COVID-19 and self-employment ten months into the crisis

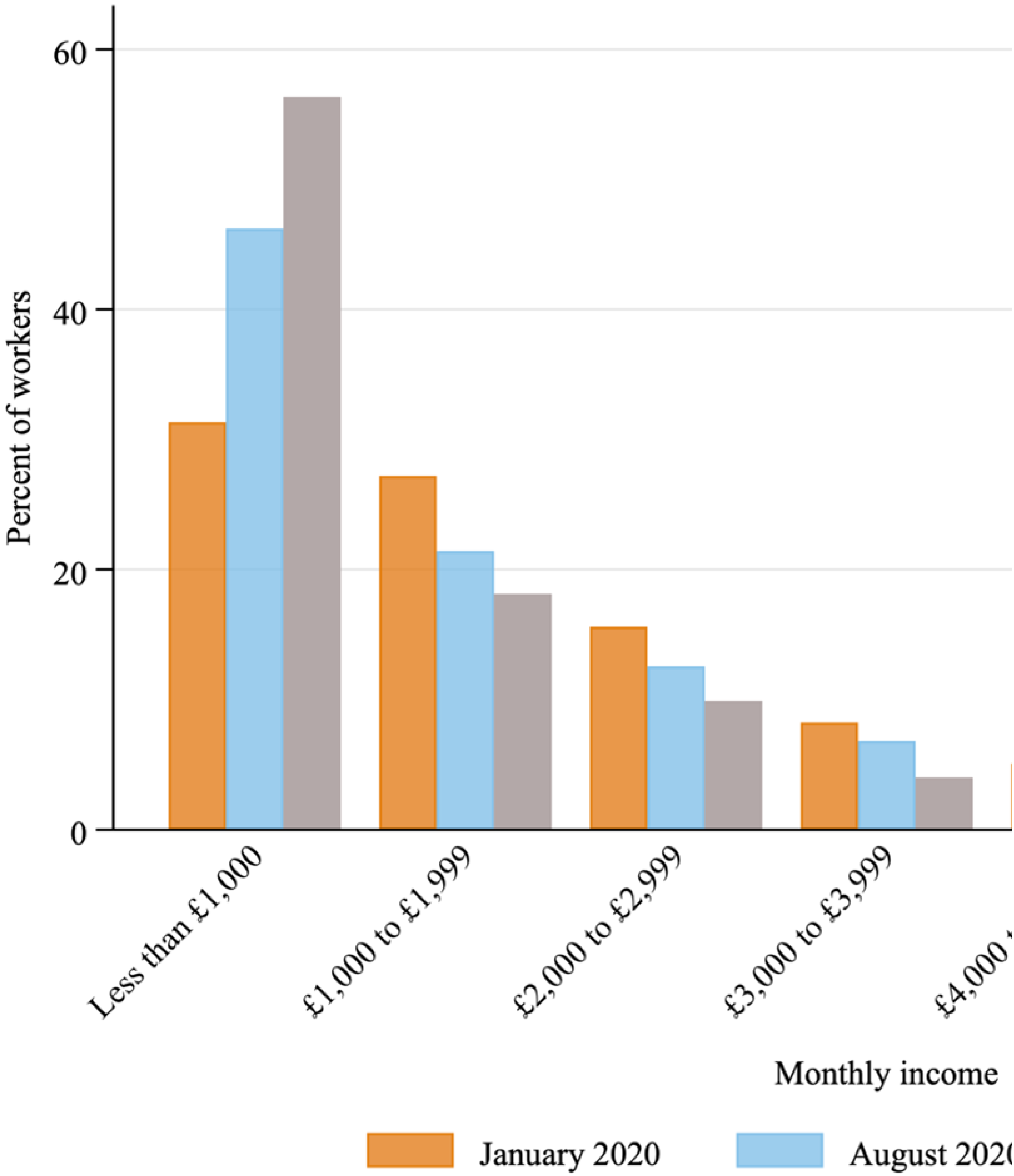
Almost a year into the crisis, the latest lockdown has hit the self-employed hard in the UK. In January 2021, 57% of surveyed self-employed workers were earning less than £1,000 per month, up from 31% in January 2020 and 46% in August 2020. Taking all government support into account, including the Self-employment Income Support Scheme (SEISS), almost two thirds (62%) of survey respondents report being worse off as a result of the crisis. ***Jack Blundell*** *and* ***Maria Ventura*** *write that there is room for policy improvement.*

Before the COVID-19 crisis, one in every seven UK workers was self-employed. The crisis has starkly illustrated the vulnerability of this group as well as the challenges the government faces in insuring them against economic shocks. With Stephen Machin, the director of the LSE's Centre for Economic Performance, we have now run three surveys to capture the experience of these workers throughout the crisis. Here we highlight several key findings from our most recent survey, administered in early February 2021.

Any recovery in incomes and hours has been undone in the latest lockdown

In Figure 1, we show that relative to the summer, in which some restrictions were eased, incomes have once more dropped precipitously. In January 2021, 57% of surveyed self-employed workers were earning less than £1,000 per month, up from 31% in January 2020 and 46% in August 2020. The figures for January 2021 are close to those we found in previous work on the impact of the first lockdown. This analysis excludes the self-employed who have already left self-employment as a result of the crisis, so is likely an underestimate of the effect of the crisis on those who were self-employed when it first hit.

Figure 1. Monthly incomes in January 2020, August 2020, and January 2021



Source: LSE-CEP Survey of UK Self-employment February 2021.

Incomes matter, but a short-term drop in income doesn't necessarily correspond to noticeably lower living standards. In the case of the UK's self-employed, our policy brief in May showed that relatively early on in the crisis many workers were struggling financially, with 46% of respondents having trouble paying for basic expenses such as rent, mortgage payments or essentials. In the most recent survey, this had fallen to a third (33%), which while lower, still ought to cause concern among policy makers. This improvement in rates of financial distress likely partially reflects the success of the government's support scheme at keeping some self-employed workers afloat.

The self-employed have poor incentives to self-isolate

An effective recovery from the crisis relies on workers self-isolating when receiving a positive COVID-19 test or when being prompted to by health officials. Incentives should be designed such that it is not unduly costly for workers to do so. While self-employed workers are not able to access Statutory Sick Pay (SSP) for support when isolating, they may be able to obtain a "Test and Trace Support Payment" of £500 from their local council. However, as has recently been highlighted by the TUC, around 70% of those who apply for this financial support are rejected. Eligibility criteria is strict and designed to identify those on means-tested benefits. For those falling outside these criteria, there exist discretionary payments, but the demand of these severely outstrips supply.

Particularly for self-employed workers, who are likely to have substantial control over whether they work or not, insufficient access to support creates a strong disincentive to self-isolate when required. In our survey, we asked self-employed respondents about COVID-19 testing and self-isolation. Their responses paint a stark picture. Of the 10% of individuals that declared testing positive at some point during the last year, a quarter report that they did not self-isolate. This is all the more striking when we consider that if anything, we would expect self-reports to be an under-estimate of non-compliance.

Among those who did self-isolate, two in five workers report that their income suffered from doing so. While we did not ask directly about access to the support payment, combined with the evidence described above, this presents compelling evidence that self-isolating represents a real cost to self-employed workers and unsurprisingly, many workers do not follow the guidance.

Room for improvement in government support

The main channel through which the government has supported self-employed workers during the crisis is the Self-employment Income Support Scheme (SEISS). Up to a threshold, this scheme provides a transfer equalling a large share of past profits to eligible self-employed workers, with no dependence on the amount that self-employed workers have lost as a result of the crisis.

Taking all government support into account, almost two thirds (62%) of our respondents report being worse off as a result of the crisis. Are there ways that SEISS could be improved to provide better support for affected workers?

Given the scheme's generosity, we would expect to see high take-up. The most recent government statistics show take up at 57%, meaning that over a third of eligible workers are yet to access the support. In our survey, despite SEISS now being in place for the best part of a year and eligibility rules remaining relatively unchanged, we find that almost a third (31%) of respondents are unsure of their eligibility status. One route to increasing uptake could be increasing awareness of eligibility among workers.

From early on in the crisis, it has been highlighted that the SEISS scheme, while generous for those who get it, has glaring omissions in its eligibility. It excludes those who became self-employed since April 2019, as well as those with large profits, those for whom self-employment is not their main source of income, those making losses prior to the pandemic, and directors of limited companies. Among those ineligible for SEISS, we find high rates of financial distress, with 32% of respondents reporting having trouble with basic expenses over the last month. This is significantly higher among the newly self-employed, among whom 58% report struggling with basic expenses. The Institute for Fiscal Studies have proposed practical solutions for extending support to those with less than half their income from self-employment and for those with large profits. Particularly given the high rates of financial distress we find in the survey, this support could be further extended to the newly self-employed. This could be based on more recent earnings information (from the 2019-2020 tax year), which is now more readily available. This extension would likely be relatively low-cost, given the small size of this group.

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Date originally posted: 2021-03-02

Permalink: https://blogs.lse.ac.uk/businessreview/2021/03/02/covid-19-and-self-employment-ten-months-into-the-crisis/

Blog homepage: https://blogs.lse.ac.uk/businessreview/

Notes:

- *This blog post is based on Covid-19 and the self-employed – ten months into the crisis, an LSE Centre for Economic Performance (CEP) report.*
- *The post expresses the views of its author(s), not the position of LSE Business Review or the London School of Economics.*
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