

“Britain’s self-employed millions  
urgently need a new deal...”

FREE RADICALS

Alan Lockey

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All errors and omission are entirely my own.

Alan Lockey  
March 2018

## **Foreword**

At IPSE, we've been representing self-employed people for nearly 20 years, and in that time, we've seen this dynamic, growing sector drive a radical shift in the UK labour market. Looking for freedom, flexibility and control over their lives, more and more people have turned to self-employment in the last two decades. So now, as the country's leading representative body for the self-employed, we stand for 4.8 million of the UK's most productive, energised workers.

But as the self-employed sector has grown and been pushed into the public eye, it has found itself at the centre of political debates, being mischaracterised and even maligned. People who do not understand the sector conflate it with the gig economy, characterise it as divided between 'the privileged and the precariat', and even assume most people are forced into it as an unpleasant substitute for employment.

Through our years embedded at the heart of the sector, however, we understand just how far all this is from the truth. Self-employment is not only much more diverse, but also much more progressive than any of this suggests. In fact, the autonomy, freedom and self-determination this way of working can offer make promoting it a truly progressive, social liberal cause. Self-employment has already helped hundreds of thousands of disabled people, parents and others with caring responsibilities back into the labour market, and it can help many more in future.

We commissioned this landmark report with Demos to reveal the realities of self-employment, open up much-needed discussion about it, and find ways to promote and support this vital and burgeoning sector. By truly understanding the sector and opening an honest discussion about it, we intend to build towards a radical new deal for self-employed people the length and breadth of the UK.

**Chris Bryce,**

Chief Executive, IPSE, the Association of Independent Professionals and the Self Employed

## **Executive Summary**

The steady rise of self-employment since the turn of the millennium is arguably the most significant labour market trend of the past two decades. There are now some 4.77m self-employed workers plying their trade in the British labour market – nearly 15 per cent of the total workforce, up from around 12 per cent in 2001. Moreover, given self-employment’s resilience in a variety of economic circumstances – before, during and after the Financial Crisis - there is little doubt now that its rise represents a structural rather than cyclical transformation. As such, the public policy debate about self-employment should no longer be confined to the margins: it is a mainstream employment arrangement and deserves a level of political attention that befit its status.

This report aims to assist that process. More importantly, it seeks to respond to a matter of public policy urgency. Because the truth is that policy has not reacted adequately to self-employment’s extraordinary rise. Indeed, the dominant ethos of the relevant public policy systems - employment legislation, tax and benefit, education and training – are still consistent with a time when self-employment was markedly less central to British society and its economy. In fact, at times this ethos can even seem as if it encourages a tacit ‘corporatist bias’ towards a labour market model that favours, implicitly or explicitly, employment by large firms. Remarkably, it is still not hard to find policymakers discuss self-employment as an ‘irregular’ or even ‘abnormal’ employment arrangement. In an era where self-employment approaches the size of the public sector, this instinct is no longer tenable - Britain’s self-employed millions urgently need a ‘new deal’.

Across six key public policy themes – savings, the platform economy, tax, education, working conditions and support for vulnerable workers – this report makes thirty recommendations that aspire to suggest what that new deal might look like in practice. Furthermore, these recommendations are grounded in a research project that also explored three distinct questions:

- 1) Who are the self-employed?
- 2) What is the self-employed experience in Britain’s labour market?
- 3) How has the rise of self-employment changed Britain’s modern economy?

On question 1) we find that self-employment’s recent rise has been driven by particularly strong growth from:

- Part-time self-employment
- Older workers – specifically those aged 70+ where self-employment now represents 50 per cent of total employment
- The financial and business services sector
- London and the South East.

We also stress that, contrary to some commentary, self-employment’s rise is not caused by, or even particularly connected to, the emergence of the ‘platform economy’ (taxi-driving self-employment, to take one particularly popular example, has actually grown more slowly than total self-employment in recent



years). Moreover, we also dispute the characterisation that the self-employed workforce is best understood as a story between two distinct ‘privileged’ and ‘precariat’ groups. Not only do we find this to be a partial misreading of the best available evidence on self-employed earnings, we also suggest it could undermine the universality of many policy issues faced by the self-employed – particularly those concerned with economic insecurity. For example, the challenge of providing good pension provision and later-life savings amongst the self-employed is not at all contained to the most economically insecure self-employed workers.

Ultimately, the self-employed workforce, like many broad and diverse groups, is most characterised by its ‘extreme heterogeneity’. Therefore, a sweeping generalisation is, by definition, somewhat crude. Yet if we were asked to provide a relevant characterisation *for policy development* we would suggest that mainstream (i.e. the most typical experience) self-employment might be best captured by the once popular ‘squeezed middle’ description. This description allows us to stress, correctly, that mainstream self-employment is not a story of enforced vulnerability. More importantly, it also allows policymakers to focus their response on the broad challenges faced by both lower and median paid self-employed workers, which we find to be relatively universal. Certainly, this is where we have chosen to focus our policy response in this report.

In terms of the economy, we also find that there is a dire need for a ‘new deal’. Indeed, where there are policy problems that might be connected in some way with rising self-employment – such as, for example, the potential productivity impact of the inefficient deployment of self-employed labour – we find that these challenges call, first and foremost, for a more imaginative policy response. To suggest instead that self-employment should be discouraged, would be to commit something close to the ‘lump of labour’ fallacy – the vast majority of self-employed labour is deployed to do work that would be impossible or inappropriate for employees to do, let alone merely inefficient. More importantly, such an argument misses the clear economic benefits that self-employment brings to a dynamic modern economy when deployed correctly. If we want an economy that boosts our innovative potential, stimulates entrepreneurial activity, encourages businesses efficiency and holds true to the flexible nature of what Matthew Taylor has called “the British way”, then we find that a vibrant and growing self-employed workforce must be at its heart.

Finally, drawing on original polling evidence commissioned for Demos/IPSE, we draw the following conclusions about the experience of being self-employed in Britain:

- The majority of the self-employed are happy (80 per cent) and actively choose to be self-employed
- The vast majority of self-employed workers (70 per cent) are content to stay in self-employment for the foreseeable future
- Economic security issues – often associated with irregular income patterns – represent the biggest challenges in terms of the self-employed ‘experience’.

- Pensions or the lack of retirement savings is the biggest substantive policy issue within these challenges (net concern 46 per cent).

These findings are important not only because they allow policymakers to target their response more effectively towards the real needs of Britain's self-employed workers. They are important too for their ability to rebut another surprisingly resilient narrative about self-employment's rise: that it is symptomatic of a broader economic malaise that sees would-be employees nudged, by economic insecurity or joblessness, towards self-employment. This simply does not tally with our research – or, for that matter, the wider literature and quantitative evidence. The basic reality uncovered by our polling is that self-employed workers actively choose self-employment, are broadly happy with it, and, for the most part, would like to remain self-employed in the future. In fact, as our qualitative research uncovered, self-employment is often chosen in the full knowledge that there are economic security issues – particularly those surrounding irregular payments – which are then traded off against the non-material benefits the self-employed lifestyle can bring: flexibility, independence, wanting to be your own boss etc. Moreover, we noticed that dissatisfaction with the “rigidity” of the employee lifestyle is regularly cited as a push factor towards self-employment – even, if not especially, for some groups of vulnerable workers. In short, it could be that an overly corporatist mind-set misses the fact that rising self-employment could also be telling us something quite profound about the *employee* experience in the British economy; that self-employment has become, to some extent, a de facto flexible working policy for the entire British labour market.

Our research supports this conclusion and furthermore, suggests that in a time of limited resources, policymakers could face a strategic choice about whether it is more pragmatic to focus on making firms more flexible, or whether making self-employment more economically secure is a more realistic goal. We do not make a firm choice in this report – but we do believe, as it stands, that only one of those choices is properly represented in the policymaker debate. We hope therefore, that this report and our ‘new deal’ will stand as an important corrective.

To boost self-employed savings and financial inclusion, we recommend:

- 1) The Government should introduce an auto-enrolment scheme for the solo self-employers (but not ‘Company owner-managers’) by acting as their ‘de facto’ employer. Government contributions should match the April 2019 level of auto-enrolment contributions for employees - i.e. a 4 per cent contribution would be matched by a 4 per cent top up, equivalent to the 1 per cent tax relief, 3 per cent minimum employer contribution. This could be collected during the self-assessment process with the default being to opt-in in order to leverage ‘lethargy’ (although opting-out would still be communicated clearly as an option). Government contributions should be capped at the upper earnings limit - i.e. 4 per cent of £45,000 (£1800 a year).*

- 2) *The Government should reduce the amount of tax contributions self-employed workers need to contribute in order to be eligible for the state pension so that it falls line with the old class 2 National Insurance Contribution (NICs) threshold.*
- 3) *The Government should convene regular 'hackathons' with the Fintech community to help develop dedicated financial products that can promote good saving behaviour, better credit assessment and new ways to manage irregular income patterns, specifically tailored for self-employed workers.*
- 4) *The Government should work with financial service providers to look at the possibility of collectivising income protection schemes to make them more financially viable and accessible for self-employed workers.*
- 5) *The Government should allow self-employed workers to withdraw one year's worth of Lifetime ISA contributions (i.e. £4000) penalty-free. No cap should be placed on the number of times this can be done up to the £4000 limit, but self-employed savers will lose the bonus if the amount withdrawn is not returned within three years of withdrawal.*
- 6) *Once an auto-enrolment option for solo self-employed workers is established, the Government should explore the possibility of making up to two years of payments accessible for self-employed workers, based on the NEST 'sidecar' model.*

To promote more effective labour market regulation, including in the nascent 'platform economy', we recommend:

- 7) *As part of the review of employment legislation being taken forward as part of the Taylor review of modern working practices, the Government should legislate for a statutory definition of self-employment. This will help crackdown on 'false self-employment' and exploitation.*
- 8) *As the Taylor review recommends, the Government should develop an accessible, online 'employment status calculator' to make sure there is an easy way for all workers to understand their rights and responsibilities.*
- 9) *The Government should ensure the new Director of Labour Market Enforcement (LME) is equipped with a powerful investigative team and has the power to conduct workplace inspections in the manner of Ofsted, boosting the LMEs funding and legislating to that effect where necessary. This will help crackdown on 'false' self-employment. The Director of Labour Market Enforcement should also be responsible for holding the government to account on delivering its promises on 'good work', reporting annually on progress, with a dedicated focus on 'good self-employment'.*
- 10) *The Government should create a dedicated 'workertech' innovation fund that will invest in civil society organisations committed to new models of collective voice and bargaining relevant to the platform economy.*

- 11)** *The Government should conduct a review of restrictive working practices within the platform economy and take steps to eradicate them, beginning by bringing forward legislation to ensure that self-employed platform workers' consumer ratings are portable and can be transferred to other platforms.*
- 12)** *The Government should consider drawing up a legal definition of 'platform work' and issue licenses to operate in the platform economy contingent on each platform submitting deliverable mechanisms for ensuring the national minimum wage (NMW) is paid to its workers – and that each platform does not discriminate between different employment statuses (e.g. by deploying an algorithm choosing employee labour over self-employed labour and vice-versa. The NMW mechanisms should be published on a Government website to ensure transparency and accountability, with the LME monitoring enforcement.*
- 13)** *The Government should commission a report on Nick Hanauer and David Rolf's "Shared Social Security" model as a long-term vision for the welfare state in the modern economy.*

To improve the efficacy and fairness of the self-employed tax regime, we recommend:

- 14)** *The Government should introduce a new 'engagers tax'. This would initially be levied at 2.5% on a given firm's annual expenditure on contracted self-employed labour, rising to 5% in 2021 and 7.5 per cent by the end of the Parliament.*
- 15)** *The Government should cancel the planned Corporation tax reductions, re-raising it Tax to 20 per cent.*
- 16)** *The Government should make it clear that no new taxes will be raised on solo self-employed workers for the duration of this Parliament.*
- 17)** *The move to make public bodies responsible for enforcement of IR35 legislation should not be repeated with the private sector until a thorough investigation of the economic and behavioural impact of the public sector move has been carried out.*

To encourage better education and training for the self-employed, as well as broader cultural and institutional awareness of the self-employed experience, we recommend:

- 18)** *The Government should extend self-employed tax relief on training to investment in new skills, expertise and professional development, as well as for updating.*
- 19)** *The Government should outline a training plan to ensure that every Jobcentre Plus has at least one dedicated self-employment specialist. All*

*future training of Jobcentre Plus Work Coaches should also include an appropriate focus on understanding self-employment.*

- 20)** *The Government should ask the Careers Enterprise Company to develop a strategy to improve the understanding of self-employment in schools, colleges and universities.*
- 21)** *The Government should fund an expansion of the Mentorsme.co.uk business-mentoring network so that it includes a dedicated mentoring network for new self-employed entrepreneurs. This should then be publicised widely.*
- 22)** *The Government should reform membership requirements of LEPs so that there is at least one self-employed member sitting on every LEP. The Government should then encourage LEPs to ensure there is adequate mentoring provision for self-employed workers within their local areas.*

To improve working conditions and help build a more supportive economic infrastructure for self-employment, we recommend:

- 23)** *The Government should relax business rates relief for co-working hubs but only in targeted areas, where business start-ups are low. We would suggest Opportunity Zones as a good starting point.*
- 24)** *The Government should legislate to grant solo self-employed workers the right to a written contract, timely payment and freedom from retaliation.*
- 25)** *The Government should strengthen the Prompt Payment Code further, specifying that payment terms should not exceed 30 days. The Small Business Commissioner should be equipped with the power to levy fines on large businesses that fail to comply with agreed 30-day payment terms. As well as compensating the business affected, over time these fines could help fund (alongside Government capital underwriting) a micro-finance 'crisis loans' system for self-employed workers and SMEs facing hardship due to late payments.*

Finally, to better support vulnerable self-employed workers, including reforming social injustices in the benefit system, we recommend:

- 26)** *The Government should comprehensively reform how Universal Credit works for self-employed workers. The Minimum Income Floor exemption should be extended from one year to three years, dependent on an annual 'gainful employment' interview within that period. New Enterprise Allowance advisors should conduct these interviews until 'Work Coaches' have been sufficiently retrained to understand self-employment. After years one and two, this interview should assess the annually submitted accounts, with the monthly Universal Credit income then set for the whole of the following year. This will be paid each month, irrespective of the self-employed workers actual income, with any extra income being clawed back only at the end of the year at the next interview. This process should*

*continue until year three and the implementation of the Minimum Income Floor.*

- 27)** *Maternity allowance should be boosted so that it falls into line with statutory maternity pay. The Government should then introduce a Paternity Allowance for self-employed workers that is equal in worth to statutory paternity pay. This, as with maternity allowance, should come directly from the Government. Shared Parental Leave rights should be extended to self-employed workers as a matter of urgency.*
- 28)** *The Government and UK public statistic authorities should make data on the interaction between self-employment and disabled employment more readily available, collecting it more frequently if necessary.*
- 29)** *The Government must ensure that the “significant enhancement” of the Access to Work scheme promised in November 2017 takes account of the unique challenges of being disabled and self-employed. In particular, the proposed trials of “managed personal budgets” should include a robust level of self-employed participants.*
- 30)** *The Government should immediately review disability discrimination legislation and work with the Equality and Human Rights Commission to find ways of making it easier to bring discrimination cases. They should also look to introduce an additional level to the Disability Confident employers scheme that encourages larger employers to ensure that both their procurement processes and their broader supply chains are disability inclusive. This should help encourage a fairer contracting process for disabled self-employed workers throughout the supply chain.*

## **Policy Background**

### **Employment Status and Entitlements**

There are three employment statuses in UK employment law: employee, worker and self-employed. Their respective benefits entitlements are as follows:

	Employee	Worker	Self Employed
Minimum Wage	Yes	Yes	No
Paid Annual Leave	Yes	Yes	No
Statutory Sick Pay	Yes	Yes	No
Maternity Pay / Allowance	Yes	Yes	No
Paternity Pay	Yes	Yes	No
Shared Parental Leave	Yes	Yes	No
Right to Request Flexible Working	Yes	No	No
Right to Request time to train	Yes	No	No
Discrimination Protections	Yes	Yes	Yes
Minimum Notice Period	Yes	No	No
Collective Redundancy Consultation	Yes	No	No
Statutory Redundancy Pay	Yes	No	No
Unfair Dismissal Protection	Yes	No	No
TUPE	Yes	No	No

### **Tax**

It is also helpful to highlight the differences in tax collection between employees and the self-employed (workers are taxed as employees).

People in employment have to pay income tax and Class 1 National Insurance contributions (NICs) on their gross salary. On top of this their employer has to pay national insurance contributions. The rates and thresholds for income tax are as follows:

	Upper Threshold	Rate
Personal allowance	£11,500	0%
Basic Rate	£45,000	20%
Higher Rate	£150,000	40%
Additional rate	None	45%

For those earning above £100,000 a year, the personal allowance is then withdrawn at a rate of £1 for every £2 above that amount, meaning that there is no personal allowance for those earning above £123,000 a year.

For NICs, employee thresholds (Class One) are as follows:

	Upper Threshold	Rate
Lower earnings limit (LEL)	£5,876	0%
Primary/Secondary Threshold (PT/ST)	£8,164	0%
Upper earnings limit (UEL)	£45,000	12%
Above UEL	None	2%

Employers are also obligated to pay national insurance contributions on behalf of their employees – a crucial difference between the employee and self-employed tax regimes. The employer NIC contribution thresholds and rates are as follows:

	Upper Threshold	Rate
Lower earnings limit (LEL)	£5,876	0.0%
Primary Threshold (PT)	£8,164	0.0%
Upper earnings limit (UEL)	£45,000	13.8%
Above UEL	None	13.8%

The self-employed are subject to a different tax regime in that they pay tax not on wages but on 'profits' - their gross revenue (income) minus their permissible expenses (the costs of running their business). They still pay income tax on profits at the same rate as employees, but their national insurance regime is noticeably different, with national insurance currently paid at two rates in two different thresholds - Class 2 and Class 4. From 2019 however, the Class 2 threshold will be abolished. For the record, Class 2 contributions are zero below £6025 profits a year and then a flat £148.20 (£2.85 a week) for everyone who also make Class 4 contributions below the upper threshold of £8164 (i.e. for this year but not beyond 2019, there is a small £2039 profit window where the self-employed only pay class 2 contributions).

Class 4 National Insurance contributions begin at £8164 at 9 per cent. However, after £45,000 this is tapered to 2% in order to reflect higher income tax contributions:

	Upper Threshold	Rate
Zero rate	£8,164	0%
Standard rate	£45,000	9%
Additional rate	None	2%

Crucially, without an effective employer, there are no employer national insurance contributions levied on self-employed work.



### A Note on Definitions

Throughout this report we frequently refer to self-employed ‘workers’ or the self-employed ‘workforce’. This is a purely in the interests of better English – this report concerns the self-employed (although we do also propose some recommendations about ‘false’ self-employment and relevant labour disputes in the platform economy). Therefore, unless otherwise indicated, use of the phrase self-employed ‘workers’ refers to self-employed workers in general, rather than to the specific ‘worker’ category of employment.

We also use the phrase ‘platform economy’ to refer to what is more commonly labelled the ‘gig’ or ‘sharing’ economy. We reject these two alternative terms for separate reasons: ‘gig’ because there is evidence to suggest that gig work (by which we mean insecure, piece-based, micro-contract work) and certainly gig-like conditions persist beyond the self-employed and worker categories of employment and is therefore a broader definition than is required here; ‘sharing’ because it perhaps belies a re-branding exercise emanating from parts of the technology sector. We take the defining feature of the *platform* economy to be innovative intermediations of the supply and demand of work via a digital platform, usually with consumer ratings-based marketplaces and in-app payment systems. We believe that this term better captures the uniqueness of the contemporary policy debate: piece-based, micro-contracts are nothing new in and of themselves. Equally, the platform economy is also a better way of describing platforms that leverage wealth or assets - for example Air BnB - as opposed merely to those which leverage labour.

## **Introduction - First Principles**

To put it mildly, triangulation is no longer a fashionable tactic in British politics. However, even in more ideologically playful times, the opening sentence of *Private Government*, the latest book by the feminist political philosopher Elizabeth S. Anderson, might elicit some collective head-scratching:

*“The ideal of a free market society used to be a cause of the left”.*

First set out in her 2015 Tanner Lecture at Princeton University, Anderson sustains her argument by channelling the ghosts of pre-Marx radical history: the Levellers, Lilburne, Locke, Smith and Paine are all invoked in order to explain her contemporary political heresy. Thus, free exchange is cast as a great slayer of authoritarian domination, private property the handmaiden of economic independence, free trade an emancipatory strike against arbitrary monopoly power. Set against the oppressive feudal hierarchies of pre-industrial England, it is perhaps easier to understand how the market could take on this subversive hue. Still, it is hard not to view as curious the idea that these almost canonical statements of the modern right were once viewed as premises on a path towards equality. More curious still, is the well from which this free market radicalism springs. For its crucial ingredient is something that has not only survived the social transformations of the past three centuries but is once again a rising force within the modern British economy. That ingredient – the deliverer of free men from what Adam Smith called “servile dependency” – is self-employment.<sup>1</sup>

Alas, whilst Smith’s economic theory has stood up admirably to the ravages of time, his vision of a British economy dominated by yeoman, sole traders and ten-worker pin factories, has proved somewhat less durable. “What happened”, as Anderson pithily puts it, “was the industrial revolution” - a technological leap forward that relegated self-employment to the margins of the labour market by unleashing hitherto unimaginable economies of scale.<sup>2</sup> Not only that but the colossal new firms which bestrode the industrial economy brought with them sources of domination every bit as authoritarian as the feudal arrangements that went before them. It was less that self-employment became unattractive when put next to this ‘wage-slavery’, more that the idea of it being a dominant ‘mode of production’ came to be seen as quaintly naïve. Thus, for Marx – and practically all left-radicals since – the question became how to tame or control the market. In short, the utopian, pre-industrial dream of Smith, Paine and the English radicals, choked to death amidst the chimneystacks and ideas of the new industrial Britain.

Or did it? Because as we look beyond our own technological rupture with the status quo, we too must surely be open to the possibility that a profound economic transformation might fundamentally redefine the future of work. After all, might it not be that ‘platform economy’ technologies could, under the right circumstances, deliver on the radical promise of Paine and Smith? That an economy characterised by rising numbers of self-employed workers; enjoying control, agency and power over their working relationships; negotiating directly with individual consumers and enjoying flexible, economically secure and more

autonomous lifestyles – might this not be their vision of “universal, egalitarian, self-government in the realm of production” made real?<sup>3</sup>

We believe it might and, more importantly, we hope it is. Moreover, we believe it is important to state this baldly and early in our research – arguably the one argument curiously absent from a wide-ranging debate about what the future of work *will* look like is the first principles one about what it *should* like it. We want to see the reality of the future move towards those ‘free radical’ dreams of the past. Not on the basis of an economic argument, or even a social argument, but a moral one - the freedom, power and, above all, the autonomy of self-employment speaks to our social liberal values. Like Anderson, we too worry about the undemocratic, disempowering, “private government” nature of many contemporary firms – and see rising self-employment as one plausible antidote.<sup>4</sup> Yes, the modern firm should also be reformed so that it allows individuals more freedom over their own lives – we do not suggest a false choice between that agenda and our own. Nevertheless, even the most optimistic view of policymakers’ power to affect such radical change must also make a pragmatic assessment about plausibility and priorities. Our research finds that self-employment has, to a certain extent, become a ‘de facto’ flexible working strategy for the British labour market – especially for workers with long-term health conditions or extensive caring responsibilities. The question then becomes whether policymakers can tackle any flaws associated with Britain’s self-employed labour market more easily than the flaws associated with the undemocratic, inflexible “rigidity” of firms.<sup>5</sup> That it is an open question – but we strongly suspect they can. Either way, we hope that an effective ‘new deal’ for the self-employed could help nudge the British labour market tentatively towards the Adam Smith vision.

It is perhaps wise at this point to emphasise that this report sets out, quite deliberately, to avoid getting carried away with the platform economy - at most there are around 1.1m people working in the gig economy, which itself is not coextensive with platform work. Indeed, though the two debates – rising self-employment and the emergence of the platform economy – are regularly elided, there is almost no evidence that connects the two trends. So whilst it certainly pays - as it does in any policy area these days – to acknowledge the values, ideas and social trends emerging from the world being built for us in Silicon Valley, it also pays to focus more of our attention on the realities of the contemporary labour market. That tension is in this report, but our priority is very much on developing a new deal for the self-employed in the here and now.

Not least because the worrying truth is that policy has not kept up with self-employment’s move to the mainstream of the British labour market. The ethos of our employment legislation, our tax and benefit system and our education and training framework, all emerge from a time when self-employment was more marginal – now it approaches the size of the entire public sector. More than that, this ethos still feeds into a policy conversation where self-employment is quite often described as ‘abnormal or ‘irregular’ employment, which in turn drives a noticeable ‘corporatist bias’ in the policy development debate. Of course, this bias is usually expressed in technocratic terms, often responding to many of the

valid policy challenges within Britain's economy and labour market – we attempt to respond directly to some of them in this report. However, this is often underpinned by a belief that employment by large firms is the norm – and sometimes with that, a *sotto voce* attempt to either protect employment or nudge self-employed workers towards it. There is nothing wrong with that necessarily, but it is a first principles decision, hence our use of the word 'bias'. It also explains why we have decided to be so up front about our own.

The report contains four chapters.

**Chapter One** explores the question 'who are the self-employed' and what has driven their rapid rise in recent years. It concludes that the self-employed workforce in Britain is characterised by 'extreme heterogeneity' but that it has seen particularly strong growth from comparatively well-paid older workers, often part-time, working in financial, professional and business services. It also rejects the idea that the self-employed workforce might best be characterised by a 'privileged versus the precariat' narrative, arguing that this is a potentially damaging misrepresentation of the sector that could underplay the universality of some policy challenges, particularly those that concern economic security.

**Chapter Two** explores the experience of being self-employed in Britain. Drawing upon polling evidence, focus groups and semi-structured interviews it argues that self-employed workers are largely happy and overwhelmingly choose to become self-employed. It also identifies economic insecurity as the biggest broad public policy challenge for the self-employed labour market.

**Chapter Three** explores the economic impact of rising self-employment, considering three separate challenges as to why this might be a bad idea – the precarity challenge, the productivity challenge, and the fiscal impact challenge. It concludes that though these challenges must be acknowledged, they do not by themselves provide enough reason to deter us from the idea that rising self-employment is potentially beneficial, economically and socially, for Britain.

**Chapter Four** then outlines the substance of our new deal for self-employed workers in Britain, focusing on six policy areas: savings and financial inclusion; the Taylor Report and the platform economy; tax; education and training; working conditions; and support for vulnerable self-employed workers. Across each area our strategic objective for the new deal is to encourage greater economic security for the self-employed.

Methodologically, the report draws on:

- Desk-based research;
- A rapid evidence assessment literature review that explored the state and rise of self-employment within Britain's labour market;

- An original ComRes polling survey of 1000 self-employed workers aged eighteen and above, weighted to be nationally representative by age, gender, region and Standard Occupational Classification (SOC) code;
- Two focus groups with twenty self-employed workers in Leeds and London respectively;
- A series of in-depth, semi-structured interviews with self-employed workers who either have a disability, a long-term health condition; or extensive caring responsibilities;
- A series of in-depth, semi-structured interviews with expert practitioners, policymakers, business leaders and civil society representatives, in order to assist policy development.

## **Chapter One: Who are the Self-Employed?**

The steady rise of self-employment has been one of the most compelling and momentous changes within the UK's labour market over the last two decades. There are now some 4.77m self-employed workers plying their trade in the British economy, representing 14.8 per cent of the total workforce. This is marginally down from a peak of 15.1 per cent in 2016 and there was also a fractional decrease in absolute terms towards the end of 2017.<sup>6</sup> Nevertheless, self-employment in Britain still stands close to its largest recorded levels (or at least since modern data collection began) both proportionally and in size. Even if the slight downtick of late – and the corresponding uptick in employment – does represent the beginnings of a cyclical adjustment it seems likely it would be a small one. Indeed, the resilience of self-employment's growth in a variety of economic conditions – before, during and after the Financial Crisis – would seem to suggest that an enlarged self-employment sector is a long-term structural change to Britain's labour market: in 2001 self-employment made up only 12 per cent of the overall workforce.<sup>7</sup> Therefore, the headline story is undoubtedly one of a significant and sustained rise.

With this added economic importance has come, inevitably, more political clout. Phillip Hammond's aborted attempt to increase class four national insurance contributions in the 2017 budget is by no means the first time a Chancellor has tried to raise taxes on the self-employed – but it is perhaps the first time it has precipitated a political firestorm. Yet that infamous episode revealed much more than the growing political muscle of an employment group now equal in size to approximately 87 per cent of the public sector.<sup>8</sup> For what Hammond perhaps underestimated is that providing for the newly enlarged self-employed workforce is also a public policy challenge of substantial urgency. The root problem being that our employment legislation, tax and benefit system, education and training framework and, arguably our entire public service ethos, emerged from and are consistent with a labour market where self-employment was confined to the margins. Whether or not that was ever sensible or accurate is hardly the point: now self-employment has moved decisively more mainstream, it stands to reason that our public policy framework for supporting it should be placed under review. In short, a new deal for the self-employment should be a key priority for national policymakers.

Still, developing this new deal naturally requires as precise as possible demographic understanding of who exactly the self-employed are and what types of self-employment have driven this extraordinarily resilient growth. This, perhaps unsurprisingly, has already been the subject of a wide-ranging body of research – from academia, the government, think tanks and other policy research institutes. To draw upon this expertise, Demos conducted a rapid evidence assessment literature review. This chapter represents the findings of that process.

We conclude, in line with the research consensus, that the self-employed workforce is characterised first and foremost by its 'extreme heterogeneity'. Moreover, that this diversity must be properly understood by policymakers who

must navigate many persistent myths about the make-up of Britain's self-employed workforce.

Furthermore, from our review it is also clear that the self-employed labour market has seen particularly strong growth from older workers, often part-time, and comparatively high paid compared to median self-employed earnings. However, in contrast to some of the research literature, we do not believe that characterising the self-employed market as being dominated by two groups – 'privileged' and a 'precariat' – is a helpful analysis. For one, there is some evidence that it does not necessarily represent the reality of the self-employed workforce in terms of median earnings. More importantly, it might lead to a policymaker attitude that believes policy issues for the self-employed, particularly those surrounding economic security, are confined only to the most vulnerable workers.

### Builders and Buskers

Our primary research finding, rather banally, is of the self-employed workforce's extreme heterogeneity. This is not a profound conclusion – the vast majority of academic and 'grey' literature underlines this point. Still it is important to make clear given how blanket policy solutions can, with such a diverse 'client' base, make for extremely bad policy decisions. Moreover, it is also worth noting – and pushing back on – just how resistant the public conversation about self-employment is to quantitative analysis. Historically, this was perhaps reflected in a view that self-employment was merely manual labourers – 'white van man' – and freelancing performers in London's creative industries. And, as with many homogenising generalisations, there is at least a partial degree of truth in it – the construction industry still provides more self-employed workers than any other sectoral Standard Industrial Classification (SIC) code on the Office for National Statistics' (ONS) Labour Force Survey (LFS), as figure one underlines. Nevertheless, as figure one also shows, it is still a rather crude simplification of an incredibly diverse workforce.

The more contemporary version of this simplification is to elide self-employment with the platform economy, as if the recent rise in self-employment was largely down to Uber taxi drivers. Indeed, arguably the platform economy – and in particular the micro-contracted gig nature the work it generates – has dominated political focus about self-employment and even work more broadly in recent years. Official data is patchy to say the least – analysis by McKinsey Global Institute suggested that somewhere between 20 per cent and 30 per cent of the workforce in countries like Britain could be active in the gig economy in some form.<sup>9</sup> This alone shows that the term 'gig economy' is imprecise and not coextensive with self-employment – even the lower bound of that threshold is significantly larger than the *entire* self-employed workforce as conventionally measured by traditional labour force surveys (just one reason why in this report we prefer the term 'platform economy'). A Chartered Institute of Personnel and Development (CIPD) report provided a more modest estimate of 1.3 million people working in the UK 'gig economy' – approximately 4 per cent of all employment.<sup>10</sup>

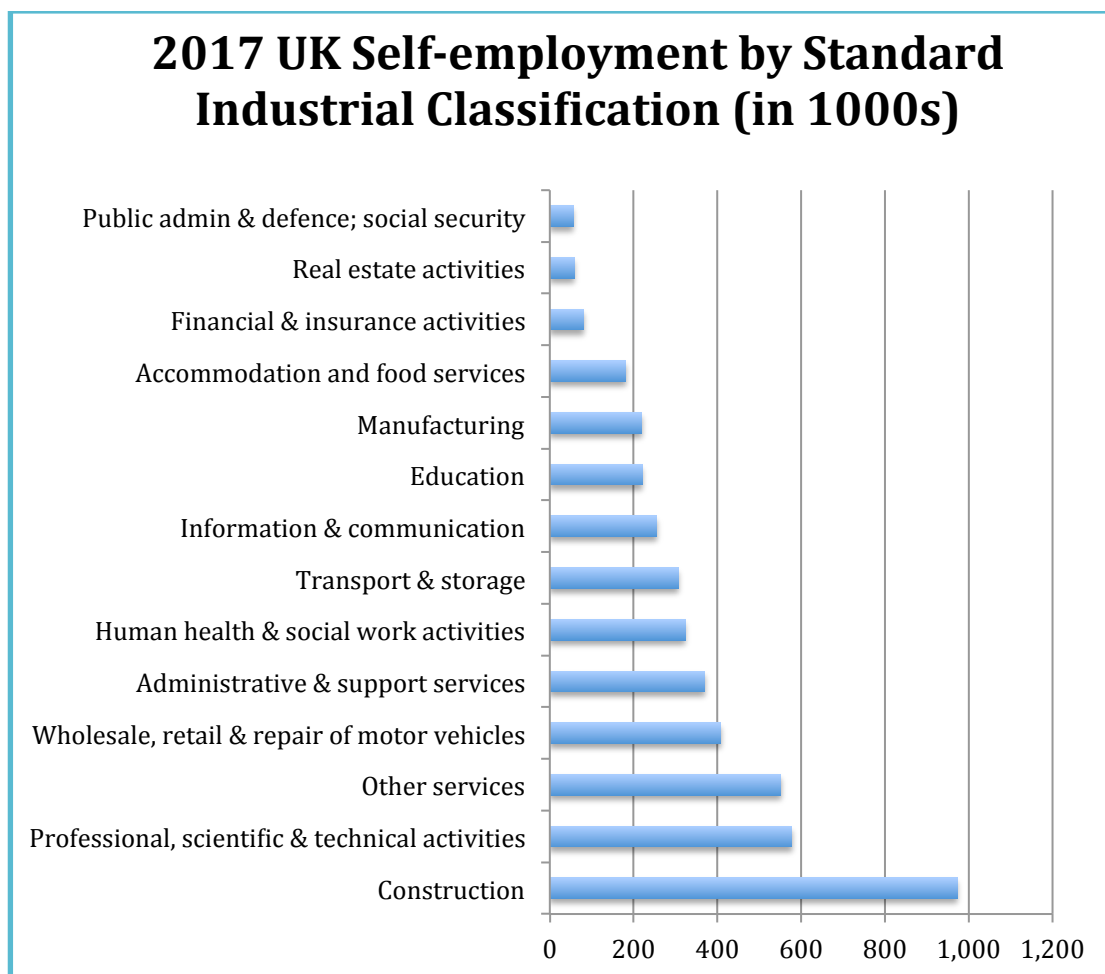


Figure One. Source: ONS.

As far as the specifically self-employed workforce is concerned, “taxi and cab drivers and chauffeurs” does currently top the ONS list common occupational groups at around 182,000 people in 2017.<sup>11</sup> Yet this still amounts to less than 4 per cent of the entire self-employed workforce in Britain. Furthermore, research by the Resolution Foundation has suggested that taxi-driving self-employment specifically has actually grown more slowly than total self-employment since 2009 – 7 per cent versus 22 per cent overall.<sup>12</sup> So whilst there may be many strong public policy and intellectual reasons to explore the platform economy, gig work and even Uber’s model specifically, a massive, statistically significant contortion of Britain’s self-employed workforce is not one of them. Certainly, it should not monopolise policymaker attention unduly when the sector is so diverse and the broader policy challenges so urgent.

Quite apart from this detachment between the data and the public conversation, it should also be pointed out that the extreme heterogeneity of the self-employed workforce creates data capture challenges in and of themselves. For one, traditional labour force survey questions make it difficult to segment the self-employed workforce in ways that are relevant to many of the most pressing policy challenges. It is not easy to create large-scale quantitative segmentations based around issues such as feeling ‘in control’ of a working or contractual



relationship. Equally, the diversity of the sector can make segmentation more difficult in that it creates sample-size challenges and data volatility, even for large-scale surveys like those conducted by the ONS.

This is perhaps one reason why beyond a very top-line analysis, the literature we reviewed provided somewhat kaleidoscopic data. Still, there are some qualities our review found to be strongly associated with an increased propensity for self-employment. These include:

- Being male: the self-employed workforce is 67 per cent male versus 33 per cent female (although female self-employment has risen strongly in the last few years).
- Being middle-aged (see Figure Two).
- Living in London and the South East, and in cities more generally.
- Earning less on average than employees.
- Having no formal qualifications if young.
- Having degree level qualifications if old.<sup>13</sup>

Our research also found that self-employed workers make up a higher proportion of the workforce in London and across the South (see figure nine) and that self-employed workers are also more likely to be full-time – approximately 66 per cent are full-time versus 34 per cent part-time, a near identical breakdown to employees.<sup>14</sup> The review also found the UK to be unusual in how few self-employed workers employ other workers or employee (and consequently how high its levels of ‘solo’ self-employment) with one study putting the proportion as low as 16 per cent.<sup>15</sup>

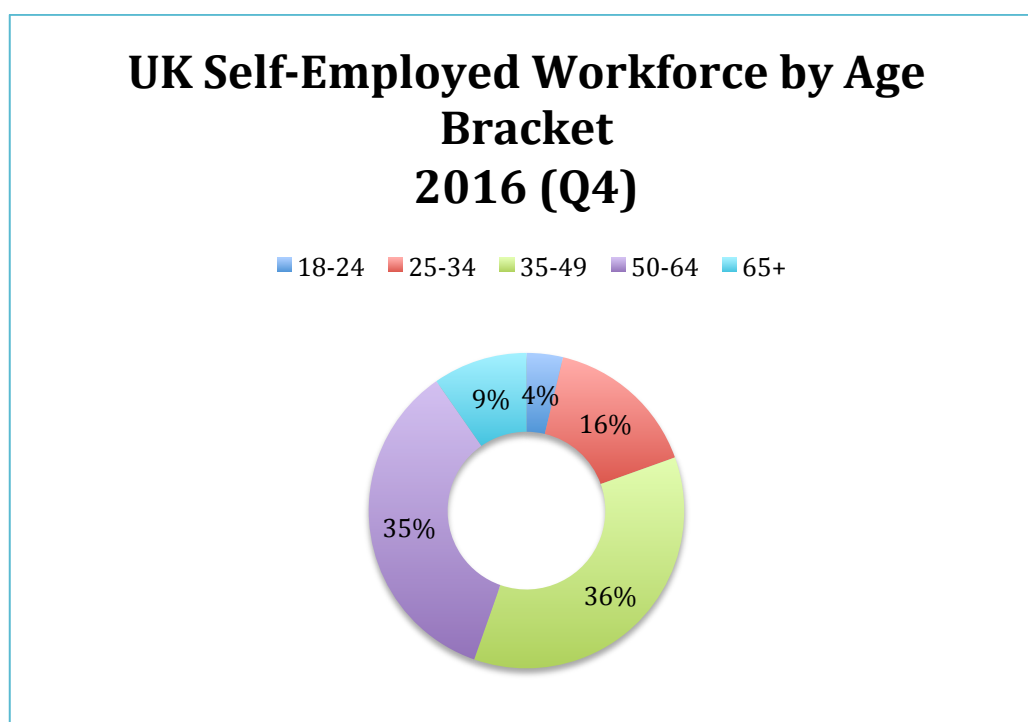


Figure Two. Source: ONS

## The Rise in Self-Employment

On the characteristics that have driven self-employment's significant and sustained growth, the research literature is more unanimous and unequivocal. The growth in self-employment has been driven most significantly by:

- Part-time self-employment
- Older workers – specifically those aged 70+ where self-employment now represents 50 per cent of total employment<sup>16</sup>
- The financial and business services sector
- Particularly strong growth in London and the South East

These trends have been accurately captured and, thus, are perhaps best represented by, a series of graphs in the Office of National Statistics *Trends in Self-Employment* series, which draws on its Labour Force Survey.

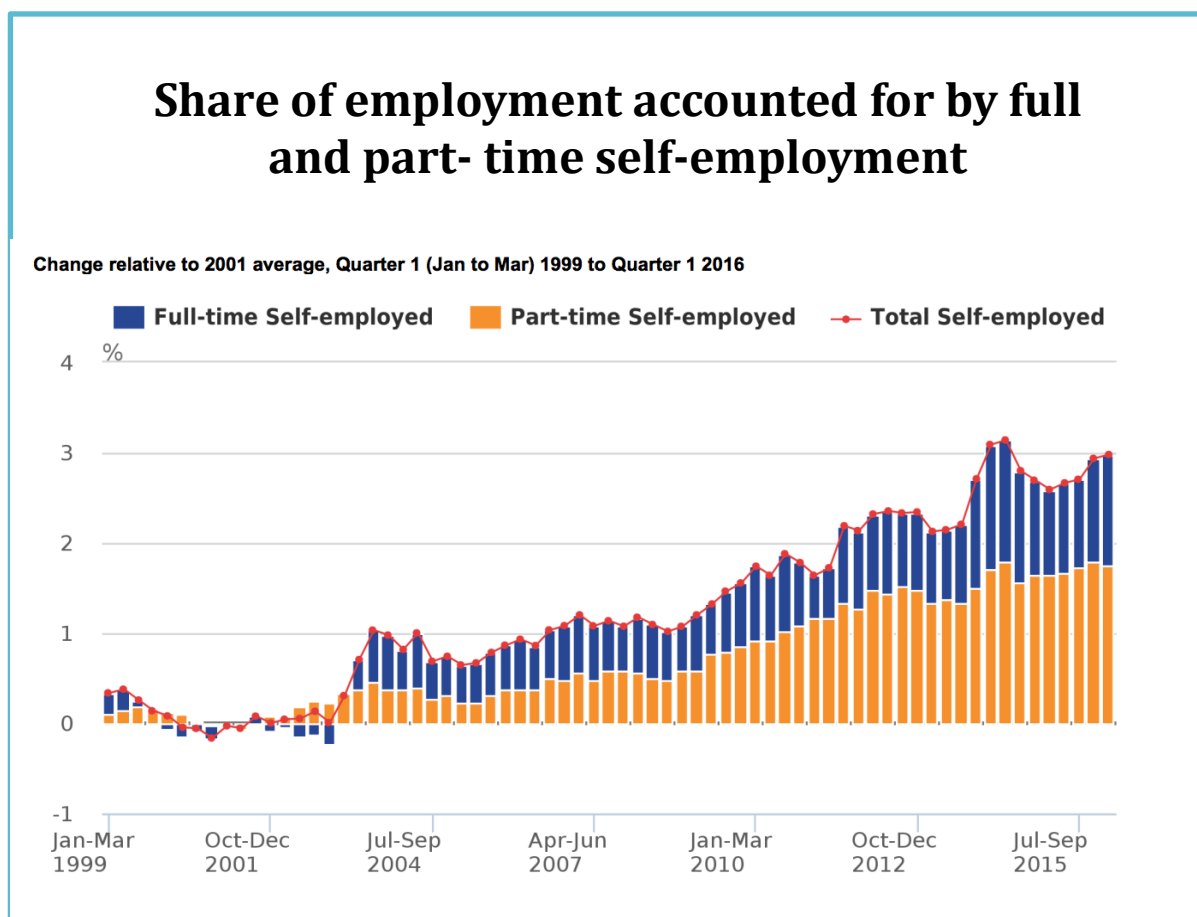


Figure Three. Source: ONS

Arguably the most striking trend is the contribution made by part-time self-employment. As figure three shows, around half the growth in the absolute number of self-employed workers between 2001 and 2015 has come from part-time self-employment, meaning part-time self-employment has grown much more quickly in proportional terms - 88 per cent growth since 2001 compared to 25 per cent for full-time.<sup>17</sup> This has also accelerated towards the end of this time period.

Another hugely significant shift in the composition of the self-employed workforce has been the growth of self-employment amongst workers aged 65 and above. Indeed, self-employed workers now make up around 50 per cent of all employment for the over 70s, with those returning to work from retirement now more likely to choose self-employment over employment.<sup>18</sup> As figure four shows, plotted against the other age brackets the growth has been extraordinary and, according to further ONS analysis, above and beyond the societal demographic shift towards an aging population.<sup>19</sup> The other noticeable uptick has been in the 16-24 age bracket, though it should be remembered this is also the smallest category in absolute terms.

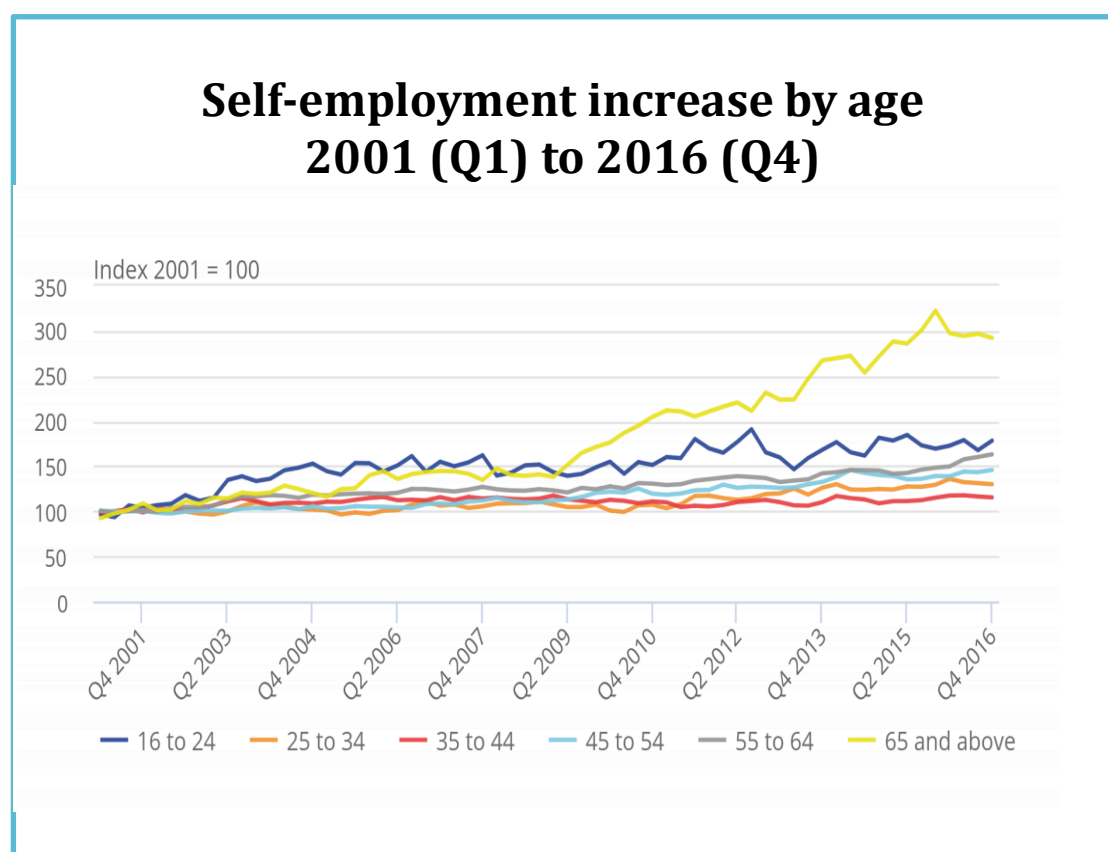


Figure Four. Source: ONS.

In terms of the sectoral composition of self-employment's rise then in both the full-time (figure five) and part-time workforces (figure seven), the "finance and business activities" categorisation has seen the strongest growth as a proportion of the overall workforce. In fact, in terms of full-time self-employment it is the only noticeable structural shift in composition aside from a drop-off in the "wholesale, retail and motor trade". Interestingly, "transport, storage and communication" has also marginally decreased and though there is a tiny increase in the same categorisation for the part-time self-employed, clearly there is nothing here to justify any analysis that points to the platform economy thesis. In the part-time workforce, as well as the strong proportional growth in "finance and business activities" there has been some upwards movement in the "ABDE" ("agriculture, mining and quarrying, utilities") sector and also "education", with "wholesale, retail and motor trade" and "health and social work" proportionally

decreasing. Overall, this data supports the wider research evidence that suggests part-time, higher-paid, consultancy-type freelancing in the private sector has supported a lot of self-employment's growth.

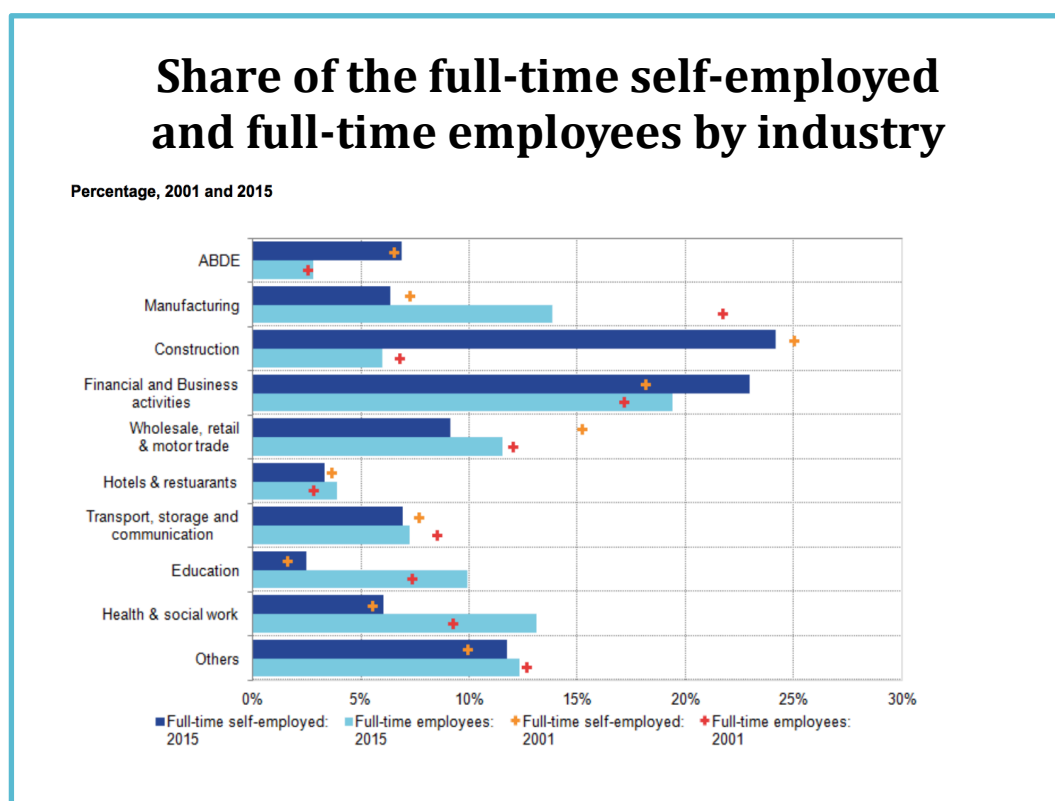


Figure Five. Source: ONS.

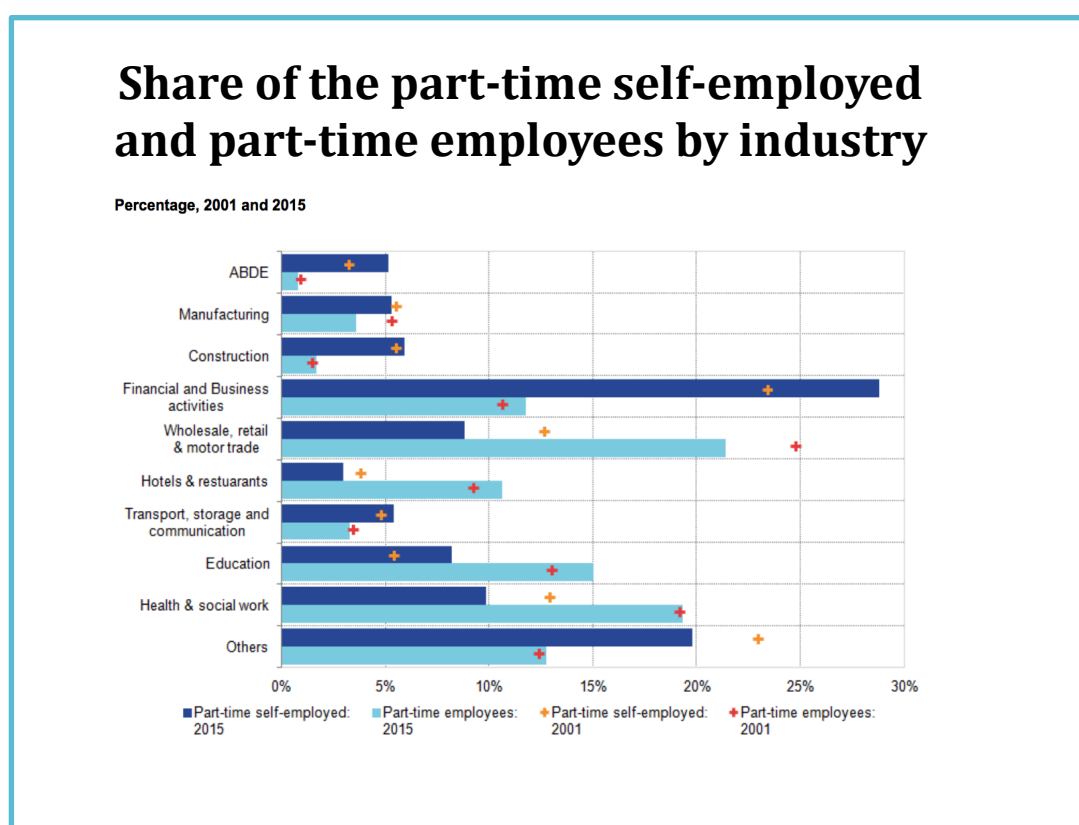


Figure Six. Source: ONS.

This conclusion can be further supported by a proportional analysis of self-employment growth by region (figure seven), which shows that alongside Yorkshire and Humberside (with Leeds also a large financial services hub), London and the South East have sustained the biggest proportional growth in the share of self-employment as an overall share of labour market participation. The regional shifts were widely taken by the research we reviewed to reflect the overall sectoral mix of each region i.e. a sectoral growth in financial and business services self-employment maps neatly onto regions where this sector is strong.

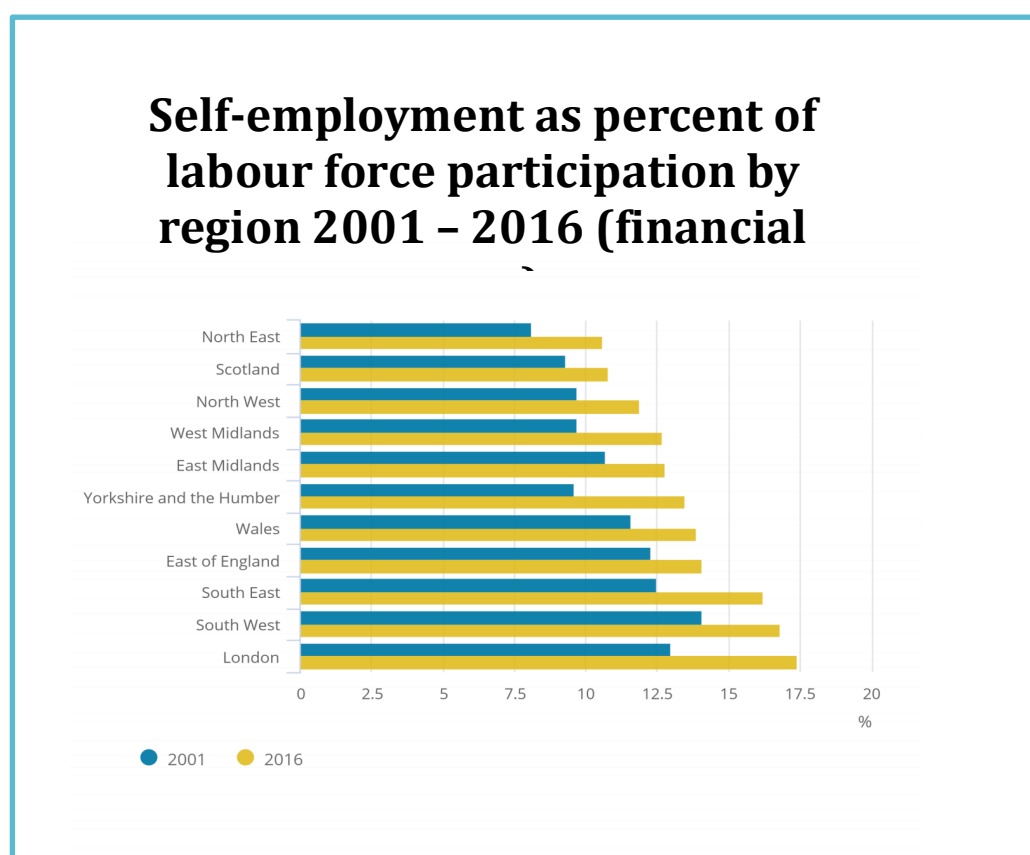


Figure Seven. Source: ONS.

One final thing the research literature was abundantly clear on was that the rise in self-employment in the UK labour market is unusual in a European context. To be clear, the UK's overall rate of self-employment, even now, is not by any means unusual – it is still marginally below the 16 per cent EU average (although this is average is stretched somewhat by some outlier countries in Southern Europe such as Greece and Italy). However, the recent growth *is* unusual – the vast majority of European and OECD countries have seen self-employment *decline* as an overall share of labour participation. Indeed, among OECD states that provide a full dataset since 2000, only the Czech Republic and the Netherlands have experienced significant and comparable increases in their rates of self-employment, with only the Netherlands consistently outstripping the UK's growth rate.<sup>20</sup> This would seem to discount broad, supranational economic shifts – e.g. technological innovation, globalisation – as explanations for self-employment's rise in the UK in favour of domestic explanations (although such

forces do impact uniquely in different jurisdictions based on their interaction with policy, culture and economic mix).

### The Privileged and the Precariat Narrative

One particularly prevalent view that emerged from our literature review was the idea that Britain's self-employed workforce could be characterised as something of a two-tier contrast between distinct 'privileged' and 'precarious' groups. Given that it is entirely reasonable, for social justice reasons, to focus on low paid, insecure or vulnerable workers this is perhaps understandable. The evidence also strongly supports the idea that better paid occupations, particularly in financial and professional service sectors, have contributed most to self-employment's overall growth. Recent ONS analysis also seems to suggest that a modal weekly income for the self-employed might be nearer to £240 per week – around £12,500 a year – which for an employee working a standard working week would be less than the 'national living wage' minimum.<sup>21</sup> That figure could certainly be construed as precarity but it is important to stress that it includes both full-time *and* all part-time self-employment. The median figure for a full-time self-employed worker is a more reasonable £347 per week (around £18,000 per year). This figure is clearly by no means high paid, however if contractual arrangements were relatively secure and the worker enjoyed a reasonable level of control over their own work, then it might be something of a stretch to describe it as necessarily 'precarious'.

This raises another important point – in 2014 Demos argued that power relations between worker and contractor should be the defining feature of assessing the quality of self-employed status, something Matthew Taylor also picked up on his government-sponsored review of modern working practices, *Good Work*.<sup>22</sup> 'Precarity' should be understood as more than a material concept – not so that the low paid nature of some parts of the self-employed labour market is diminished, more so that the insecure nature of higher paid self-employed work – or work more broadly – is not underestimated in the process.

This is not to paint too negative a picture – analysis by the ONS, the then Department for Business, Innovation and Skills, and our own original survey analysis (see Chapter Two) has all pointed out the strong degree of choice exhibited by workers moving into the self-employed sector.<sup>23</sup> There also appears to be at least some academic evidence that people who move from employment to self-employment are happier.<sup>24</sup> Rather, the point is that there are dynamic, policy relevant trade-offs within the self-employment workforce that a focus purely on security or pay might not capture. In short, the basic reality seems to be that self-employed workers seem to choose self-employment because they like being self-employed, with significant non-material, lifestyle benefits often cited as the main reasons. To develop a credible new deal for the self-employed therefore, our approach must look at all these dimensions.

New research from the Centre for Research on Self-Employment (CRSE) attempts to capture some of these trade-offs. Using data from Understanding Society and the Department for Work and Pension's Family Resources Survey to

augment the LFS, CRSE has developed a more nuanced segmentation of the self-employed workforce's diversity organised around three axes – dependence (i.e. how much control workers enjoy over the contractor-worker relationship), security (i.e. the extent to which the person is self-employed by choice and whether the work provides long-term security) and economic wellbeing.<sup>25</sup> This helpful analysis highlights how some policy challenges percolate up the economic spectrum and vice-versa: it is perfectly possible to have security of tenure, for example, and be low-paid or be high paid with only medium independence (see table one).

Characteristics	Types of Occupations	Proportion/size of solo self-employed workforce
Low Pay, Dependent, Insecure	Drivers, cleaners	8.9% (348200)
Low pay, independent, insecure	Shopkeepers, artistic occupations, car mechanics	8.2% (320600)
Low pay, independent, secure	Farm workers, builders, traders, tutors	22.7% (889900)
Mid pay, dependent, insecure	Childminders and carers, building labourers	4.0% (156500)
Mid pay, dependent, secure	Building operatives/drivers	1.3% (50900)
Mid pay, independent, secure	Trainers and coaches, IT and related professionals, financial advisers, business associate professionals, manufacturing managers, hair and beauty workers, skilled makers, gardeners, restaurant and B&B owners	19.5% (767700)
High pay, regulated, secure	Medical professionals	2.0% (77800)
High pay, mid-independence, secure	Functional managers, construction and property managers, book-keepers, TV and film technical roles	5.1% (198400)
High pay, independent, secure	Legal and business professionals	4.1% (162400)

Table One. Source: CRSE

For all these reasons, our reading of the data on self-employment is that a 'privileged versus the precariat' analysis is perhaps unhelpful. Indeed, any attempt to present the self-employed workforce as an 'hourglass' labour market must be particularly resisted – if this is an hourglass, it is one with the top half broken off. Looking at the framework, developed by CSRE and the available data on wages, we would instead suggest that characterising the self-employed, by and large, as members of the 'squeezed middle' might be a more helpful way of conceptualising the largest part of the workforce. Of course, this is, by definition, a grotesque generalisation and it is important to state, once again, that the overwhelming quality of the self-employed workforce is its extreme heterogeneity. However, given the need to focus our new deal – 'the squeezed middle' might seem like a good place to start. Not least because the CRSE

framework also leads us to believe the challenges faced by the most vulnerable self-employed workers and the slightly better off 'squeezed middle' are likely to be fairly similar. This underlines an important point, backed up by both our original survey and qualitative research into the experience of being self-employed (see chapter three): the policy challenges associated by economic security are relatively universal across the workforce, even accounting for its extreme heterogeneity.

In conclusion, as with any policy trade-offs, it ultimately comes down to a question of first principles and priorities. Our reading of the data is that a focus merely on vulnerable self-employed workers might be too narrow, whilst to unduly describe parts of the self-employed workforce as privileged risks overstating the size of the labour market that enjoys higher earnings. This, in turn, risk further mischaracterising self-employment in a public conversation that already seems, at times, to be detached from quantitative analysis. As with, arguably, the British economy writ large – the biggest challenge is how to deliver for a growing 'squeezed middle' class.

#### A Note on Labour Market Inclusion

Finally, one other area this report decided to explore more closely is the interaction between self-employment and disability. This follows repeated references in the literature to the idea that being disabled, having a long-term health condition or having significant caring responsibilities could act as push factors towards self-employment.

There are roughly 750,000 disabled self-employed workers, which is around 16 per cent of the overall self-employed workforce. For employees, the disabled percentage stands at 13 per cent. Further data is hard to acquire on this – although analysis by the Resolution Foundation has suggested that the number of self-employed disabled workers has been growing marginally faster than the number of total disabled workers (self-employed and employees). This research also finds disabled workers, as with employees, to be a particularly low paid segmentation of the self-employed workforce but that the gap between the self-employed and employees is even bigger for disabled workers.<sup>26</sup> This does not *necessarily* point to an increased vulnerability towards exploitation – it was not hard in our qualitative research phase (see chapter two) to find examples of disabled workers who had actively made this choice and had found in self-employment a range of positive externalities usually associated with the flexibility to manage their disability or health condition better. That said, unlike our non-disabled focus groups, austerity and changes to the benefit system also emerged in these interviews as anecdotal push factors towards self-employment.

Ultimately, without more data it is difficult to make a clear assessment – and it is regrettable that policymakers do not have information for such an important group at their fingertips. Therefore, we call on both the Government and the UK's public statistic authorities to collect data on the interaction between self-employment and disability more frequently.



## **Chapter Two: The self-employed experience**

In Chapter One we analysed the literature surrounding the question ‘who *are* Britain’s self-employed workforce’ and what types of self-employment have driven its extraordinary recent rise. Summarising crudely, we found that particularly strong growth had come from a comparatively advantaged group of older workers, often part-time and freelance, who tend to work in the financial, business and professional services. However, more relevantly, at least in terms of providing background for policy development, we found that this group is not particularly representative of the broader, extremely heterogeneous, self-employed workforce. We also argued that the “squeezed middle” class of self-employed workers should be the primary focus for policy support.

However, data only tells you so much. Whilst chapter one provided us with some educated assumptions about the centrality of economic security to the self-employed experience, Demos has always seen qualitative research – speaking to self-employed workers themselves – as being essential to the policy development process. This chapter presents the findings of this research phase, alongside the results from a nationally representative poll of over 1000 self-employed workers. This allowed us to assess the attitudes of the self-employed workforce towards various policy challenges and their personal experience at a statistically significant, societal level.

In generalised ‘big picture’ terms our polling and qualitative research conclusions can be summarised as:

- The majority of self-employed are happy (80 per cent) and actively choose to be self-employed to take advantage of the different lifestyle it provides;
- The vast majority of self-employed workers (70 per cent) are content to stay in self-employment for the foreseeable future;
- Economic security issues – often associated with irregular income patterns – represent the biggest challenges for the self-employed experience;
- Pensions or the lack of retirement savings is the biggest substantive policy issue within these challenge (net 46 per cent concern)
- Interviews with disabled self-employed workers, self-employed workers with a long-term health condition and self-employed workers with extensive caring responsibilities found that flexibility was overwhelmingly the key attraction of becoming self-employed for these groups.

### **Original Polling Evidence**

The first – and perhaps most important – finding to stress from our original polling is that the self-employed are happy. This is not particularly surprising – both the ONS and the then Department for Business Innovation and Skills have presented survey data that indicates self-employed workers generally self-report positive reasons for becoming self-employed.<sup>27</sup> In our poll respondents were

asked to rank how happy being self-employed made them on a ten-point Likert scale (see figure eight). Fully 80 per cent ranked themselves as happy (between 7 and 10) with only 3 per cent describing themselves as unhappy (between 0-3)

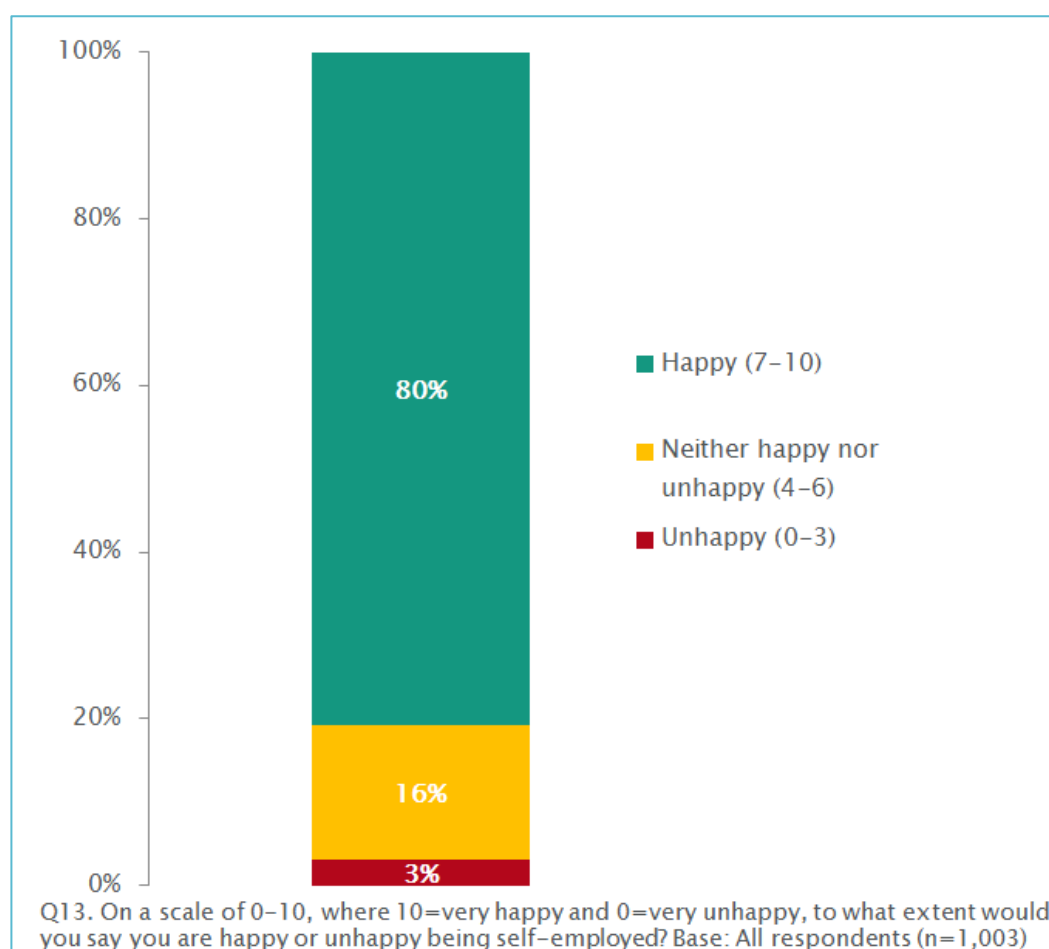


Figure Eight. Source: ComRes for IPSE/Demos

Another effective proxy for assessing the motivations of the self-employed, also used by the ONS, is to assess the numbers who are either seeking a return to employee status or different modes of employment more broadly. On this measure too our polling found a generally positive attitude towards self-employment from self-employment workers, 70 per cent of whom intend to be self-employed for the foreseeable future. Indeed, just 2 per cent of workers we surveyed would consider switching to work for someone else as soon as possible, but 22 per cent, whilst intending to be self-employed for the foreseeable future, would consider switching to employee status (see figure nine).

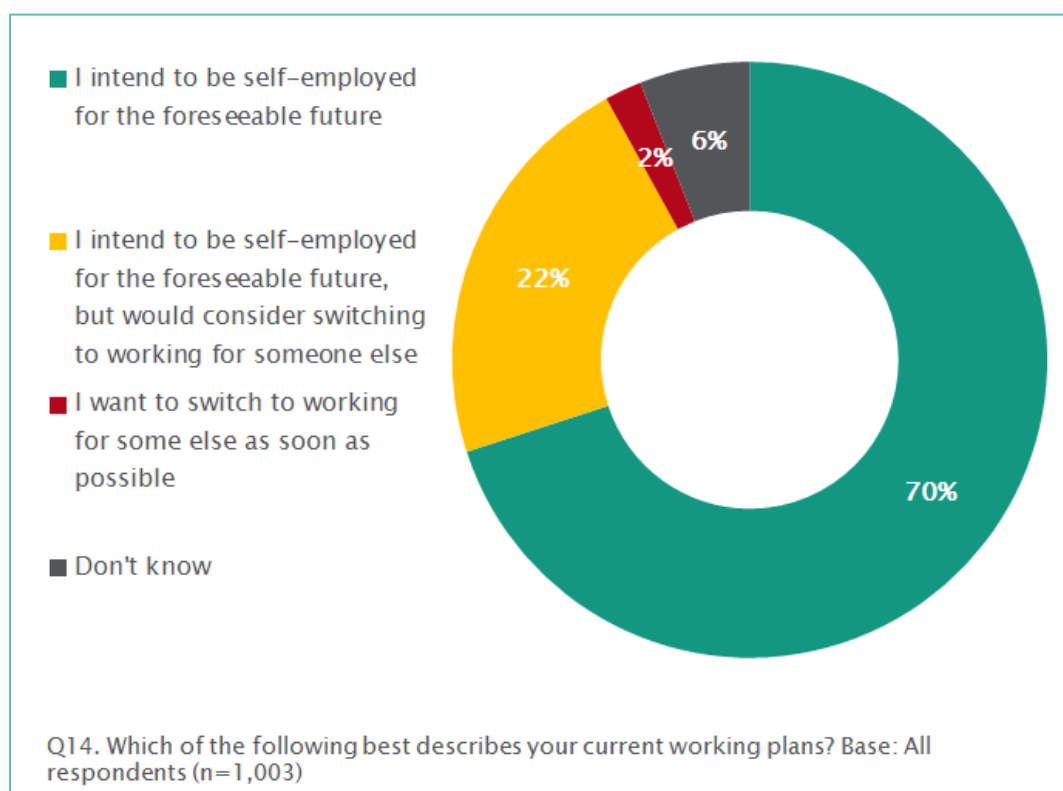


Figure Nine. Source: ComREs for IPSE/Demos

We also explored in greater depth the reasons why self-employed workers chose to become self-employed (see figure ten). From a closed list, respondents were asked to rank both the main and top five reasons they chose to become self-employed. “Being in control of my own work” was top of both questions with 60 per cent of respondents ranking it in their top five, whilst two key components of flexibility - enjoying “greater control over my hours” and the “freedom to choose where they work” – ranked second and third, with 57 per cent and 56 per placing these options in their top five respectively. Economic reasons generally scored lower with only 17 per cent ranking the ability to make more money within in their top five.

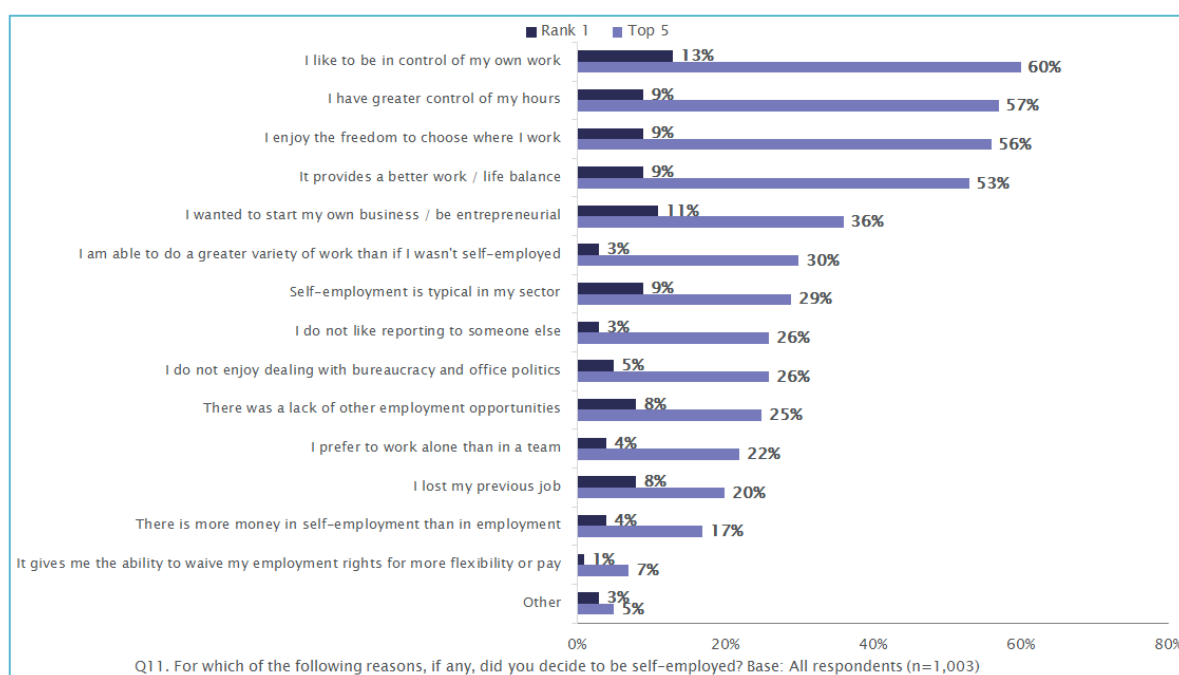


Figure Ten. Source: ComRes for Demos/IPSE

This potential trade-off between economic security and flexibility or independence was again reflected in our polling on self-employed workers' concerns with the self-employed experience. Indeed, as figure eleven underlines, the vast majority of self-employed workers' biggest concerns are derived from economic or financial issues - all of the top ten net concerns can be characterised in this way. Within this ranking some clear policy issues can be teased out – not only concern about pensions (38 per cent net concern) or later-life savings more broadly (46 per cent), but also, indirectly, with a lack of statutory employment rights. For example, not being able to take time off to care for a relative, or to go on holiday, scored 29 and 32 per cent net concern respectively. Meanwhile, a fear of not being able to work when sick, which might reasonably be ameliorated for employees with access to sick pay, scored second overall with a net concern of 49 per cent. Furthermore, there was a clear divide by age on this question - respondents aged 18-34 are more likely than those aged 55+ to be concerned about each of the options tested. For example, over half of 18-34 year olds registered as concerned about not being paid on time by a client (56 per cent vs. 27 per cent respectively). This could reflect greater experience levels but equally could be explained by the economic differences noted in chapter one, with older self-employed workers generally enjoying either higher pay or greater overall economic security.

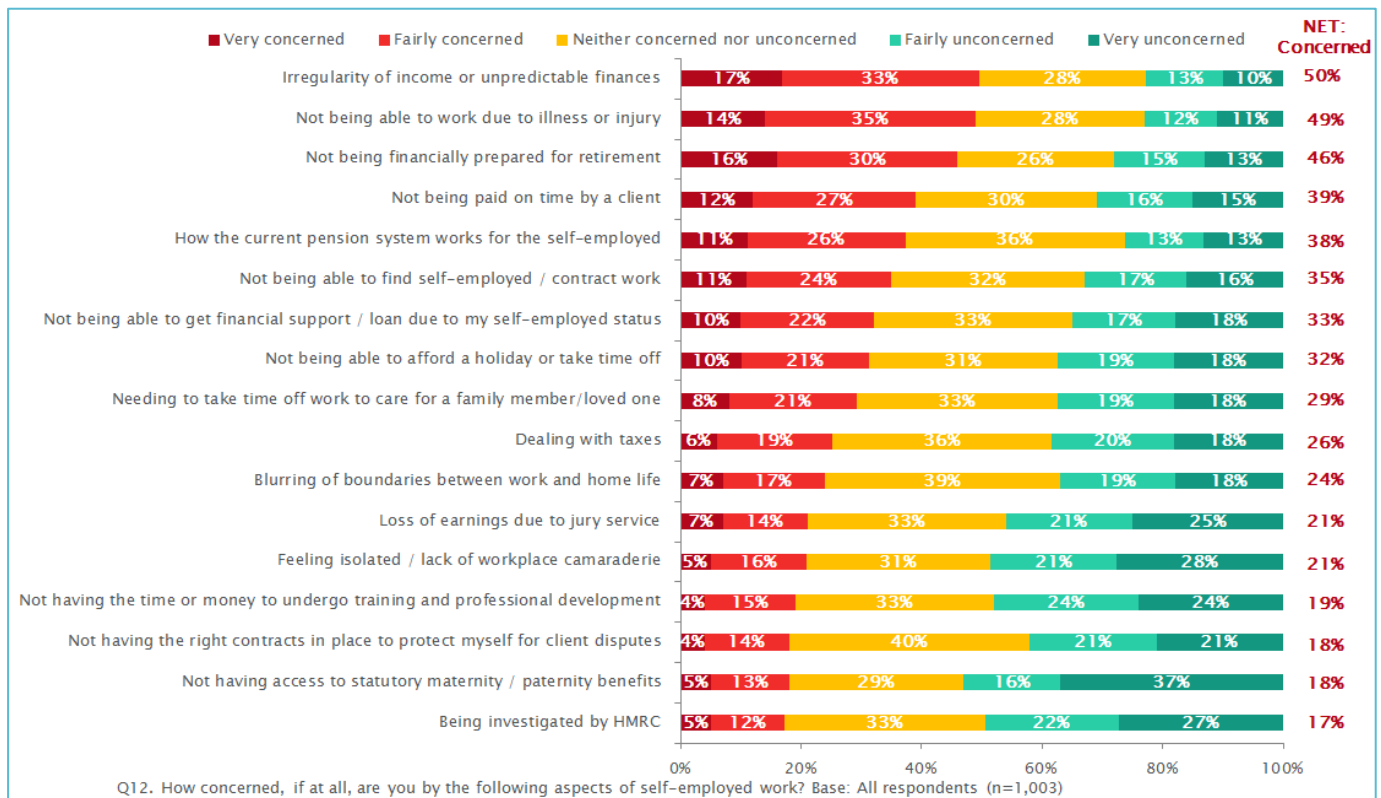


Fig Eleven. Source: ComRes for Demos/IPSE

However, perhaps the starkest illustration of economic security as a ‘push factor’ away from self-employment is the answer the relevant respondents gave for considering or wanting to move away from self-employment. This is a smaller sub-group of the survey – so is not statistically significant (i.e. the sample size is less than 1000). However, the answers were still overwhelmingly consistent with a desire for more economic security – with “prefer the security of employment” ranked in the top three by 75 per cent (see figure twelve).

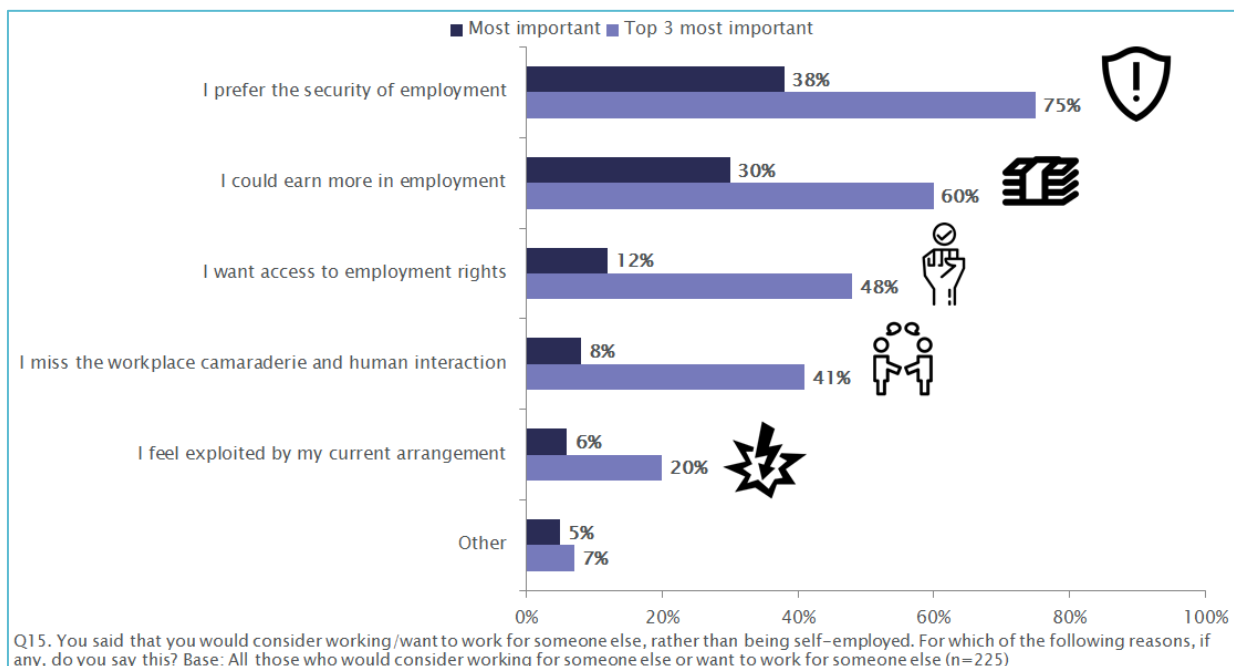


Figure Twelve. Source: ComRes for Demos/IPSE

## Focus Groups

Our focus groups overwhelmingly support the broad-brush analysis that the self-employed experience is fulfilling and freely chosen, but that self-employed workers have significant concerns with the level of economic insecurity that can come from irregular work patterns. Furthermore, whilst it is obviously impossible to draw anything other than anecdotal insight from such a small sample size there was a notable regional variation in the two groups, with concerns about economic insecurity being much more notable in the London group.

The groups were structured around three broad themes:

- Why are you self-employed?
- What are the biggest challenges self-employed people face?
- What can be done to better support the self-employed?

### 1) Why are you self-employed?

As with our polling evidence, the majority of participants reported that they were happy being self-employed. Typical comments included:

*"Yeah I'm happy. I have experienced both and the pressures in employment were immense and I was lying awake at night stressing about it. I'm happier just being my own boss".*

Female participant, Leeds

*"Yes, 100%. It's not just about the job I do, which I love - if I got offered to do it as an employed person full-time, I wouldn't do it over being self-employed. Because I enjoy being my own boss. I love the flexibility of being around for my children but also it is 24/7. That's part and parcel - I am a workaholic and I think it fulfils my workaholic needs without feeling tied to somebody else."*

Female participant, Leeds

To some extent, this last quote also reflects the consensus view, with independence – “being my own boss” – and flexibility the two qualities most consistently highlighted as the best aspects of the self-employed experience. Equally common was the idea that self-employment brought relative benefits when compared to the experience of being an employee – which was sometimes criticised in quite severe terms:

*"I like the little things, like maybe sleeping a bit longer or not spending four hours a day on a commute. Just - I don't know how I lived before when I was working for companies... you as a person don't exist, it's just the work and you are this tiny little thing. It destroys your life!"*

Female participant, London

*"Yes, the quality of life [is important] when you're self-employed... I mean I would not go back working for somebody because of the quality of life I have got. Financially it's more restrictive, its insecure, but going back, thinking back to working for arts organisations? They want blood from you, you work endless hours and its not enjoyable! o*

Female participant, London

This "rigidity" of the employee experience was the most commonly cited 'push factor' in choosing self-employment. However, caring responsibilities were a close second. Within this group, childcare was more common and self-employment's flexibility was particularly valued for these participants. As one father put it:

*The main reason [for staying self-employed when a lucrative employment offer was received] is that I have a two year old on Tuesdays and Wednesdays in the week, and I'm not going to change that. You don't get these years back... I can't imagine any other way".*

Male participant, Leeds

There were also two instances of trying to organise working life around caring for an unwell relative. Self-employment, according to these participants "helps a lot" particularly when contrasted to the stress of trying to be a carer and an employee at the same time:

*"I've not been self-employed for very long and it was not through choice it was circumstances – a family member was very ill and trying to work full-time I just couldn't mix the two and it became very stressful. So the employers I was working for said I could go freelance and it's much better for me. I've found it's actually a really enjoyable experience and it has helped my confidence."*

Female participant, London

Finally, the other positive attribute of the self-employed experience occasionally cited was an increased opportunity for **professional fulfilment** or "making a living from my hobby". The chance to "be more creative" than traditional employee roles was a consistent theme in this vein, raised by several participants.

Yet whilst a general satisfaction with self-employed status was certainly the more common situation across the two groups, it would be wrong to suggest that none of our participants would consider becoming or even have preferred to be an employee. Typically, financial or economic security reasons were highlighted to justify this view. As one participant put it:

*"I consider going employed some days – I can imagine it. I also employ people, so I see that other side. When their hours are done, they turn off and switch off, they go home and enjoy their lives and carry on the next day."*

Male participant, Leeds

## 2) What are the biggest challenges self-employed people face?

Issues surrounding **financial and economic security** were, overwhelmingly, raised as the most problematic component of the self-employed experience – again accurately reflecting our polling evidence. As one participant put it succinctly: *“the issue is security. Yes – that’s the big word”*.

Often this lack of security was expressed generally as an inherent part of the self-employed experience, including by many participants who were very happy with their self-employed lifestyle. Typical comments of this nature included:

*“I don’t feel secure. I know this is my busiest time of the year, because I basically deal in silver. But I know from Jan to Feb money will be pants. I will basically struggle, so I need to put money aside now to think of then. If I had a fulltime job I would know that I would still get paid in Jan and Feb. You need to really balance and be careful otherwise you will struggle”.*

Female participant, Leeds

*I think I work double the amount of hours now than I did for a company. It can be flexible – but if you don’t work you don’t get paid”.*

Male participant, London

However, often those citing a lack of security also offered a general critique of poor contractor behaviour within the self-employed marketplace. Contractors ‘cancelling last minute’ were particularly singled out – *“there is no one to protect you from that”*. Indeed, occasionally, this antipathy seemed grounded in experiences of exploitation. For example, one participant shared – to nodding agreement from the rest of the group – the following story about how the pressure to win contracts could limit theoretical independence:

*“I gave this guy a discount – a huge discount – for a two hour shoot and I was there for nine hours. Nine hours. Then, at the end of an argument, he said I was supposed to go home and sit at my desk and edit these pictures and send them back... You cut your losses, I got my lesson – next time I made sure I highlighted in my contract I would not go beyond the hours. But I now know he’s just going to go and find someone on a social platform.”*

Female participant, London

This example also highlights another recurring theme – how technology is changing the nature of the self-employed experience by making the market “way more competitive”. As one participant put it:

*“I think nowadays everybody’s using Instagram, everybody is all about exposure and getting things for free. People are exploiting that”.*

Female participant, Leeds

Equally, it was sometimes suggested that technology was changing the nature of work in terms of skills. For example, one website copy-writer described how the



importance of understanding how to maximise a website's exposure to Google search algorithms had changed his job from a largely literacy based exercise to one where, to stay truly competitive, a knowledge of data analytics is needed.

In fact, the breadth of skills needed to thrive as a self-employed worker was, after issues connected to economic insecurity, the most consistently raised challenge associated with the self-employed experience. By some distance the most frequently raised challenge within this theme was the need to learn basic entrepreneurial skills. It was widely suggested that people, including our participants themselves, underestimate this aspect of self-employment when first setting out:

*"There's all the leg work you have to do running your own business. You get paid for your jobs, but then still have to run your business. I have an office in my house and I don't get paid to sit there and do my website and all the other legwork that comes with it. I don't think people realise how much work you have to put in..."*

Female participant, Leeds

This, as one participant was keen to point out, only increases when you take on employees:

*"You start a business, with just one person, yourself in a garage, in a workshop, at home, and you plug away, and you go through all the complexities of that... and one day you might employ someone, you might take that person on thinking 'I'll just give them a bit of money... Then they need to be put on payroll and insurance and god knows what, just the whole lot and you don't know any of that, you never started to learn any of that..."*

Male participant, Leeds

However, perhaps a less well-understood aspect, at least in the general policy debate, was the importance of "**self-promotion**" which was raised several times as "such a huge part of the business". Again this was sometimes connected to technological change and the importance of a visible social media presence in particular.

Finally, the one other commonly raised theme was a broader cultural ignorance towards self-employment within British society. Some participants felt that society viewed self-employment as "a busman's holiday" or that people "*think you don't really work and are free to do what you want to do*". As one participant, comparing it to employment, put it:

*"When you're in at an office, you're working. People know you cannot answer emails and texts but when it's your own business, the outsiders perspective is not realistic as to what it's actually like".*

Female participant, Leeds

### 3. What can be done to better support the self-employed?

The final section of our focus groups explored our participant's attitudes towards a number of specific policy areas where policymakers might consider better support for the self-employed.

One issue, expressed in both groups, was access to skills and training. Given the focus this received when discussing the challenges associated with the self-employed experience, this is hardly surprising. Some participants felt they were clearly disadvantaged when compared to employees when it comes to updating their skills or receiving continued professional development (CPD):

*"I have to try and be quite innovative as well [with price-setting of labour]. Because there are courses that I would love to attend, or conferences – for instance, scientific conferences – and the fees are thousands of pounds. And I can't afford that because for most people, their employees pay for them. It is a shame because I would get a lot more out of 6 hours, 12 hours of upgrading my skills".*

Female participant, London

Equally, it was widely accepted that the education system, at all levels, did little to highlight self-employment as a legitimate career option. Typical comments of this nature, included:

*"They did not really go into depth about what it's like to be self-employed [at uni] which I think is not the way to do it. They don't really speak much about it, it's a bit odd because the creative industry is mainly freelance."*

Male participant, London

*"I don't think it was ever discussed as an option at school, to be self-employed".*

Female participant, Leeds

Another area where some of our participants felt disadvantaged was in the provision of financial services:

*My experience is that they [banks] do not get it at all.. For example, trying to get a mortgage and things like that. If you don't have a regular monthly income it's 'what do you get each month?' Sometimes I get nothing; sometimes I get a big lump sum. I can't predict and it does not compute for them"*

Female participant, Leeds

However, perhaps the biggest area of perceived disadvantage, again reflecting our polling evidence, concerned a lack of access to statutory employment rights.

*"It can be flexible but if you don't work, you don't get paid. Because you can take a day off sick when you work for the NHS but you don't get that in my field. And I work so much more now. I was working when my waters popped because I don't get paid for maternity pay! You just have to keep going because it's not all easy, but my general view is that self-employment is great".*

Female participant, Leeds

In this vein, one participant, with mixed views about self-employment generally, argued that the insecurity, when compared to employee status, could make self-employment seem "not worth it":

*"Recently we did a big job which was going great. And then one of them [his employees] had an accident, dropped something on his foot, broke his foot, and this job where there was a nice pot of profit at the end went the other way and he got paid while he was off work for 8 weeks... The guys that work for me they just get paid and that seems quite appealing. If you have a bad day which turns into a bad month it [self-employment] seems not worth it.*

Male participant, Leeds

There was also a lively discussion about tax in the context of the aborted attempt by the Government to raise Class Four National Insurance Contributions the previous spring. Interestingly, despite its potential consequences, awareness of this proposal was low. Still, when prompted – including by those participants who were familiar with the furore – participants were, perhaps unsurprisingly, generally opposed to the tax rise. The following comments are broadly representative:

*"I remember hearing about it [the rise of Class 4 NICs] and feeling very concerned. Just the amount of work we have to collect that tax and work it out. It's not like we get a big tax break is it? We get a slightly better rate but we don't get the same benefits".*

Female participant, London

[on Class 4 NICs] *"I think again, if I'm earning ten, twelve grand a year and you're on 60 why should I pay the more tax? It's always the poor that's what seems to giving what they don't really have".*

Female participant, London

However, by some distance the most animated – and anxious – policy topic our focus groups discussed was pensions, retirement income and savings – again unsurprising given the findings of our polling. Typical comments included:

*"I'm just setting up a private pension as we speak, at forty years old. It's not too late but I've been burying my head in the sand thinking it'll be fine".*

Female participant, Leeds

*"I'm frightened of what's going to happen. I'm forty two now – so you [referring to the forty year old above] have done well!"*

Female participant, Leeds

*"There should be more advice available I think. The only thing I can remember about is work place pensions adverts on TV, but that doesn't apply to us, does it? So where is the equivalent?"*

Female participant, Leeds

*"I worry if I survive like this what happens when I'm older, when there's nothing in my account – that's when I panic. I mean, I can sometimes afford to contribute to a private pension, but work is so intermittent."*

Female participant, London

Interestingly, when probed some – not all – participants suggested they would be prepared to sacrifice income now in order to gain access to a higher level of pension savings. As one participant argued:

*"I would rather pay [more tax] for pensions. At the end of the day, when I'm retired, I'd rather struggle now and give them that extra cash to be guaranteed to have some money".*

Female participant, Leeds

There was also relatively broad-based support for the concept of auto-enrolment:

*"There's so many different types of pensions though, this is why I get stuck every time I look at it. It [auto-enrolment] is appealing though. I'd rather put my money in before I pay the tax on it, instead of paying the tax on it. It would make sense".*

Male participant, Leeds

Finally, although it was very much at the margins of the policy discussion, it would also be wrong to suggest that the self-employed workers we spoke with are not concerned by Brexit. Usually this manifested itself as a general expression of concern about the economic future. However, occasionally, some participants suggested that their business model might be directly affected:

*"But because of what I do and Brexit and other factors that are changing, because I sell a lot of stuff abroad, especially to Europe, I don't know what's going to happen in the next few years – I hope I can get through it and stay self-employed. I hope I don't have to bite the bullet and go back to work".*

Female participant, Leeds

### Interviews with self-employed workers with a disability or caring responsibilities

Naturally, many of the challenges faced by the self-employed workers we interviewed in these groups were universal to those who participated in our

focus groups. The need for a diverse range of entrepreneurial skills, the financial challenges of managing irregular income patterns, the attractiveness of varied work and being one's own boss – all of these were just as likely to be raised by disabled self-employed workers or those with caring responsibilities. Equally, participants in these interviews were generally as happy to be self-employed. Typical comments included:

*"Yes, I am happy with it. Technically you do what you want, when you want. I've always had a strong work ethic – I can get things done. It's not for everyone but it really works for me".*

Female participant

*"Certainly at the moment I'm happy. It takes a lot of the stress out of the situation for me, trying to juggle everything in particular with the caring role".*

Female participant

But again, these sentiments were not universal – some workers again would prefer to trade away flexibility for more security:

*"It's a complicated question [does self-employment make you happier]. I wanted to say no, but I will say it's complicated. I wouldn't say yes, it wasn't what I wanted. I would rather have money and security and I wish there was a way that was possible, even with a health condition".*

Female participant

What was striking however, was that flexibility was by far and away the dominant positive attribute raised during these interviews. Furthermore, the intensity of the need for flexibility seemed stronger than in our focus groups. This, in part, seemed due to the inherently more chaotic nature of their lives – it wasn't just work being planned but other commitments that, to a large extent, were beyond the participants' control. As one interviewee put it:

*"Part of my self-employment work is at home, which gives me the flexibility to arrange my working life around his needs and quite often there are unplanned needs – things that happen which you cannot account for – and so I am able to be my own boss in that sense. If I need to move client, I can. I don't have to ask anyone's permission".*

Female participant

However, beyond the obvious, self-selecting push factors, one issue regularly raised in a way that was not the case in our focus groups was the government's austerity policies and their concomitant restrictions on access to benefits. Often – and particularly with participants who have a disability - this segued into a broader critique of the "culture" of the welfare system – how it has changed over time, and how the negative experience of being on the receiving end:

*"It seems to me that the benefits system is ever more restrictive and ever more focused on either the idea that you are deathly ill or you are 100 per*

*cent able to work and there is very little allowance to any state in between, which is where I think most people actually are."*

Female participant

Equally however, some push factors might be described as being structural to the nature of having a disability or health condition i.e. they would persist even in the case of a more generous public policy settlement and even if radical levels of flexibility were offered by firms. As one participant with cerebral palsy pointed out *"having to travel far can be pretty exhausting on my body"*.

One area where there was some disagreement within this group was on technology. As one visually impaired participant suggested:

*"Technology generally creates problems for people with disabilities. For example, the tech world is entirely visual. There are programmes, but there's not always enough effort put in for it to work for you. You process information about fifteen per cent slower and that is a lot to make up".*

Male participant

However, the majority of participants saw technologies such as smartphones as having assisted their ability to enter the labour market or unlock the flexibility they need to manage their situation. This created a positive attitude towards technology that was noticeably different from the focus groups, with the connectivity of social media also widely praised. As one participant put it:

*"Yes very much so [technology has made life easier]. I know people who couldn't have had a laptop on their knees but they can hold a phone. I do really like that – and that gives you a lot of flexibility. And then social media has really been fantastic. A lot happens through Facebook. So you can have a bit of the office chat online and I think I would be quite lost without that".*

Female participant

In terms of policy discussion, clearly the heavy focus on the welfare state is a marked difference between these interviews and the previous focus groups. Aside from the culture issue, the access to work programme was regularly raised as a positive that has enabled self-employed workers (and workers) to live more independent professional lives. However, there were some fears that it did not always understand the nature of self-employment and the needs of particular workers. More worrying still, was the frequent allegations of discrimination towards disabled self-employed workers. For example, one interviewee told the following story:

*"As long as I didn't mention I was blind to a prospective client, getting work was pretty easy. But if I mentioned it people would not be interested. They would say 'we'll get back to you. Because I was self-employed I didn't have to reveal it. I could conceal it. But as soon as I disclosed it, work would stop".*

Female participant

Clearly, this is not an issue that is unique to or caused by self-employment – it is a societal wide problem. However, it may be something to consider when thinking about how to provide better protection for disabled self-employed workers as part of our ‘new deal’.

### **Chapter Three: How self-employment has changed the Modern British Economy**

In Chapter One we set out some conclusions about the composition of Britain's self-employed workforce and how it has grown over time. Meanwhile, in Chapter two we presented polling evidence and qualitative research into the experience of being self-employed in modern Britain. Both these chapters have identified the need to focus our 'new deal' upon improving economic security for self-employed workers, particularly for the "squeezed middle" class of the workforce and below. What we have so far taken as a given however is that encouraging self-employment is a desirable outcome for the modern economy. In part this is for the 'first principles' argument set out in our introduction: we believe in self-employment as a radical model for individual agency and control over individual working lives. That our polling evidence shows how self-employed workers are broadly happy with the arrangement, actively choose it and, by and large, would like to remain within it *despite* the clear challenges it faces with economic security, has only further encouraged this view.

Nevertheless, like all ideals in an imperfect world, this belief must also be constrained by reality. Yes, the state promotes, nudges and subsidises all manner of things to promote both social utility and individual liberty, but its ability to support both of these admirable objectives ultimately depends, on its ability to pay for them – especially in an era of straightened public finances. For that reason, the economic impact of broad policy outcomes – particularly those that respond to a structural labour market shift such as this – must always be fed into any policy development process. Policymakers are still perfectly at liberty to ignore them and proceed with economically questionable decisions – and, as perhaps recent political events show, often do. But the economic impact must still be taken into consideration and, as such, must be an integral consideration in our attempt to develop a 'new deal' for Britain's self-employed workforce.

Moreover, whilst almost nobody is denying the importance of the £255bn contribution that the self-employed make to Britain's GDP, it is also fair to say that those commentators who *are* uneasy about self-employment's *rise* usually express their concerns in economic terms. In particular, the following three broadly economic objections to encouraging self-employment have been advanced:

- That it could encourage labour market precarity;
- That it could be bad for Britain's already meagre productivity growth;
- That it creates an unfair fiscal gap through lower national insurance contributions.

In this chapter we assess these charges and conclude that all three raise significant challenges for advocates of encouraging self-employment. The arguments around productivity and precarity in particular strike to fundamental debates about Britain's economic model and must certainly be taken seriously. Equally, whilst suggesting that rising self-employment *causes* a fiscal black hole is simplistic – many new entrants to self-employed might not be employed at all



were it not for self-employment – there is a clear tax gap between the average revenue raised on a self-employed workers and employees. Nevertheless, whilst acknowledging these challenges, we also conclude that self-employment, as an integral component of our flexible labour market model brings far more benefits to the modern economy than it does negatives. Furthermore, that with better policy not only can many of these challenges be overcome, but also we can maximise these economic benefits and take a few, small, practical steps to Adam Smith’s ‘free radicals’ vision.

### The Precarity Challenge

Small steps, because for all the San Franciscan hyperbole about how a sharing economy can “democratise capitalism” – the foundations upon which the firm laid claim to the modern economy remain strong. Indeed, the “marketing costs” Ronald Coase first identified in his Nobel Prize winning essay, *The Nature of the Firm*, are just as important now as they were in 1937: the authority of management allows firms to avoid the transaction costs that might apply without such ‘coercive structures’.<sup>28</sup> Elizabeth Anderson’s critique of firms’ ‘private governments’ is, for all its democratic legitimacy, also in part an attack upon the source of firms’ raw economic power.

How then does self-employment increase overall wealth creation? Putting aside the self-employed who are also firm owners and employers – their relationship to wealth creation is clearer – the key is to look through the other end of the telescope and ask what value the self-employed add for firms. In 2012, Professor Andrew Burke of Trinity Business School Dublin identified nine key sources of economic value contractors such as this add to firms:

- They are sources of and conduits for innovation in both corporations and SMEs;
- They enable business to manage, in fact reduce, entrepreneurial risk and so promote innovation and enterprise;
- They liberate businesses from the limits of their internal resource base and enable the use of exceptional talent that would otherwise not be economically feasible to hire on employee contracts;
- They enable de-risking of some of the uncertainties of the market so that firms can reduce the risk of growing;
- They reduce the amount of finance required for innovation and business start-ups;
- They reduce barriers to market entry and reduce minimum efficient scale;
- They promote efficiency-driven economic performance
- They enable businesses to maximise performance across peaks and troughs in demand;
- They create jobs by increasing the level of innovation and efficiency in the economy and helping new products succeed.<sup>29</sup>

This may seem a firm-centred analysis of a self-employed labour market dominated by sole traders, but for the most part the analysis holds there too. For

example, imagine a high-end fashion boutique that specialises in selling a variety of mass-produced branded goods, then decides to commission its first own-brand clothing range. This is certainly an innovative, potentially growth boosting move, but also risky and uncertain one. A contract with a conventional firm may, due to lower transaction costs, be the cheapest way to produce the goods eventually – but perhaps not straight away on a small product run. Moreover, it's not at all clear that an expensive agency would be the best way to *design* a very small product range and nobody in the shop's current labour force – unless it was highly atypical – would have the skills to design the new products in-house, let alone manufacture them. Far cheaper and less risky, perhaps, would be to hire a freelance fashion designer on a short contract.

Millions of self-employed contracts are struck in this manner, thus helping SME and – at a much larger scale – big business efficiency in the way that Burke describes. This, for Burke, highlights how self-employment adds tremendous efficiency into the British economy and why, as we shift towards an economic model which is ever more organised around innovation and investment in 'intangible' goods, a strong self-employed labour force should enhance our economic clout. However, it also underlines something else that sometimes feels like it is lost in a debate that inevitably veers towards comparing self-employment with employment. Namely, that employers and freelancers often play a co-operative, mutually beneficial role in the economy, with the added value they each bring to a firm, or indeed an economy, often relying upon the other.

This is important to appreciate because in the political conversation it can all too easily be assumed that employees can just replace self-employed workers. In blunt terms, this is nonsense – close to making the lump of labour fallacy: for efficient, well-managed firms they should add completely different sources of value. However, when there is also a passionate and important policy debate about 'false self-employment' – with allegations that the self-employed employment status is being misused for arbitrage rather than value creation reasons – then it is perhaps not hard to understand how such a view begins to take hold. However, in a properly functioning modern economy, where rules on 'false self-employment' are correctly enforced, self-employed labour and employee labour should work together in exactly the virtuous circle Burke describes.

But do they? The evidence suggests, for the most part, they might. Or at least that one of Burke's central claims – that self-employed workers can help create employee jobs – can be sustained. Indeed, the main indication for this is surely Britain's record employment and labour participation rates – rising self-employment has emphatically not resulted in falling employment overall. Equally, research by Professor Andrew Henley of Aberystwyth University suggests that regional shifts towards self-employment correlate with good local growth conditions i.e. self-employment has grown even more strongly in areas where wages are higher, unemployment is lower and business activity is stronger.<sup>30</sup> Rather than Burke's virtuous circle per se – Henley suggests that this could be because inflows from unemployment or inactivity offset outflows from

self-employment to unemployment. ONS analysis tends to back this up, suggesting that self-employment inflows from inactivity grew particularly strongly during the post-crisis recovery, when growth conditions were improving.<sup>31</sup> However, each argument – Burke’s and Henley’s – represent a significant challenge to the idea still, despite the clear self-reported preferences of self-employed workers themselves, occasionally prevalent in the public conversation: that people were pushed towards self-employment because of a lack of desirable employment. It is also a significant challenge to the idea that encouraging self-employment might incentivise an economically insecure growth model. After all, if rising self-employment were the handmaiden of precarity, we might expect to see it either negatively affect employee employment levels or ‘prey’ upon areas of low employment growth. In other words, we would expect to see self-employment emerge as a precarious alternative in areas of high unemployment. This does not appear to have happened. In fact, as Chapter One outlines, the rise in British self-employment has been strongest in a group of workers who are almost defined by their *lack* of precarity.

This is not to suggest that rising economic insecurity is not a worrying feature of the UK labour market and a drag on our economic potential. Both of these are arguably true and our research has shown too that there is a fair amount of vulnerability within Britain’s self-employed workforce – the primary purpose of the ‘new deal’ for the self-employed should be to try and tackle it. This acknowledgment should not become however, an argument for an *a priori* assertion that rising self-employment equals increased precarity. This is wrong theoretically – it is perfectly possible to have high levels of self-employment alongside low levels of precarity, just as it is possible to have flexible labour markets with strong welfare states and policies that support economic security. More importantly however, it also appears to be a gross misreading of the best available evidence on rising UK self-employment.

It probably helps here to also reiterate the focus of this research. There are many components to the broad challenge of boosting the supply of high paid, high quality, flexible and secure jobs in the UK. There are also a number of policy issues where there are significant and valid concerns about rising precarity –for example the growth in agency work or the rise of zero hour contracts. Clearly, these are troubling for anybody concerned with social justice but it should also be clear that they are not relevant to an enquiry about self-employment. They and their impact should not therefore be elided with self-employment, just because their rise coincides. The exception to this is “false self-employment” and the use of self-employed contracts in place of employee ones for arbitrage reasons, whether inside or outside of the platform economy. We will set out policies that respond to this in the next chapter.

### The Productivity Challenge

The productivity based challenge to encouraging self-employment covers similar ground to the precarity-based one in that ultimately it is a critique of the UK’s

high levels of labour market flexibility. In short, the argument proceeds that our labour market is so flexible, with transactions costs for hiring so low, that this could now be disincentivising productive capital investment in favour of labour hoarding. This then could explain not only the UK's meagre productivity performance but also its exceptional labour participation one.

Now, in Professor Burke's ideal firm this would not happen – the efficiency savings generated by the (correctly deployed) self-employed workers would then be reinvested in high productivity innovation. Unfortunately however, this cycle involves several component parts that the evidence suggests British firms find particularly challenging – namely effective management and sound investment. The latter is perhaps better understood and easily measured – Britain has the lowest post-crash levels of private capital formation in the G7 and the second lowest in terms of public investment.<sup>32</sup> This shows that austerity extends to both the public and the private sectors, with the latter arguably the bigger barrier to raising productivity. However, poor management is also emerging as a significant component of our economy's productivity woes. Indeed, according to John van Reenen of the London School of Economics it may even account for half our productivity gap with top performers like the U.S.<sup>33</sup> Furthermore, research by the Bank of England shows that at a firm level, productivity dispersion is more unequal in Britain than in other developed countries.<sup>34</sup> In other words, we have more laggard firms bumping along the bottom of a productivity curve and a stronger cluster of super-productive high performers near the top. Perhaps even more interestingly, this 'long tail' distribution curve applies even when accounting for sectoral and regional variation – it is not a symptom of our well-documented structural regional inequality. Poor management therefore, would also seem to be a plausible explanation of at least part of our productivity performance.

But what does this mean for self-employment? Well, as Burke sketches out, unlocking the economic value created by self-employment requires the effective deployment of their skills, in partnership with employees. This clearly relies on good managers making effective contracting decisions about when and where to utilise that added value – to use it incorrectly (or to not use it) would be bad for productivity. Equally, even where self-employment is used effectively, good managers then need to use the added value it creates for productive and innovative purposes. If too much was then reinvested in labour rather than capital it might also add credence to the 'labour-hoarding' explanation of Britain's productivity problems.

In the big picture, it certainly seems hard to contest the idea that labour hoarding might be part of our productivity challenges. Corporate balance sheets are strong, wage growth stagnant, investment low, labour participation extremely high – all conditions one might expect to find if labour hoarding were holding back productivity. Whether self-employment in particular is playing an outsize role in this is more difficult to say. If the anecdotal evidence around 'false' self-employment can be supported – not to mention the use of ultra flexible employee labour for various arbitrage reasons – then that would represent an extremely unproductive use of labour. However, equally, as Burke shows,

theoretically self-employment can boost productivity and wealth creation in the right conditions. The challenge for policymakers therefore, surely, is to provide those right conditions.

This seems to us to represent the best approach. On one hand, the problems facing British labour productivity are so multifarious that it would be wrong to simplify this as a story only about the hoarding of 'low transaction' flexible labour. On the other, those problems are so entrenched, and the need to overcome them so urgent, that if the misuse of labour market flexibility – whether deliberate or through mere managerial incompetence – is a factor, then policymakers must respond accordingly. Yet even here we must not forget the absolute centrality of labour market flexibility to what Matthew Taylor, in his landmark report, called "the British way".<sup>35</sup> And, more importantly, that like all models this has tremendous advantages as well as flaws – just as we glance longingly towards high wage, high productivity labour market models, so too do others look to our high employment, high inclusion one. Self-employment, as the evidence from the ONS and Henley suggests, may have been crucial to this – particularly in the post-crash recovery.

This observation raises another point. Yes, raising productivity is inarguably one of Britain's biggest economic challenges, but even then we should not overly fetishize it. In the famous Paul Krugman quote that "productivity isn't everything, but in the long run it is almost everything" perhaps the most important word is almost.<sup>36</sup> As our research shows, for many people self-employment has become something of a *de facto* flexible work policy - the way that allows them to add more *social* value to their life. Indeed, many have been pushed towards choosing it by the inflexible "rigidity" of firms and the employee lifestyle. Some commentators might argue that this is less than ideal; that firms should become more democratic, flexible and inclusive organisations – we would agree. To suggest that a choice needs to be made between making employment more flexible and making self-employment more secure it to suggest a false choice – we need to pursue both. Nevertheless, a strategic approach to boosting flexibility and security in the labour market should also make a pragmatic assessment as to which of these might be the easier task. It is an open question, but we strongly suspect it could be the latter.

### The Fiscal Challenge

Thanks to Philip Hammond's ill-fated attempt to raise class four National Insurance contributions in the Spring Budget 2017, the idea that inexorably rising self-employment might have an impact upon the public finances is perhaps the most well known objection to further encouraging its growth. Arguably, Hammond was actually trying to free up some money to spend on a social care package, but he certainly framed his initial decision with an argument about the supposed unfairness of a tax gap between the self-employed and employees. According to Hammond, this gap amounts to roughly £5bn a year in national insurance contributions.<sup>37</sup>

The existence of this gap is incontrovertible – the only question is whether it is justified. For many commentators, apparently including Hammond, it is not. The argument proceeds that whilst there are still some notable differences in benefit entitlement and workers rights – sick pay, shared parental leave, working time protections etc. (see policy background section) – these are not substantial enough to justify the tax gap. According to the Institute for Fiscal Studies (IFS) citing HMRC research, in 2016/17 the National Insurance “subsidy” to the self-employed exceeds the value of their reduced benefit entitlement by £5.1bn net – equivalent to £1240 per person.<sup>38</sup>

This picture is complicated further by the advance of what the IFS call “company owner-managers”.<sup>39</sup> This label refers to the practice of solo self-employed workers incorporating as companies, instead of practicing as sole traders. Whilst this move brings with it a range of bureaucratic requirements not faced by the sole trader – creating and following articles of association, maintaining and filing accounts, more onerous governance and book-keeping regulations – for many people it is also more ‘tax-efficient’ i.e. less tax is paid to HMRC. The significant distinction is that revenue, costs and profits of the company are taxed differently to the earnings of the individual who owns and directs the company. In typical cases the company owner-manager might pay him or herself a very low salary, choosing instead to draw down profits as dividends. This incurs dividend tax, as well as other company taxes such as corporation tax and, where eligible, VAT. However, this is often offset by low or even no income tax and national insurance contributions.

Table two compares the relevant exchequer and pay differentials between three different workers – an employee, a solo self-employee and a company owner-manager – all of whom earn sixty thousand pounds in wages or profits for a given year. This is, to put it mildly, a simple model – there are all manners of other (perfectly legal) tax avoidance options available to company owner managers, which, for simplicity reasons, are not included here. Nevertheless, it is quite clear that the tax gap at this income level is stark for the exchequer – just over £8000 and £11000 between employees and solo self-employees or company owner-managers, respectively.

In our introduction to this report, we argued fiercely for encouraging self-employment at a first principles level. Equally, as Burke has outlined, there are clear economic advantages to encouraging self-employment, not least stimulating riskier, more entrepreneurial activities. Still, the truth is that most first principles have a price – and the price outlined in table two is too big. We still believe self-employment should be encouraged, for both pragmatic and principled reasons. However, it seems pretty clear to us – particularly in an era of such straightened public finances – that this is one challenge our new deal must not duck. In short, if we want to encourage further self-employment – which we do – then we are going to have to find a way of paying for it that is fairer to the British taxpayer.

	Employee	Solo Self-Employed	Company Owner Manager <sup>40</sup>
Gross income / profits received	£60,000	£60,000	£60,000
Wages drawn	£60,000	£60,000	£8,164
Income Tax	£12,700	£12,700	£0
Class 1 NI	£4,720	£0	£0
Class 2 NI	N/A	£148	N/A
Class 4 NI	N/A	£3,615	N/A
Employer NI	£7,153	N/A	N/A
Profits	N/A	£60,000	£51,836
Corporation tax	N/A	N/A	£9,849
Tax on dividends <sup>1</sup>	n/a	n/a	£3,738
Take Home Pay	£42,580	£43,537	£46,413
Tax received by government	£12,700	£12,700	£13,587
NI received by government	£11,874	£3,763	£0
Total revenue received by government	£24,574	£16,463	£13,587

Table Two, Demos modelling.

## **Chapter Four: A 'New Deal for the Self-Employed'**

In Chapters One to Three we drew some conclusions that help frame, constrain and focus our 'new deal'. In policy terms, the six relevant conclusions were:

- That the self-employed workforce, though extremely heterogeneous can for the most part be best understood as members of Britain's 'squeezed middle'.
- That the self-employed experience is, in very broad terms, a trade-off between flexibility and security.
- That an overwhelming majority of self-employed people understand this trade-off, prefer it and indeed actively choose it.
- That our new deal should therefore be focused in particular on boosting economic security for the 'squeezed middle' alongside more vulnerable, 'precarious' self-employed workers.
- That there are no overwhelming economic reasons why we should not encourage rising self-employment, as per our first principles.
- However, there *are* economic reasons - as well as social - for our new deal to respond directly to the challenges of labour market precarity, low productivity and the tax gap between employees and self-employed workers.

This chapter sets out the substance of our new deal, acknowledging these six points. It is divided into six sections, each responding to a different policy theme:

- Savings and Financial Inclusion;
- Tax
- Support for Vulnerable Self-Employed Workers;
- The Platform Economy
- Training and Learning;
- Working Conditions and Infrastructure.

### **Savings and Financial Inclusion**

Within the broader objective of delivering economic security for the self-employed, the biggest policy challenge, by far, concerns their astonishingly low levels of saving. The statistics do not make for pretty reading - according to 2015 research by the Citizens Advice Bureau only 17 per cent of self-employed workers – and just 13 per cent of self-employed women - participate in a pension scheme, compared to over 50 per cent for employees.<sup>41</sup> This is not even particularly a low-income problem – research by Aviva and Royal London this year suggested that even the highest paid self-employed workers only have a participation rate of 19 per cent (although this research put overall participation *even lower* at just 15 per cent).<sup>42</sup> In fact, even in the 60-64 age group - i.e. those



imminently approaching retirement age - the participation rate stands at a shocking 23 per cent.<sup>43</sup> Our polling completely corroborated these statistics – both retirement savings and the pensions system specifically, ranked in the top five issues the self-employed are concerned about. The unanimity of anxiety and worry this issued caused our focus groups cannot be understated, either.

The compulsory auto-enrolment of millions of workers onto private pension schemes is one of the more important redistributive policy successes of recent times. Indeed, throughout the course of this research, we did not speak to a single person - expert or in our focus groups - who would not, in an ideal world, like to see something like this replicated for the self-employed. The hurdles to it are well known, namely that self-employed workers would require the government to act as a 'de facto' employer and take on at least the operational burden, and ideally a fiscal one too in the form of contribution top-ups. This may also be perceived, particularly under the current tax framework, as being unfair to employees. Still, despite these hurdles, the Government pledged to introduce it as at least an available option (i.e. not necessarily topped up) in the 2017 Conservative Party General Election manifesto.<sup>44</sup>

For whatever reason, plans to take forward this proposal currently appear frozen in a state of inertia.<sup>45</sup> The Government should shake this torpor off and act – rapidly and radically. Our focus groups research suggested that self-employed workers would be prepared to trade-in some flexibility, some higher tax contributions and even some personal choice, for the convenience, peace of mind and security of a guaranteed pension scheme. We believe the need for this is overwhelming - the Government should step in as the 'de facto' employer and use the self-assessment process as the vehicle for an opt-out auto-enrolment scheme. More than that the Government should top-up contributions so that auto-enrolment for the self-employed is brought into line with compulsory employer contributions:

**Recommendation One:** *The Government should introduce an auto-enrolment scheme for the solo self-employers (but not 'Company owner-managers') by acting as their 'de facto' employer. Government contributions should match the April 2019 level of auto-enrolment contributions for employees - i.e. a 4 per cent contribution would be matched by a 4 per cent top up, equivalent to the 1 per cent tax relief, 3 per cent minimum employer contribution. This could be collected during the self-assessment process with the default being to opt-in in order to leverage 'lethargy' (although opting-out would still be communicated clearly as an option). Government contributions should be capped at the upper earnings limit - i.e. 4 per cent of £45,000 (£1800 a year).*

Whether a 'carousel' of different pension providers can be accommodated in this process or the Government should simply use the National Employment Savings Trust (NEST) could be consulted on, but total state contributions should be capped at no more than 4 per cent of the upper earnings threshold in order to focus this policy on the 'squeezed middle' and ensure that higher earners do not benefit 'twice' i.e. from reduced NICs beyond the upper earnings threshold. 'Company owner-managers' should also not be eligible. This may mean some

small entrepreneurs are disadvantaged but if they are employing people, then they should at least be the most familiar with the private pensions market. For the time being, this consideration is outweighed by the need to create a disincentive that encourages solo self-employed workers not to incorporate.

Research by the Tax-Incentivised Savings Association (TISA) has put the cost of a similar scheme at around £786m a year – though our version is slightly different and marginally more generous.<sup>46</sup> Either way, we believe this cost can easily be met by other proposals in our ‘new deal’, specifically the new ‘engagers tax’ (see recommendation 14).

Another pressing issue is self-employed access to the state pension and the fact that an unintended consequence of the abolition of class 2 NICs has resulted in a situation where the poorest self-employed workers must now contribute more in order to retain access to the pension. Indeed, this problem has already pushed back the abolition of class 2 NICs one year. The Government must move quickly to iron out this issue and bring eligibility into line with the old class 2 threshold:

**Recommendation 2:** *The Government should reduce the amount of tax contributions self-employed workers need to contribute in order to be eligible for the state pension so that it falls line with the old class 2 National Insurance Contribution (NICs) threshold.*

Many of the ‘economic security’ problems surrounding the self-employed experience have their root in the irregular income patterns that are part and parcel of self-employed life. This concern topped our polling survey and was a persistent theme throughout our focus groups. One specific problem that emerges from this broader challenge is that some common financial service products – for example, mortgages - are often only available to self-employed workers on disadvantageous terms when compared with salaried employees. Equally, income protection schemes are not widely attractive because the levels of self-selection (i.e. consumers who are likely to need the product make up too high a proportion of those who take a scheme out) are too high to allow for favourable and profitable terms. This is particularly regrettable for self-employed workers, who, without employee-based sick leave protections, would benefit strongly from a more developed market.

Sparked in part by new EU legislation (Payment Services Directive 2 in particular) the next few years are expected to see a range of innovative new ‘fintech’ providers enter the retail financial services market. In theory these new providers could look afresh at this problem and more technological know-how. The Government should therefore use its convening power to invite new fintech providers to find innovative solutions in both these areas:

**Recommendation 3:** *The Government should convene regular ‘hackathons’ with the Fintech community to help develop dedicated financial products that can promote good saving behaviour, better credit assessment and new ways to manage irregular income patterns, specifically tailored for self-employed workers.*

***Recommendation 4:*** *The Government should work with financial service providers to look at the possibility of collectivising income protection schemes to make them more financially viable and accessible for self-employed workers.*

However, in the absence of market-led solutions, the Government should also look to reform its primary state-subsidised savings product, the Lifetime ISA, so that it works better for self-employed workers:

***Recommendation 5:*** *The Government should allow self-employed workers to withdraw one year's worth of Lifetime ISA contributions (i.e. £4000) penalty-free. No cap should be placed on the number of times this can be done up to the £4000 limit, but self-employed savers will lose the bonus if the amount withdrawn is not returned within three years of withdrawal.*

This policy would increase the Lifetime ISA's flexibility for self-employed workers, allowing them to access lump cash sums of their own savings to help in times of ill-health or cash-flow crises. It may also increase good saving behaviour for self-employed workers more generally because a pervasive fear of such crises can discourage self-employed workers from using more inflexible savings products such as pensions and indeed the Lifetime ISA, in the first place. Moves to increase flexibility are also currently being trailed by NEST, which has developed a 'sidecar' model that would place a percentage of (employee) auto-enrolment contributions into a so-called 'liquid' option, typically a conventional savings account. In a world where self-employed workers too are benefiting from auto-enrolment, this would be a very attractive model for the self-employed:

***Recommendation 6:*** *Once an auto-enrolment option for solo self-employed workers is established, the Government should explore the possibility of making up to two years of payments accessible for self-employed workers, based on the NEST 'sidecar' model.*

### The Taylor Report and the Platform Economy

Of course, in the shape of Matthew Taylor's landmark report the Government has already commissioned a thorough review of the British labour market focused, to a large extent, on boosting economic security. The report made fifty-three recommendations and the Government's recent response endorses the vast majority, albeit most frequently by commissioning further consultation.<sup>47</sup>

The Taylor Review looks at modern working practices across the full breadth of the labour market and therefore much of it has only passing relevance to the self-employed. It also, quite reasonably, focuses the lion share of its attention on those workers most vulnerable to exploitation, meaning that its primary policy interest in self-employment concerns 'false' self-employment and how to prevent it. For this reason, it is a particularly helpful resource for ensuring our 'new deal' responds to the economic and social challenges posed by insecurity – or “one

way flexibility” as Taylor puts it – and we endorse the following explicit or implicit, recommendations:

***Recommendation 7:*** *As part of the review of employment legislation being taken forward as part of the Taylor review of modern working practices, the Government should legislate for a statutory definition of self-employment. This will help crackdown on ‘false self-employment’ and exploitation.*

***Recommendation 8:*** *As the Taylor review recommends, the Government should develop an accessible, online ‘employment status calculator’ to make sure there is an easy way for all workers to understand their rights and responsibilities.*

The first of these recommendations - a statutory definition of self-employment - is particularly important. As many commentators have noted, the British labour market is currently being redefined in the courts. This is not a tenable situation – the Government must urgently bring forward a legislation to provide a stronger legal footing for all employment categories. Like Taylor, we believe that if possible the new self-employed status should formalise the idea that dependence, autonomy and control over your own work are essential to the self-employed experience. But however it is defined, it is clearly an essential tool in tackling ‘false’ self-employment and thus fighting exploitation.

The Taylor report also seeks to beef up the role of the new Director of Labour Market Enforcement. This is important and right – even the best policy framework is relatively useless without enforcement. However, we wonder if this new role could be augmented further with more wide-ranging inspection powers, a little akin to the schools inspectorate, Ofsted:

***Recommendation 9:*** *The Government should ensure the new Director of Labour Market Enforcement (LME) is equipped with a powerful investigative team and has the power to conduct workplace inspections in the manner of Ofsted, boosting the LMEs funding and legislating to that effect where necessary. This will help crackdown on ‘false’ self-employment. The Director of Labour Market Enforcement should also be responsible for holding the government to account on delivering its promises on ‘good work’, reporting annually on progress, with a dedicated focus on ‘good self-employment’.*

We also support the broad thrust of the Taylor Report on the importance of ‘workertech’ solutions to employee voice and collective bargaining. We find it heartening that the rise of gig work, the platform economy and indeed self-employment itself is beginning to stimulate new models of pooling collective and cooperative power. The Freelancers Union in the United States now numbers over 350,000 members – and we would hope that with time and patience, initiatives such as Community Union’s IndyCube could reach a similar scale. This bottom-up approach to creating both upward pressure for better pay, conditions and ancillary services and in some cases actually developing services for self-employed workers themselves, is absolutely central to the task of boosting economic security for the self-employed. The Government should once again use

its convening power effectively and also explore ways to seed-fund new solutions:

***Recommendation 10:*** *The Government should create a dedicated ‘workertech’ innovation fund that will invest in civil society organisations committed to new models of collective voice and bargaining relevant to the platform economy.*

However, it is also quite clear that the Government must regulate the platform economy more firmly and effectively. The first step would be to conduct a thorough review of restrictive practices within the platform economy – anecdotally at least, there are allegations of some extraordinary behaviour: unfair dismissals, gender discrimination, the banning of free association and union recognition.<sup>48</sup> One step that should be progressed immediately is to legislate to ensure that the consumer ratings platform workers build up on one platform are easily transferred to another – for example, transferring a Lyft rating to Uber. Not allowing this, at least in the case of platform workers who *freely choose* a self-employed arrangement, is a restrictive labour practice that prevents labour market competition and should be outlawed:

***Recommendation 11:*** *The Government should conduct a review of restrictive working practices within the platform economy and take steps to eradicate them, beginning by bringing forward legislation to ensure that self-employed platform workers’ consumer ratings are portable and can be transferred to other platforms.*

Yet by some distance the most fundamental sticking point in regulating the platform economy concerns the national minimum wage. At the time of writing, the tribunal ruling that Uber drivers should be classified as workers and not self-employed still stands, meaning that all Uber drivers are eligible for the minimum wage. The Taylor Review responds to this with the suggestion that Uber drivers should be paid under the ‘piece work’ minimum wage legislation, meaning that workers would be paid ‘per piece’ (in this case, per journey) but with some ‘fair rate’ protections. The Gov.Uk website gives the following example in order to explain the regulations:

*“Workers are paid for each shirt they make. They can produce on average 12 shirts per hour. This number is divided by 1.2 to make 10. Andy is 25 and is eligible for the living wage rate of £7.50. This means he must be paid at least 75p per shirt he makes (£7.50 divided by 10).”<sup>49</sup>*

So in theory, Uber workers could be paid per ride, so long as a fair estimation was provided of the average number of rides conducted an hour.

Now, there is no disputing the fact that the piece rate national minimum wage regulations are very arcane and complex. They are however, also legal and like Taylor, we instinctively feel like this could be an appropriate model for the ‘platform economy’. We suspect it is fair to make a distinction between platforms like Uber, where immediacy and flexibility are adding an innovative new customer service, and arrangements such as Pimlico Plumbers which some have argued are more clearly about arbitrage. However, either way, it is

probably right that policy in this area is currently being decided by courts – we make no judgement either way. That said, it seems to us that as the platform economy develops, a systemic approach for protecting workers and the integrity of the minimum wage might require more intervention points – particularly as business models adapt to the latest court rulings. For that reason, we believe the Government should also carefully consider developing a licencing regime for operating in the platform economy:

***Recommendation 12:*** *The Government should consider drawing up a legal definition of ‘platform work’ and issue licenses to operate in the platform economy contingent on each platform submitting deliverable mechanisms for ensuring the national minimum wage (NMW) is paid to its workers – and that each platform does not discriminate between different employment statuses (e.g. by deploying an algorithm choosing employee labour over self-employed labour and vice-versa. The NMW mechanisms should be published on a Government website to ensure transparency and accountability, with the LME monitoring enforcement.*

The Taylor report primarily focused on employment legislation and a general labour market framework– its discussion of benefits and entitlements was rooted firmly in the present. However, the Government should also look towards the long-term: what might a welfare state look like if – and it is only if at this stage – the platform economy really takes off? One idea that has been discussed at great length - finding favour even with Mark Zuckerberg – is the idea of a universal basic income. This is not the time or place to debate that in depth, but we would be suspicious that, as with universal credit, problems might arise out of simplifying a necessarily complex system like the welfare state. An alternative, advanced by David Rolf, an American labour activist, and Nick Hanauer, a tech entrepreneur, would be to develop something they have called “Shared Social Security”.<sup>50</sup> This model might be loosely understood as a UNI - universal national insurance – scheme, where all employers, including and especially those operating in the platform economy, make a fractional contribution per hour to an individual’s ‘social security account’. These entitlements are then build up over time and become completely portable, tracking the citizen throughout their working lives. Furthermore, in theory, this pot can then be accessed at any time, enhancing flexibility. And whilst extra entitlements would need to be ‘bolted-on’ to the basic social security account in order to ensure this model was progressive (i.e. not *entirely* contributory) it is certainly an interesting and radical model to explore. We believe the Government should do just that:

***Recommendation 13:*** *The Government should commission a report on Nick Hanauer and David Rolf’s “Shared Social Security” model as a long-term vision for the welfare state in the modern economy.*

## Tax

In fact, to some extent Rolf and Hanauer’s vision has influenced our ‘new deal’ proposals on tax. For it is the lack of employer national insurance contributions that is, simultaneously, behind the lack of funding for self-employed auto-

enrolment and the tax gap between self-employed workers and employees. Of course, at least in terms of some of the fiscal impact, Philip Hammond infamously attempted to address this by raising Class 4 National Insurance Contributions (NICs) in the Spring 2017 budget. To say the proposal blew up in his face is to put it mildly – there was a swift u-turn and the Government has now made it clear it will not revisit the issue even though, as it astonishingly implied in its response to the Taylor Review, it still thought it was right in principle!<sup>51</sup>

The Government are right not to revisit it. There is a view, still fashionable in some Westminster circles, that the political furore was driven chiefly by the fact the Government were reneging on a 2015 manifesto commitment. Perhaps that is right, but we would not recommend, politically or in policy terms, testing that theory by raising taxes on people who could be earning as little as £8,424 a year, once again. Irrespective of the impact of Class 2 abolition, a tax rise so low down the income spectrum is always likely to look politically punitive – and, as our research has shown, there are a relatively large number of self-employed workers on low earnings. Indeed, the income distribution curves are strongly clustered towards the low end of the Class 4 eligibility threshold – as ONS data makes clear.<sup>52</sup>

The other point of contention was the manner in which Hammond framed the issue as needing to be fair to employees, thus presenting the tax gap as a massive state subsidy for self-employment. Perhaps this is how it looks in an actuarial sense – but self-employed workers certainly see very little of it in their take home pay! Indeed, even now the way the issue is discussed tends to be presented it as if self-employed workers should bear the risk for the lack of employer contributions, ignoring the fact that the tax gap between self-employed workers and employees in terms of actual take home, bankable pay is much more modest. Yes, our example in Chapter Three showed an annual tax gap of £1105 based on non-employer national insurance contributions alone (after class 2 are abolished). This is not insignificant but it is also in lieu of a range of benefits that boost economic security, not to mention employer pension contributions. At the far more common salary/profit levels of £15000 a year, this gap is much slimmer too – just £205 a year – which to us seems a reasonable price to pay for the added risk and economic value self-employed workers take on and create.

Either way, it cannot be denied that the overwhelming majority of the tax gap is created by the lack of *employer* national insurance contributions. It is also, almost certainly, the main incentive for of arbitrage-driven ‘false’ self-employment. Therefore, we believe that tax measures which seek to improve the fiscal consequences of rising self-employment should, rather than further reduce the take home profits of ‘just about managing’ self-employed workers, try to create an equivalent system of employer contributions:

***Recommendation 14:*** *The Government should introduce a new ‘engagers tax’. This would initially be levied at 2.5% on a given firm’s annual expenditure on contracted self-employed labour, rising to 5% in 2021 and 7.5 per cent by the end of the Parliament.*

To be sure, it would not be easy to implement such a tax, though the widespread use of VAT costs in contracting gives us hope that it might not be too onerous for businesses or difficult for HMRC. It might, in theory, also disincentive some forms of self-employment and related economic activity – and could create downward pressure on self-employed wages, if companies merely passed on the tax. These effects would all have to be monitored carefully by the government, which is why we have suggested a phased rollout. However, on the other hand we suspect it might also encourage more appropriate management decisions about self-employment and perhaps, in the long-run, even contribute to boosting productivity. Not only that, given that largest component of the £5bn a year tax gap is the lack of employers national insurances, it does not seem unreasonable to hope that such an ‘engagers tax’ could pay for all the policy recommendations in this report, if not begin to return money to the exchequer.

We would also consider one other tax rise – which we support for reasons quite apart from anything to do with self-employment:

***Recommendation 15:*** *The Government should cancel the planned Corporation tax reductions, re-raising it Tax to 20 per cent.*

One suspects that this would not impact enormously upon the trend towards incorporation, but it should also be pointed out that it would, very marginally, reduce the differential with solo self-employment. Certainly, it would prevent the differential increasing any further as is currently proposed.

Other than a slight increase in Corporation Tax and a new Engagers Tax however, we would encourage the Government to rule out any other planned tax rises on the self-employed. This would, in effect, mean that no new taxes are directly raised upon solo self-employed workers – only upon companies that use them and self-employed workers who incorporate:

***Recommendation 16:*** *The Government should make it clear that no new taxes will be raised on solo self-employed workers for the duration of this Parliament.*

In this spirit of tax stability and – hopefully – less stressful future budgets for self-employed workers, the Government should also rule out extending the move to make public bodies responsible for enforcement of IR35 legislation to the private sector for the time being. The impact of the move in the public sector requires more data on the behavioural effects before the far more ambitious task of enforcing this in the private sector is taken on:

***Recommendation 17:*** *The move to make public bodies responsible for enforcement of IR35 legislation should not be repeated with the private sector until a thorough investigation of the economic and behavioural impact of the public sector move has been carried out.*



## Training and Education

Another policy challenge identified by our focus group is the lack of assistance self-employed workers are given to support training and development. A long-standing issue here is that for self-employed workers, tax relief on training is only available if they are re-training. Investing in and developing new skills, on the other hand, is not eligible. This is not the same as the employee regime, where both types of training are tax deductible. In theory this is supposed to recognise the fact that employers bear the added risk that they can train workers who might move on. In practice, it is nonsensical distinction that aggravates a clear policy problem when it is considered that self-employed workers already receive less training than employees:

***Recommendation 18:*** *The Government should extend self-employed tax relief on training to investment in new skills, expertise and professional development, as well as for updating.*

A frequent complaint in our focus groups was also that the education system – and indeed wider culture – does not necessarily understand the realities of self-employment. Given the increasing size of the self-employed workforce this seems both perverse and untenable. We recommend two policies to address that:

***Recommendation 19:*** *The Government should outline a training plan to ensure that every Jobcentre Plus has at least one dedicated self-employment specialist. All future training of Jobcentre Plus Work Coaches should also include an appropriate focus on understanding self-employment.*

***Recommendation 20:*** *The Government should ask the Careers Enterprise Company to develop a strategy to improve the understanding of self-employment in schools, colleges and universities.*

Equally, another persistent attitude expressed in our focus groups was that self-employed workers do not receive much advice about the realities of the self-employed experience when first starting out. The Princes Trust scheme for young entrepreneurs was singled out for praise and we would encourage the government to explore whether there are civil society partners who could take a similar approach for older entrepreneurs who are just starting out. Certainly, we agree that personalised mentoring represent the best form of service delivery for this challenge. However, the history of national programmes that operate at the intersection between the labour market and the education system are, to say the least, patchy. This leads us to question whether there is sufficient capacity to deliver a national mentoring service for the self-employed as some commentators have suggested, particularly as, outside of those eligible for universal credit, there is no singular process or ‘touch point’ where we can be sure to reach the target group in the way that, for example, self-assessment provides for tax interventions. Instead, for the time being we believe that as well as encouraging civil society to step up, Government should focus on small nudges to existing policy:

**Recommendation 21:** *The Government should fund an expansion of the Mentorsme.co.uk business-mentoring network so that it includes a dedicated mentoring network for new self-employed entrepreneurs. This should then be publicised widely.*

**Recommendation 22:** *The Government should reform membership requirements of LEPs so that there is at least one self-employed member sitting on every LEP. The Government should then encourage LEPs to ensure there is adequate mentoring provision for self-employed workers within their local areas.*

### Working conditions and infrastructure

Loneliness and social isolation did not come up regularly in our focus groups. They were however, occasionally mentioned by disabled self-employed workers with disabilities as part of our more targeted interviews and also registered towards the lower end of polling concerns with 21 per cent net concern. For us, such considerations are an important part of security – even when the self-employed talk about security in terms of economic issues, the psychological aspects of their lifestyle are never too far away from the way those challenges are framed. For that reason, as in our previous research on self-employment, we believe that Government should encourage the spread of co-working hubs across Britain.<sup>53</sup> Given that there is some research evidence in America that suggests that higher rates of self-employment are associated with significant increases in comes, employment growth and reductions in poverty in non-metropolitan areas, there could also be some synergy with place-based inclusive growth policies.<sup>54</sup> Our 2017 *Good Cities Index* found that business activity was particularly weak in the Government's new Opportunity Areas so the Government should give the relevant local authorities the freedom to relax business rates for co-working hubs as part of that strategy:

**Recommendation 23:** *The Government should relax business rates relief for co-working hubs but only in targeted areas, where business start-ups are low. We would suggest Opportunity Zones as a good starting point.*

It goes without saying too, that fulfilling the extant promises on full-fibre broadband would also improve the support infrastructure for self-employed workers.

Recent research by IPSE and the trade union, Community, has also flagged up the “Freelancing isn’t Free Act” passed last year by New York City mayor Bill de Blasio.<sup>55</sup> This Act strengthens the rights of solo-self employed freelancers by enshrining basic contract standards in law, thus granting a stronger legal footing for their right to redress. The Government should do the same here – but they should also look at introducing an *in extremis* system of compensation larger firms (i.e. not SMEs) who are responsible for late payments. Late payments are a growing problem across British business – but given the lack of savings and liquidity already mentioned, they are a particularly acute one for self-employed workers. Cracking down on this would therefore, significantly assist our ability

to deliver greater economic security to the self-employed ‘squeezed middle’. We are attracted to a model which, as well as compensating the small business, also levied payments to the state. This money could then, over time, perhaps be hypothecated towards funding, alongside government underwriting, a microfinance ‘crisis loan’ system for self-employed and SMEs who can demonstrate cash flow problems emerging from late payments:

***Recommendation 24:*** *The Government should legislate to grant solo self-employed workers the right to a written contract, timely payment and freedom from retaliation.*

***Recommendation 25:*** *The Government should strengthen the Prompt Payment Code further, specifying that payment terms should not exceed 30 days. The Small Business Commissioner should be equipped with the power to levy fines on large businesses that fail to comply with agreed 30-day payment terms. As well as compensating the business affected, over time these fines could help fund (alongside Government capital underwriting) a micro-finance ‘crisis loans’ system for self-employed workers and SMEs facing hardship due to late payments.*

### Support for Vulnerable Self-Employed Workers

However, if we were to suggest the policy area that is in need of the most urgent attention from Government it is the way the rollout of Universal Credit interacts with self-employment. There is no understating this: this is a crisis in the making and, what is worse, one that the Government has been repeatedly warned about by think-tanks, academics, trade unions and other civil society representatives.

Most of the problems surround the implementation of a ‘Minimum Income Floor’ (MIF) that, for most workers including the self-employed, will be set at the full-time rate of the national minimum wage. What this means in practice is that any self-employed worker earning less than the national minimum wage – which as Chapter One shows is a sizeable number – would receive the same universal credit income as someone who was earning it: whether somebody earned £4,000, £8000, or £12,000, the credit would be the same, right up to £13,650.

Clearly, this is punitive to the poorest self-employed workers, but alas it is not the only flaw. Another problem is the interaction between Universal Credit’s requirement that income must be reported monthly and self-employment’s irregular income patterns. In short, because of the MIF, if a self-employed worker had a particularly bad month, their Universal Credit entitlement would not reflect that fact but if they had a good month then they would lose their entitlements. Of course, such irregular income flows are a fundamental characteristic of the self-employed experience, which means that poorer self-employed workers stand to lose out significantly compared to employees, as modelling from the RSA has demonstrated powerfully<sup>56</sup>:

Person	Circumstances	Annual UC Entitlement
Mary	Earns £15k a year in regular monthly payments. Single person household, no children, rent £150 a week.	£3513
Jill	Earns 15k a year in irregular monthly payments – alternating between £1650 one month, £850 the next. Same household conditions as Mary.	£2504

We believe the Government needs to comprehensively reform Universal Credit so that it works for the self-employed. This will, necessarily, involve more flexible, generous terms and, as such, will cost more. At a broader level, we would also argue the success of the entire Universal Credit scheme depends on a more generous funding settlement. However, for the purposes of this report, we are confident that our ‘new deal’ is fiscally positive, let alone neutral and therefore, urge the Government to implement the following reforms:

***Recommendation 26:*** *The Government should comprehensively reform how Universal Credit works for self-employed workers. The Minimum Income Floor exemption should be extended from one year to three years, dependent on an annual ‘gainful employment’ interview within that period. New Enterprise Allowance advisors should conduct these interviews until ‘Work Coaches’ have been sufficiently retrained to understand self-employment. After years one and two, this interview should assess the annually submitted accounts, with the monthly Universal Credit income then set for the whole of the following year. This will be paid each month, irrespective of the self-employed workers actual income, with any extra income being clawed back only at the end of the year at the next interview. This process should continue until year three and the implementation of the Minimum Income Floor.*

In this package, we draw heavily on work already done by the RSA – particularly on identifying the potential capabilities deficit at the ‘gainful employment’ interview stage – and the Chartered Institute of Taxation.<sup>57</sup> Our package is marginally more generous, both in terms of fixing entitlements annually (rather than quarterly) and extending the Minimum Income Floor exemption to three years (not two). However, in general we merely add our voice to the chorus that calls on the Government to respond to this issue quickly, lest they risk yet another Universal Credit crisis.

The other clear issue of injustice and economic security within the benefit entitlements system is the total lack of paternity pay for self-employed fathers. For us, this is difficult to fathom and appears to be an entirely unjustifiable inequality between employed and self-employed fathers, particularly as the Government has taken steps to set up a self-employed maternity allowance (albeit on less advantageous terms when compared with statutory maternity pay). Not only that, but because of the lack of a paternity entitlement, self-employed workers are currently locked out from accessing shared paternity leave. This is a particularly frustrating oversight because there is a great deal of evidence to suggest that the extra flexibility this model would provide for young self-employed mothers to do some work whilst accessing maternity allowance, would be particularly beneficial:

**Recommendation 27:** *Maternity allowance should be boosted so that it falls into line with statutory maternity pay. The Government should then introduce a Paternity Allowance for self-employed workers that is equal in worth to statutory paternity pay. This, as with maternity allowance, should come directly from the Government. Shared Parental Leave rights should be extended to self-employed workers as a matter of urgency.*

Finally, our interviews with disabled self-employed workers uncovered worrying evidence of discrimination. Of course this is not an issue about self-employed workers per se, but after hearing the shocking testimony in some of those interviews, we feel it would be remiss not to flag this up as a policy recommendation. There are a few security issues more important to uphold than the protection from unfair discrimination, after all. Efforts to tackle discrimination should also go hand in hand with better data collection and ensuring that moves to improve the Access to Work scheme also benefit disabled self-employed workers:

**Recommendation 28:** *The Government and UK public statistic authorities should make data on the interaction between self-employment and disabled employment more readily available, collecting it more frequently if necessary.*

**Recommendation 29:** *The Government must ensure that the “significant enhancement” of the Access to Work scheme promised in November 2017 takes account of the unique challenges of being disabled and self-employed. In particular, the proposed trials of “managed personal budgets” should include a robust level of self-employed participants.*

**Recommendation 30:** *The Government should immediately review disability discrimination legislation and work with the Equality and Human Rights Commission to find ways of making it easier to bring discrimination cases. They should also look to introduce an additional level to the Disability Confident employers scheme that encourages larger employers to ensure that both their procurement processes and their broader supply chains are disability inclusive. This should help encourage a fairer contracting process for disabled self-employed workers throughout the supply chain.*

## Notes

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<sup>1</sup> Adam Smith, *Wealth of Nations* (Ware, Wordsworth Editions, 2012).

<sup>2</sup> Elizabeth Anderson, *Private Government: how employers rule our lives and why we don't talk about it* (Princeton, Princeton University Press, 2017).

<sup>3</sup> Ibid.

<sup>4</sup> Ibid.

<sup>5</sup> Demos focus group, male participant, Leeds, 7 December 2017,

<sup>6</sup> ONS, *UK Labour Market: January 2018*, Office of National Statistics, 2018, <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/january2018> (accessed 14 February 2018)

<sup>7</sup> ONS, *Trends in self-employment in the UK: 2001 to 2015*, Office of National Statistics, 2016, <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/trendsinselfemploymentintheuk/2001to2015> (accessed 14 February 2018)

<sup>8</sup> Demos analysis.

<sup>9</sup> James Manyika et al, *Independent Work: choice, necessity and the gig economy*, McKinseys Global Institute, 2016, <https://www.mckinsey.com/global-themes/employment-and-growth/independent-work-choice-necessity-and-the-gig-economy> (accessed 14 February 2018)

<sup>10</sup> CIPD, *To Gig or not to Gig: stories from the modern economy*, CIPD, 2017, <https://www.cipd.co.uk/knowledge/work/trends/gig-economy-report> (accessed 14 February 2018)

<sup>11</sup> Statista, *Employment by Occupation UK, 2017*, Office of National Statistics, 2017, <https://www.statista.com/statistics/318404/united-kingdom-self-employed-type-of-work-minor-occupational-groups/> (accessed 14 February 2018)

<sup>12</sup> Daniel Tomlinson and Adam Corlett, *A Tough Gig? The nature of self-employment in the 21<sup>st</sup> century and the policy implications* (London, Resolution Foundation, 2017).

<sup>13</sup> Ibid in particular.

<sup>14</sup> ONS, *UK Labour Market: January 2018* (accessed 14 February 2018)

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<sup>15</sup> Matthew Williams et al, *The True Diversity of Self-Employment*, (London, Centre for Research on Self-Employment, 2017).

<sup>16</sup> Ibid.

<sup>17</sup> ONS, *Trends in Self-Employment in the UK: 2001 – 2015* (London, Office of National Statistics, 2016).

<sup>18</sup> Matthew Williams et al, *The True Diversity of Self-Employment*.

<sup>19</sup> ONS, *Trends in self-employment in the UK* (London, Office of National Statistics, 2018).

<sup>20</sup> OECD Data, *Self-Employment Rate*, OECD, 2017  
<https://data.oecd.org/emp/self-employment-rate.htm> (accessed 14 February 2018)

<sup>21</sup> ONS, *Trends in self-employment in the UK* (2018).

<sup>22</sup> Matthew Taylor, *Good Work: the Taylor Review of Modern Working Practices* (London, Department for Business, Energy and Industrial Strategy, 2017).

<sup>23</sup> ONS, *Trends in Self-Employment in the UK: 2001 – 2015*.

<sup>24</sup> Martin Binder and Alex Coad, "Life Satisfaction and Self-Employment: A matching approach", *Small Business Economics*, Vol 40, Issue 4, 2013.

<sup>25</sup> Matthew Williams et al, *The True Diversity of Self-Employment*.

<sup>26</sup> Conor D'arcy, "Is Self-Employment Taylor-made for people with disabilities"  
[www.resolutionfoundation.org](http://www.resolutionfoundation.org) (accessed 14 February 2018)

<sup>27</sup> ONS, *Trends in Self-Employment in the UK: 2001 – 2015*

<sup>28</sup> RH Coase, "The Nature of the Firm", *Economica*, Vol 4, No 16, 1937,

<sup>29</sup> Andrew Burke, *The Role of Freelancers in the 21<sup>st</sup> Century British Economy* (London, PCG, 2012).

<sup>30</sup> Andrew Henley, "The post-crisis growth in the self-employed: volunteers or reluctant recruits?" *IZA Discussion Paper* No 9232 2015.

<sup>31</sup> ONS, *Trends in Self-Employment in the UK: 2001 – 2015*

<sup>32</sup> ONS, *An International Comparison of Gross Fixed Capital Formation* (London, Office of National Statistics, 2017)

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<sup>33</sup> Joao Paulo Pessoa and John Van Reenen, “The UK Productivity and Jobs Puzzle: does the answer lie in Labour Market Flexibility”, *Centre for Economic Performance Special Paper* No 31, 2013

<sup>34</sup> Andy Haldane, “Productivity Puzzles”  
<https://www.bankofengland.co.uk/speech/2017/productivity-puzzles>  
 (accessed 14 February 2018)

<sup>35</sup> Matthew Taylor, *Good Work*.

<sup>36</sup> Paul Krugman, *The Age of Diminished Expectations: US Economic Policy in the 1990s* (Boston, MIT University Press, 1997).

<sup>37</sup> *House of Commons Debates*, 8 March 2017, vol 622, col 814

<sup>38</sup> Stuart Adam, Helen Miller and Thomas Pope, *Tax, Legal Form and the Gig Economy* (London, Institute of Fiscal Studies, 2017).

<sup>39</sup> Ibid

<sup>40</sup> In this modelling the Company Owner-Manager pays him or herself a wage up to the Class 1 National Insurance threshold and then draws down the rest of their earnings in dividend payments)

<sup>41</sup> Adam Timson, *Who are the Self-Employed* (London, New Policy Institute for the Citizens Advice Bureau, 2015).

<sup>42</sup> Royal London/Aviva, *Solving the under-saving problem among the self-employed* (London, Royal London/Aviva, 2017).

<sup>43</sup> Ibid.

<sup>44</sup> The Conservative Party Manifesto 2017.  
<https://www.conservatives.com/manifesto> (accessed 14 February 2018)

<sup>45</sup> *Observer*, 17 December 2017.

<sup>46</sup> TISA, ‘Self-Employed Workers need solutions to retirement savings’  
[http://www.tisa.uk.com/releases.html?release\\_id=671](http://www.tisa.uk.com/releases.html?release_id=671) (accessed 14 February 2018).

<sup>47</sup> BEIS, *Good Work: A response to Taylor Review of Modern Working Practices* (London, Department for Business, Energy and Industrial Strategy, 2018).

<sup>48</sup> For example: <http://www.bbc.co.uk/news/business-41980922> (accessed 14 February 2018)



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<sup>49</sup> <https://www.gov.uk/minimum-wage-different-types-work/paid-per-task-or-piece-of-work-done> (accessed 14 February 2018)

<sup>50</sup> Nick Hanauer and David Rolf, 'Shared Security, Shared Growth' <https://democracyjournal.org/magazine/37/shared-security-shared-growth/> (accessed 14 February 2018)

<sup>51</sup> BEIS, *Good Work*, pp64-64

<sup>52</sup> ONS, *Trends in Self-Employment in the UK: 2001 – 2015*

<sup>53</sup> Duncan O'Leary, *Going it Alone* (London, Demos, 2014).

<sup>54</sup> Anil Rupasingha and Stephan J. Goetz, "Self-Employment and local economic performance: evidence from US counties", *Papers in Regional Science*, Vol 92, Issue 1, 2011.

<sup>55</sup> IPSE/Community, *Under Pressure: Enabling the vulnerable self-employed to break free* (London, IPSE, 2017).

<sup>56</sup> Benedict Dellot, 'Universal Credit will be a disaster for the Self-Employed' <https://www.thersa.org/discover/publications-and-articles/rsa-blogs/2017/10/universal-credit-will-be-a-disaster-for-the-self-employed.-who-is-listening> (accessed 14 February 2018)

<sup>57</sup> Low Incomes Tax Reform Group, *"Self-employed claimants of Universal Credit – lifting the burden"*, 2017 <https://www.litr.org.uk/sites/default/files/Self%20Employment%20report%20FINAL%20for%20release.pdf> (accessed 14 February 2017)

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