UK country dummy variable on transitions into 'bogus' self-employment is always negative.
  - 16 However, we have no information on these people's actual status under employment law or on what occupational benefits they receive (if any). Some of this 1.7 million people who think they are self-employed may be treated as employees or workers and receive sick pay or holiday pay. However, some people who regard themselves as employees will be treated as self-employed and will not receive sick pay, holiday pay and so on. Measurement of hours worked is as important as measurement of earnings to calculating average hourly earnings.
  - 17 This estimate is not based upon direct evidence; it is based upon the discrepancy between the (higher) self-employment rate in the construction industry in the UK and that in other European countries (with measurement of both self-employment and employment in the construction sector being based upon common definitions and survey methods).
  - 18 Just over 1,000 employers were surveyed in the spring 2016 CIPD *Labour Market Outlook* survey, conducted in March 2016 (CIPD 2016). The sample population was employers with one or more employees, and they were all asked: *'Thinking about the last 12 months, to the best of your knowledge, which of the following options, if any, has your organisation used to help meet its staffing needs? By staffing needs we mean the total number of workers inside and outside the organisation that you use or employ. Please tick all that apply.'*  
Employers were given the following options to choose from:
    - *Temporary employment (e.g. fixed-term contracts, seasonal or casual work)*
    - *Temporary work via an employment agency*
    - *Zero-hours contract work (where no guaranteed minimum number of hours is offered)*
    - *Short-hours contract work (where up to 8 hours are guaranteed, but there is no guarantee of longer hours)*
    - *Use of freelancers/self-employed contractors*
    - *Outsourcing (buying in services rather than employing people to undertake them in-house)*
    - *Use of online sourcing platforms (such as o-Desk or Mechanical Turk)*
    - *Internships/work experience programmes*
    - *Other*
    - *None of these*
    - *Don't know*Employers were not asked if they had taken on a permanent employee because having an employee was required to be included in the survey, although it is possible that an enterprise could have met its staffing needs in the last 12 months without taking on a permanent employee. An employer who relied entirely on open-ended contracts would select 'None of these'.
- 19  $r=0.33$ .



- 20 However, Robson (2003) finds that the positive association becomes insignificant once control variables are added, though he cautions against reading too much into the results either way because of the small number of countries and short time period in his study.
- 21 Parker and Robson (2004) find differences in self-employment within the OECD are related to personal income tax rates (higher tax rates encourage self-employment) and unemployment benefit replacement ratios (higher benefits mean less self-employment). See also Torrini (2005).
- 22 Business Population Estimates, 2016.
- 23 For example, Armour and Cumming (2008) conclude that stringent bankruptcy laws discourage self-employment.
- 24  $r=0.49$ .
- 25 This is less than the proportion choosing self-employment in 2002 (48%, Flash Eurobarometer 134), but note that preferences for self-employment were lower in a wide range of countries (for example, there was a fall of 17 percentage points in the USA over the same period).
- 26 Source: Labour Force Survey, April–June 2017. Among those aged over 60, the self-employed were *more* likely to be owner-occupiers (and owning their home outright), whereas those aged under 40 were *less* likely to be owner-occupiers.
- 27 Respondents were given a list of changes in working time arrangements to choose from and could choose more than one. Although sample sizes were low ( $n=44$  for the number wanting to become self-employed), those choosing this option were more likely to select options involving greater flexibility in working time (ability to vary hours from day to day, ability to vary start and finish times) than options involving either more hours worked or greater stability in their work (such as a permanent job or working for just one employer).
- 28 It's possible this analysis underplays the role of population ageing. The largest increases in labour force participation have been among older age groups, which have also been increasing in relative size; hence some of the 'labour force participation' effect may be capturing the impact of population changes.
- 29 Second-jobbing may also be a hedge against labour market insecurity and variable income (Zangelidis 2014, Atherton et al 2016). Using British Household Panel Study data – the forerunner to Understanding Society – Choe et al (2015) find that few second-jobbers do so to make up for a shortfall of hours in their main job, and thus what they term job portfolio reasons – including getting their own business off the ground – are the predominant motive for second-jobbing among British men.
- 30 The online platforms may have labelled them independent contractors but those classifications are being whittled away by Employment Tribunal judgments.
- 31 Richmond and Slow (2017) argue this is one possible factor behind weak labour productivity growth in Scotland.
- 32 See [www2.cipd.co.uk/community/blogs/b/mark\\_beatson/archive/2015/12/16/productivity-time-to-ask-employees](http://www2.cipd.co.uk/community/blogs/b/mark_beatson/archive/2015/12/16/productivity-time-to-ask-employees) for further discussion of this question.
- 33 For example, suppose someone arranges for a willing (and capable) enthusiast to assemble their flat-pack furniture through an app. If they would otherwise have hired a professional to do this, the activity displaced is in the market economy. But if the activity displaced is the furniture owner's own time and effort, this is activity that does not feature in the national accounts and the result is an expansion of the market economy. It is hopefully an efficiency-enhancing trade.
- 34 Melgar et al (2013), using survey data from 2004 for a wide range of countries, find the self-employed are more likely to exhibit misanthropy, even after controlling for sex, age, country of residence, and so on, defined as '*hatred, dislike, or distrust of humankind and it is also a disposition to dislike and/or distrust other people*' and measured by answers to two questions asking for their views on other people's trustworthiness. This may be significant because those holding these views are less likely to invest in social capital. The data does not distinguish between people who chose self-employment as an escape from dependence on others and people whose experience of self-employment has jaundiced their view of others.
- 35 But Frankish et al (2011) are sceptical.
- 36 Corroboration comes from the CIPD *Employee Outlook*: in spring 2016, nearly a fifth of (current) employees said they had made more than 5% of their income in the past year from running a business or freelancing. These may be/have been full-time employees (with a business as a 'side line') as well as employees who are working/have worked part-time hours.
- 37 The question did not explicitly mention self-employment.
- 38 The immediate cause of this was changes to pensions which meant the self-employed could expect a better state pension, but other changes were moves to extend maternity pay and the like, to make it easier to take time off.
- 39 UK policies towards the informal sector have been described as mainly about deterrence [to participation in the informal economy] (Dellot 2012).



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