

Counting the self employed as entrepreneurs is a meme that refuses to die

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[Busker at Picadilly Circus tube station](#), by Editor5807, own work, under a [CC BY-SA 3.0](#) licence, via Wikimedia Commons

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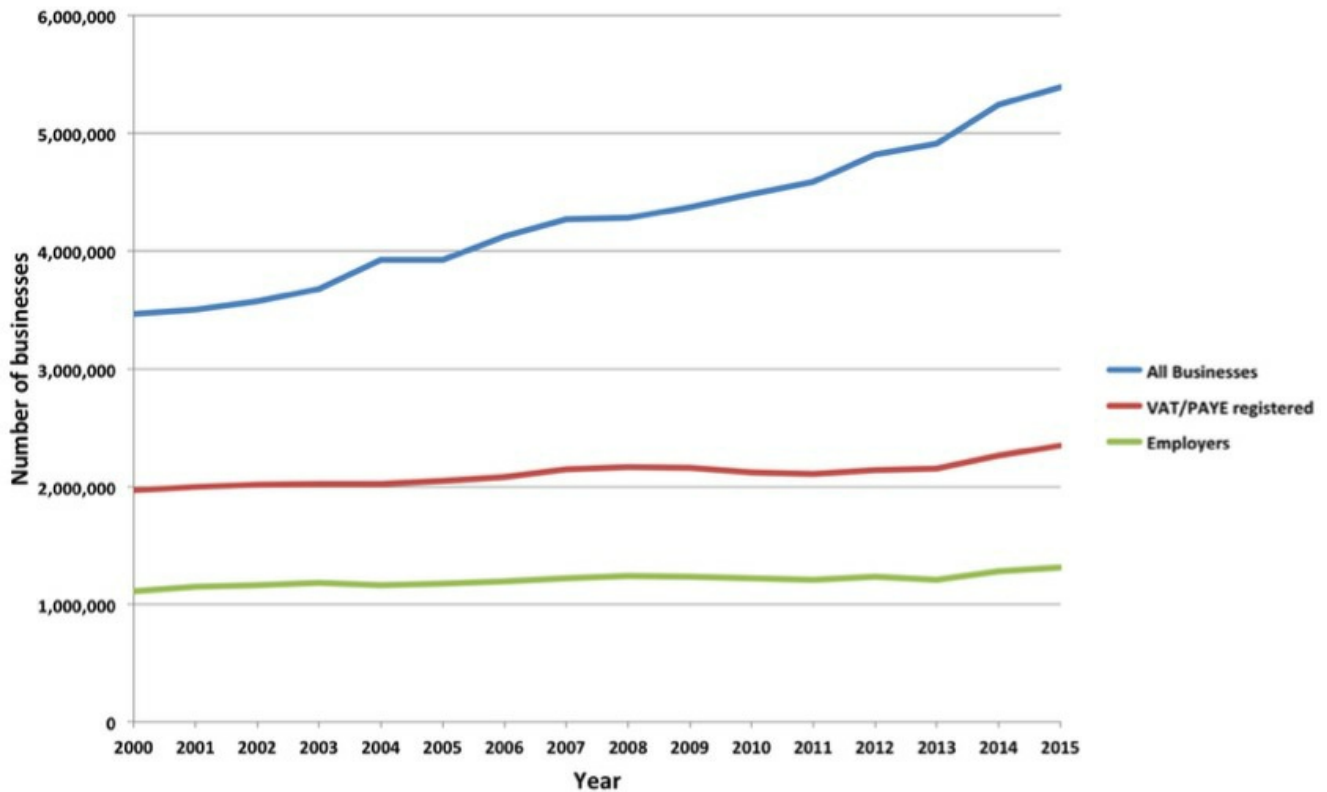
As the UK Government opens an [inquiry](#) into the realities of the 'gig economy', the fiction and spin around self-employment is starting to look like a profound distortion of workplace realities.

One of our workplace fairy stories involves the conflation of entrepreneurship and self-employment. Characterising the self-employed as entrepreneurs is another of those memes that just refuses to die. Earlier this month, RBS released a report claiming that [entrepreneurs are driving employment growth](#), enthusiastically stating that self-employment has grown by 20 per cent since 2008, an increase of 800,000 people, making a “fantastically important contribution to the UK’s labour market recovery.”

Although there are some entrepreneurs creating new jobs in the UK labour market, most of the newly self-employed have only created jobs for themselves. Entrepreneurs are people who build businesses. The self-employed are simply those who, whether by choice or necessity, work through their own businesses rather than being directly employed by someone else. A tiny fraction of them will have started their businesses with the aim of growing them. The vast majority do it just to get by.

The [business population statistics](#) published by the Department of Innovation and Skills show a phenomenal rise in the number of businesses in the UK over the last decade and a half, with a particularly steep increase since the recession. However, most of this increase is in businesses with turnover below the VAT threshold. The number of VAT-registered businesses has risen more or less in line with the size of the workforce. What we haven’t seen is a significant rise in the number of employing businesses or even businesses with significant turnover.

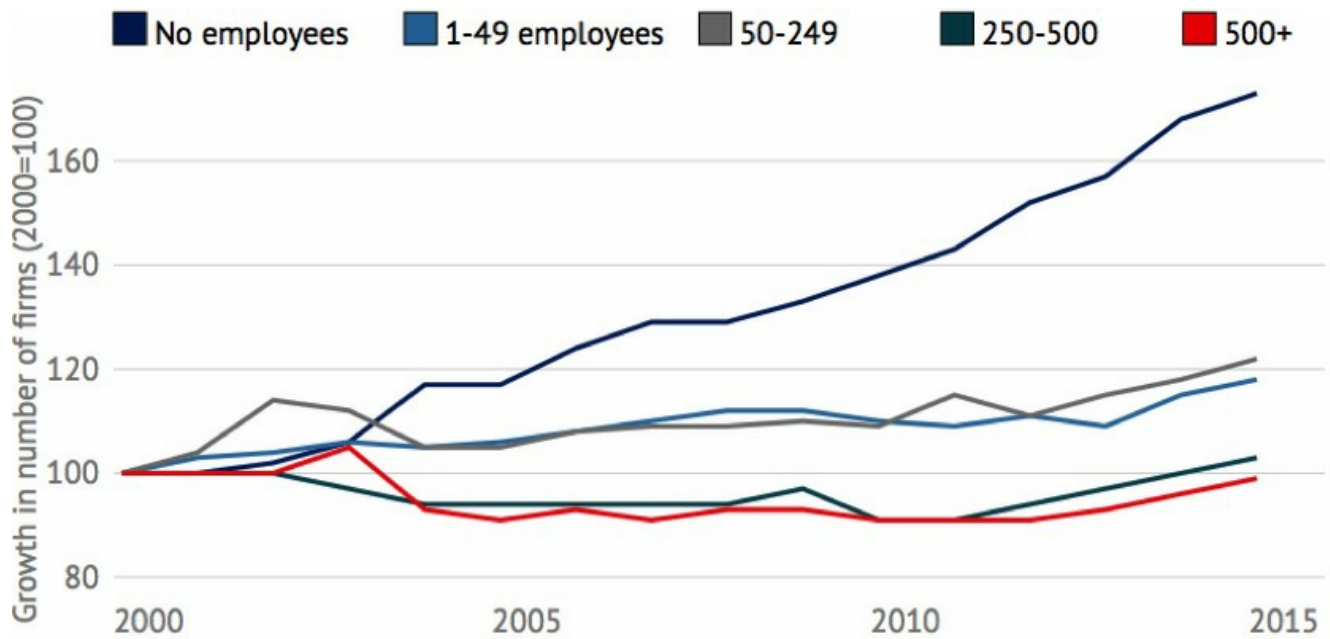
Figure 1. Private sector businesses 2000-2015



Research by the [New Policy Institute](#) (NPI) found that, while the number of businesses with no employees other than the owners had increased by 70 per cent over the last fifteen years, these firms' share of total turnover had actually fallen slightly from 7 per cent to 6 per cent over the same period.

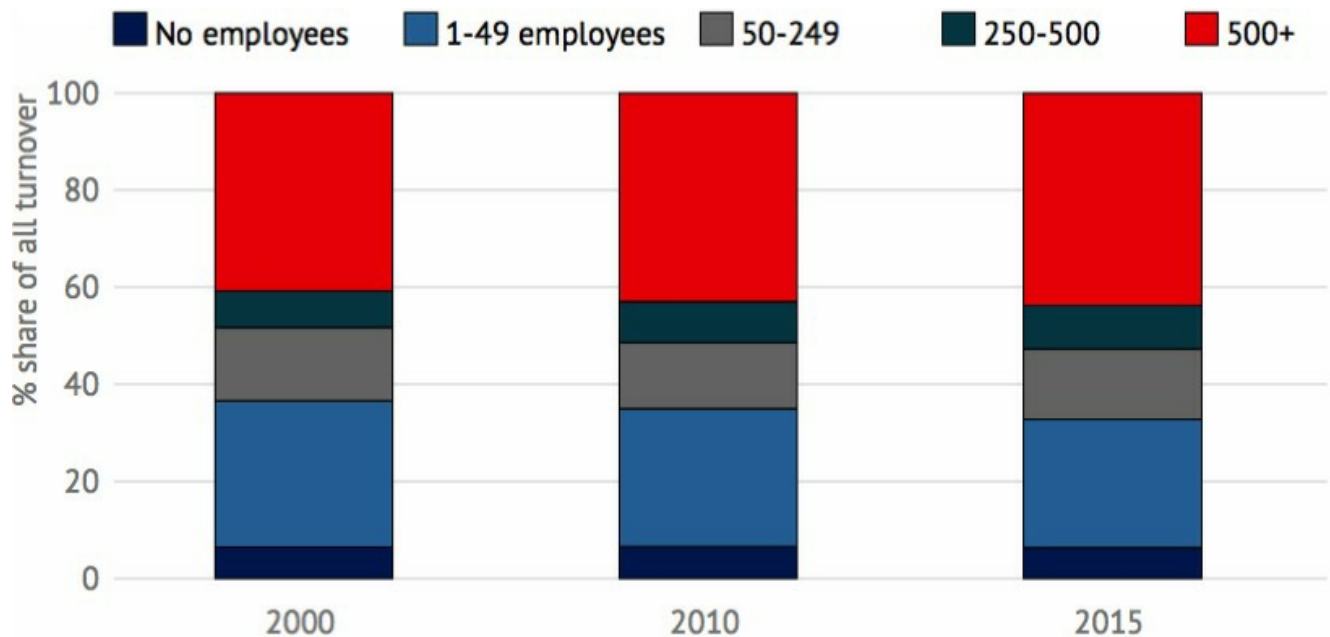
So, while there are a lot more small businesses now, in terms of share of turnover the UK is less of a small business country than it was in 2000. Firms with over 250 employees increased their share of the market from 49 per cent to 53 per cent.

Figure 2. The rate of growth of firms with no employees has been far greater than for other sizes of firms. There are over 70 per cent more such firms now than in 2000.



Source: Business Population Estimates 2015, BIS and NPI calculations

Figure 3. Very large firms now account for 44 per cent of total turnover, up from 41 per cent in 2000. Firms with 250-499 employees account for a further 9 per cent. The share going to SMEs has fallen.

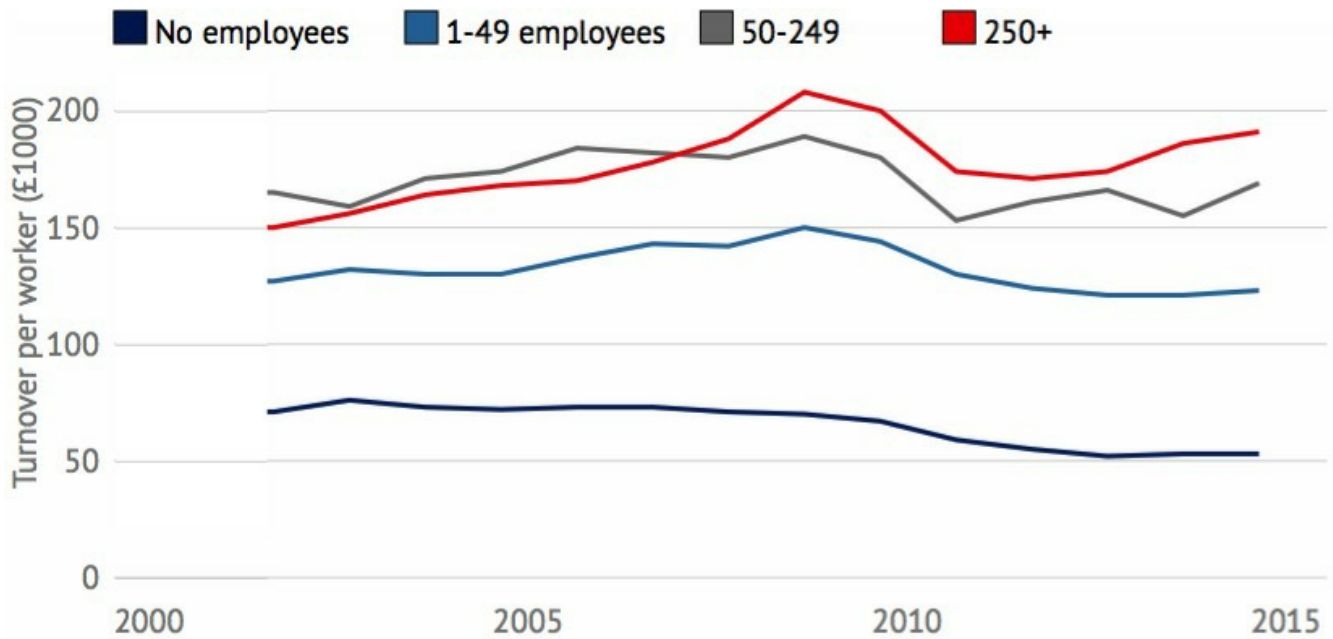


Source: Business Population Estimates 2015, BIS and NPI calculations

Given that this happened while the number of very small businesses was rising, turnover per worker for the smallest businesses fell, with the decrease picking up speed after the recession.

Figure 4. In the last two or three years, there have been small rises in turnover per worker in

larger companies, but no change in medium-sized or smaller companies.



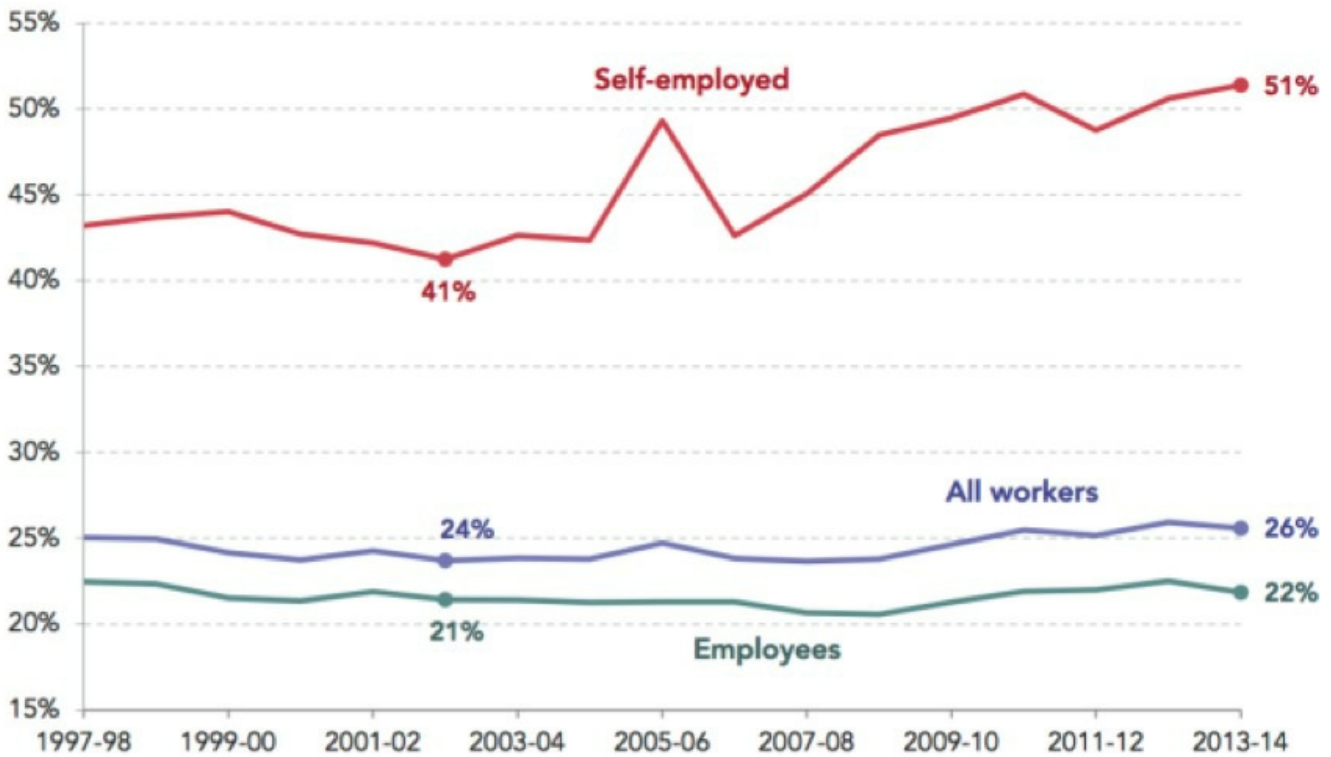
Source: Business Population Estimates 2015, BIS and NPI calculations

The climate for self-employed workers reminds me of one of those nature documentaries where, during a drought, more and more animals turn up to drink from an ever-shrinking oasis. More and more one-person businesses are competing for a shrinking pot of money.

The effect of this on self-employment incomes has been catastrophic. Using data from the Family Resources Survey, the NPI found that the median income for self-employed people is now around 54 per cent of that for employees and is lower than 75 per cent of employee incomes.

This isn't simply a case of a few hobby-jobbers skewing the figures. Research by the Resolution Foundation found that more than half of the full-time self-employed fall below two thirds of the median weekly earnings.

Figure 5. Proportion of the self employed below an “all-worker” low pay threshold, 1997-2014. Proportion of full-time workers earning below 2/3 median weekly earnings.



Notes: UK – the low pay threshold is based on the median for full-time self-employed workers and employees combined. Workers classified by their main employment status, however earnings measures capture both self-employed and employee earnings for those with income from both. Sources: RF analysis of DWP, Family Resources Survey.

The NPI and Resolution Foundation research is based on the Labour Force Survey and the Family Resources Survey, but the figures from HMRC present a very similar picture. In 2007-08 the self-employed earned £88.4 million in total. In 2013-14 they earned £ 87.1 million. Even though there were, by HMRC’s definition, 730,000 more of them, they earned more than one million less. That’s before allowing for inflation. Using figures from a FOI request to HMRC, [Michael O’Connor](#) showed that mean incomes for the self-employed earning under £100,000 were very low and that around half of them had no other sources of income.

Figure 6. Numbers of taxpayers (thousands) with self-employment income 2012-2013.

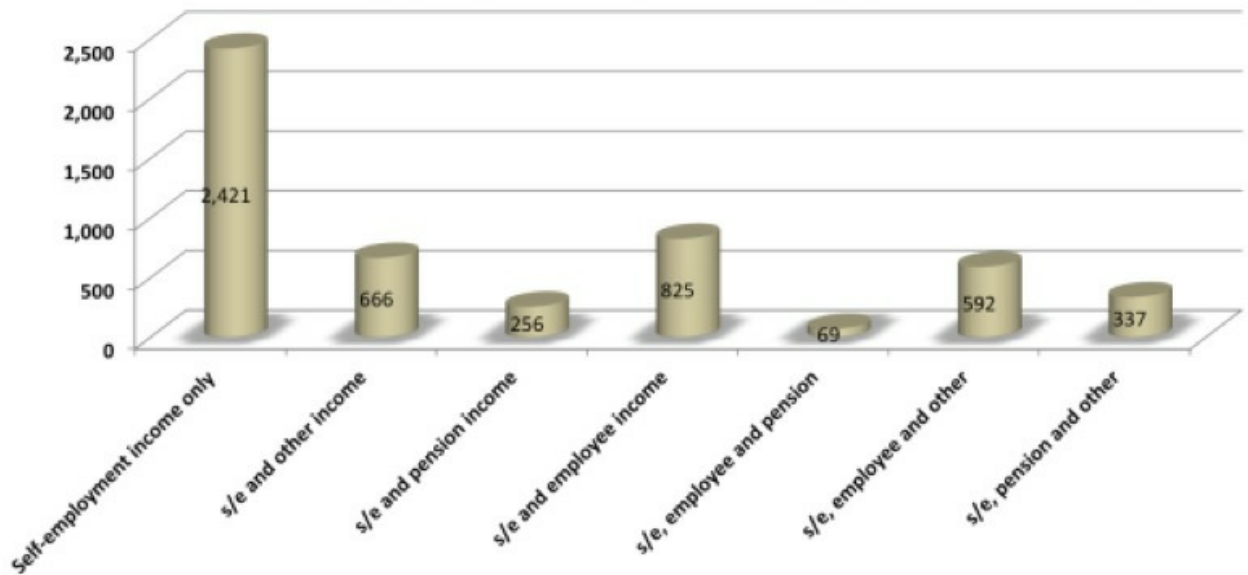
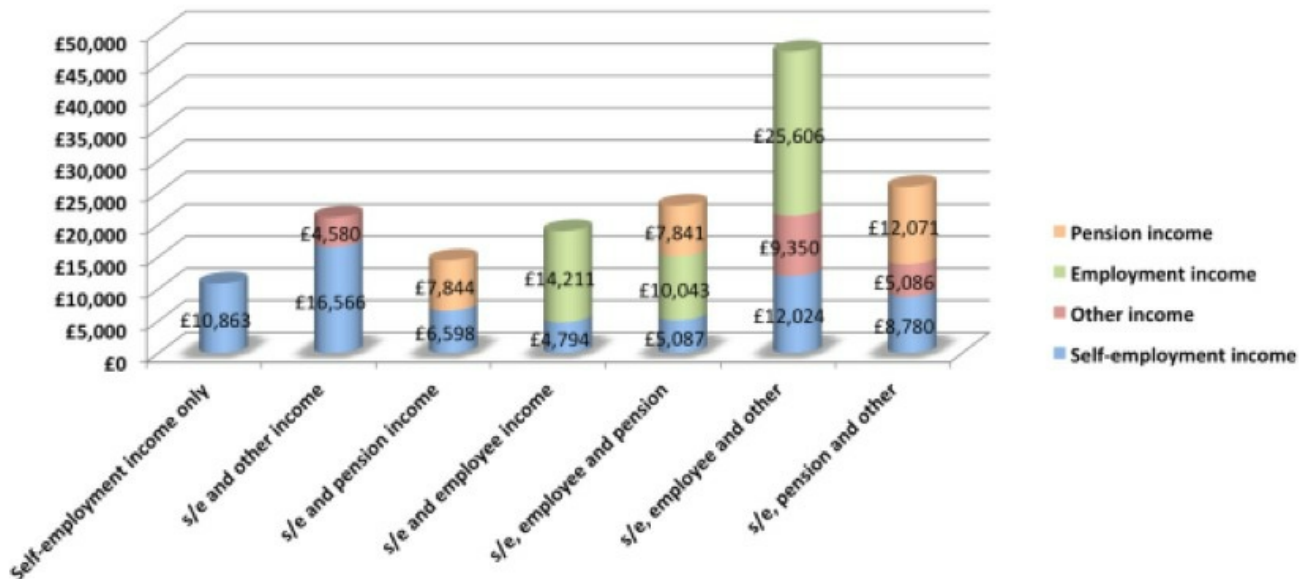


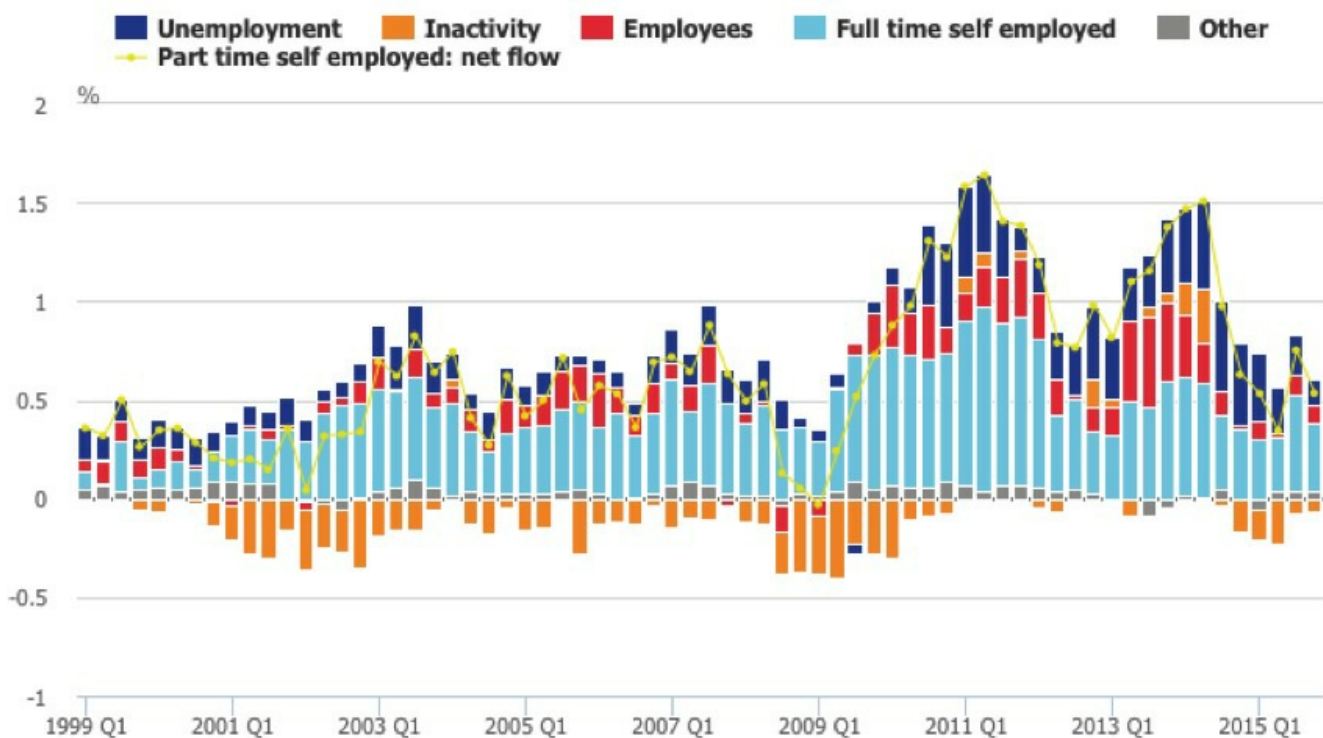
Figure 7. Taxpayer income for people with...



The majority of self-employed people have seen their earnings shrink since the recession and many are surviving on very low incomes.

If the earnings figures don't suggest a surge of entrepreneurialism, neither do the data on moves into and out of self-employment. A 2014 [study](#) by the ONS found that the rise in self-employment was due as much to fewer people leaving self-employment as to more people starting up. The outflow from self-employment was at its lowest for 20 years. Many of those who in previous years might have retired were staying on in self-employment, accounting for much of the rise among the over-65s. On a similar theme, a July 2016 [ONS study](#) found that much of the post-recession inflow into part time employment was from those who were previously full-time self-employed. In other words, the rise in part-time self-employment was primarily due to people in full-time self-employment reducing their hours.

Figure 8. Composition of the net flow by previous labour market status, proportion of self-employed. Quarter 1 (January to March) 1999 to Quarter 4 (October to December) 2015.



Source: Office for National Statistics, Labour Force Survey, two-quarter longitudinal dataset, author's calculations.

The ONS comments:

[F]ollowing the economic downturn a large number of full-time self-employed individuals either chose to become part-time, or found that meeting demand for their services no longer required full-time input. As a result, many of these workers shifted from a full-time mode to a part-time mode, but otherwise continued with their business.

As [Paul Nightingale and Alex Coad](#) said, the typical British startup is a marginal business entering a crowded competitive market and, if it survives for two years, only does so by putting another one out of business. None of this activity contributes much to the growth of the economy.

The increase since the recession has been primarily among low turnover firms yielding ever decreasing profits and incomes to their owners. The shift to shorter hours suggests that a lot of self-employed people are simply hanging on in there for lack of any suitable alternative.

Had the rise in self-employment been driven by entrepreneurialism we would have expected to see an increase in the small-firm share of the economy by now. In fact the reverse has happened. Whatever data you use, number of businesses, families, individuals or tax paid, the story is the same, the numbers have risen and the earnings have fallen.

The increase in self-employment is something very different; it is the rise of a third category of worker, not an employee but not a business person either. The category covers a multitude of different work arrangements. Some work for a daily or weekly rate, some charge for specific jobs, and some are employees in all but name. Although they are business owners on paper, most have very little capital.

The term 'gig economy' has come into vogue recently to describe the trend towards more freelancing work. It is a useful metaphor from the world of live music performances. The lucky few make handsome profits by

playing Wembley or outdoor festivals. Most are performing down at the Red Lion for just enough money to see them through to their next gig. To say that we have 800,000 more entrepreneurs in the economy since the recession is to misrepresent what has been happening. 800,000 more buskers might be a better way of putting it.

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Notes:

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