

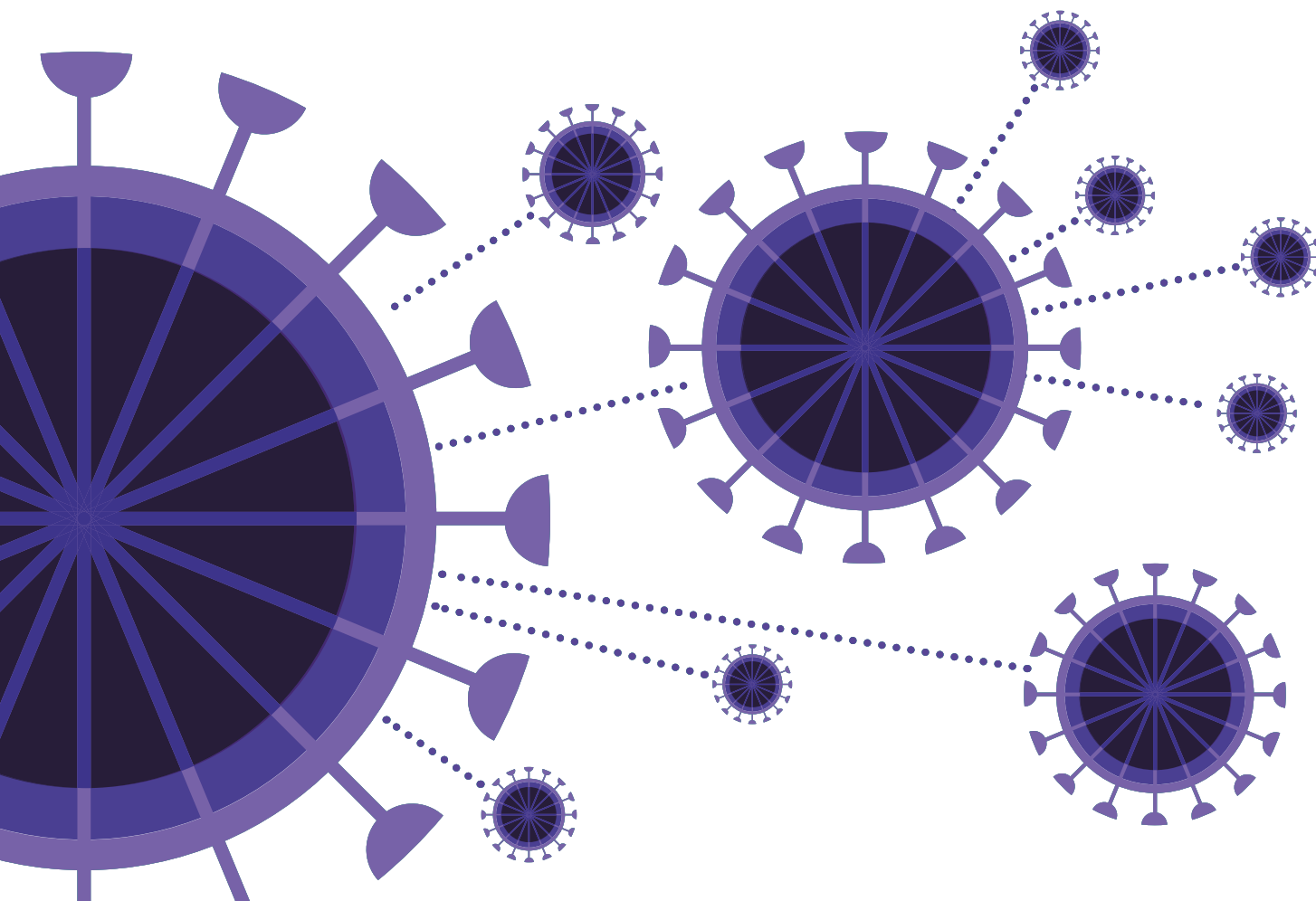
A series of background briefings on the policy issues arising from the Covid-19 pandemic

# Self-employment in the Covid-19 crisis

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**A CEP Covid-19 analysis**

**Paper No.003**



## **Self-employment in the Covid-19 crisis**

### **CEP COVID-19 ANALYSIS**

Jack Blundell and Stephen Machin

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#### Summary

- We report results from the LSE-CEP Survey of UK Self-employment May 2020.<sup>1</sup>
- The self-employed have been hit particularly hard by the Covid-19 crisis, with approximately three quarters reporting less work in April 2020 than usual.
- The largest reductions in self-employment hours and income are among lower-income, older individuals without employees.
- There are no gender differences in the aggregate, however this is due to self-employed women being more likely to be able to work from home. Comparing men who can work from home against women who can work from home, women are more negatively affected than men.
- A third of self-employed workers have felt that their health was at risk while working during the coronavirus crisis, and this was significantly higher among those who work in app-based jobs.
- On average, higher-income workers are more likely to apply for the Coronavirus Self-employment Income Support Scheme. Over 40% of those who had not applied are unsure whether they are eligible.
- On average, the self-employed expect their work to return to normal in September 2020. A fifth think it will take until 2021 and 1 in 20 expect that their work will never return back to normal.
- The self-employed value income support highly. On average they are prepared to sacrifice 10% of their regular income to be guaranteed similar support for future shocks. Solo self-employed individuals value income support by twice as much as the self-employed with employees.

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<sup>1</sup> We thank the LSE COVID-19 Fund for funding the data collection and analysis underlying this brief. The LSE-CEP Survey of UK Self-employment May 2020 was approved by the LSE Research Ethics Committee.

## **Introduction**

The Covid-19 shock is one of the largest economic shocks that has taken place in living memory. While current official data only picks up the very start of the crisis, the Bank of England recently warned that unemployment is likely to exceed the heights of the global financial crisis and that GDP could plunge by 14% in 2020, marking the deepest recession for centuries. In response to the shock, the UK government has extended Universal Credit, introduced numerous forms of direct support to business and most strikingly is now paying the wage bill of 7.5 million furloughed private sector workers (Leslie and McCurdy, 2020).

The crisis has served to highlight the challenges governments face in extending social insurance to self-employed workers, for whom it is difficult to verify work behaviour. Chancellor Rishi Sunak described designing a “deliverable and fair” support package for self-employed workers as “incredibly complicated”. The self-employed, left out from the Coronavirus Job Retention Scheme (CJRS) covering furloughed workers, were offered a lifeline in the form of the Self-employment Income Support Scheme (SEISS). As an entirely new form of government support, it is important to understand the extent to which the self-employed are accessing the SEISS and, among the self-employed, who the beneficiaries are.

As discussed in previous work (Blundell, 2019; Boeri, Giupponi, Krueger and Machin, 2020), the self-employed are an exceptionally diverse group, ranging from millionaire partners at law firms to part-time food delivery drivers. As self-employment has grown over the last two decades, so has the variation of types of workers. While some of the self-employed are likely to be extremely heavily hit by the crisis, for others the consequences are less clear. Live performers will have seen catastrophic declines in income, but for delivery drivers there has likely been an uptick in demand for their services. In general, this diversity means it is difficult to assess intuitively the extent to which the self-employed have been hit by the economic fallout of Covid-19.

This policy brief draws on new survey data we have collected to document the effect of the current crisis on self-employed workers, with a particular focus on their interaction with government support. The LSE-CEP Survey of UK Self-employment May 2020 contains 1,500

self-employed workers' responses from an internet panel, collected from 12-16 May.<sup>2</sup> The respondents are roughly representative of the UK's self-employed population.<sup>3</sup> This work complements other research using surveys to produce up-to-date, more or less real-time information on the effect of the crisis on the UK labour market, including Adams-Prassl, Boneva, Golin and Rauh (2020) and Gardiner and Slaughter (2020). While these surveys do not replace official statistics, the speed and intensity of the current crisis has made them a necessity for informed policy debate over next steps.

### **The self-employed have been hit very hard**

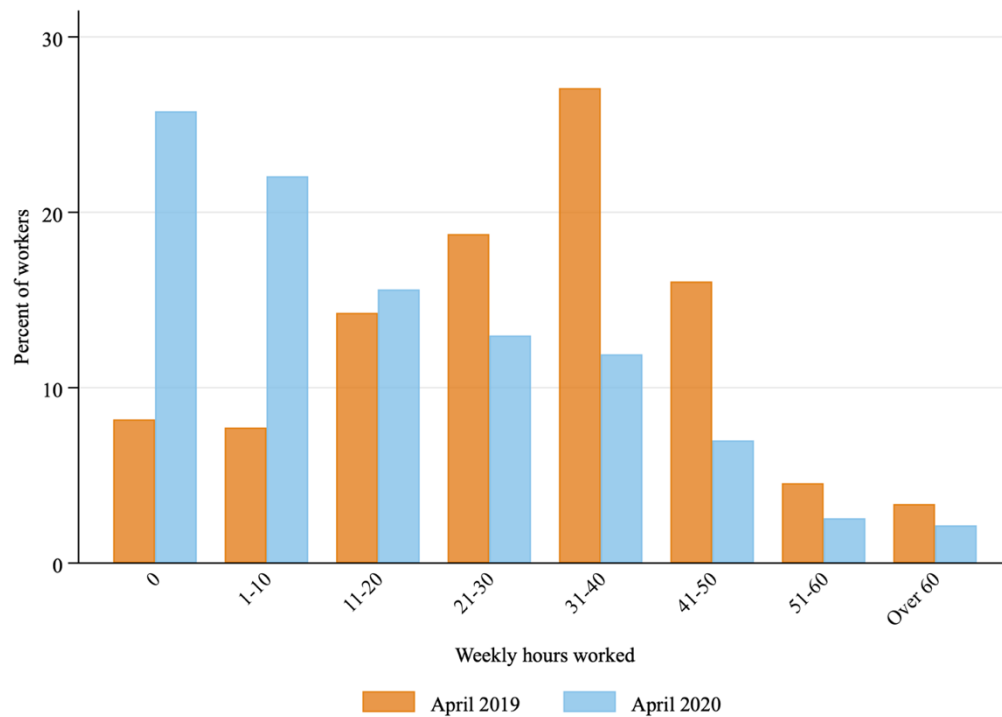
On average, the self-employed have been struck exceptionally hard by the crisis. Three quarters of participants reported that they have had less work in April 2020 than they would usually have at that time of year. This is identical to the results of Adams-Prassl, Boneva, Golin and Rauh (2020) who find that workers in alternative work arrangements – which includes many of the self-employed - are more vulnerable to the crisis. Figures 1 and 2 show that the distribution of hours and incomes have shifted down substantially. In April, the self-employed worked an average of 11-20 hours per week, down from 31-40 hours in the previous year. Over 60% of workers earned less than £1,000 this April, more than twice as many as the previous year.

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<sup>2</sup> By self-employed, we refer to workers who are principally self-employed. We exclude workers who are primarily employed but perform some self-employment in addition to their main job.

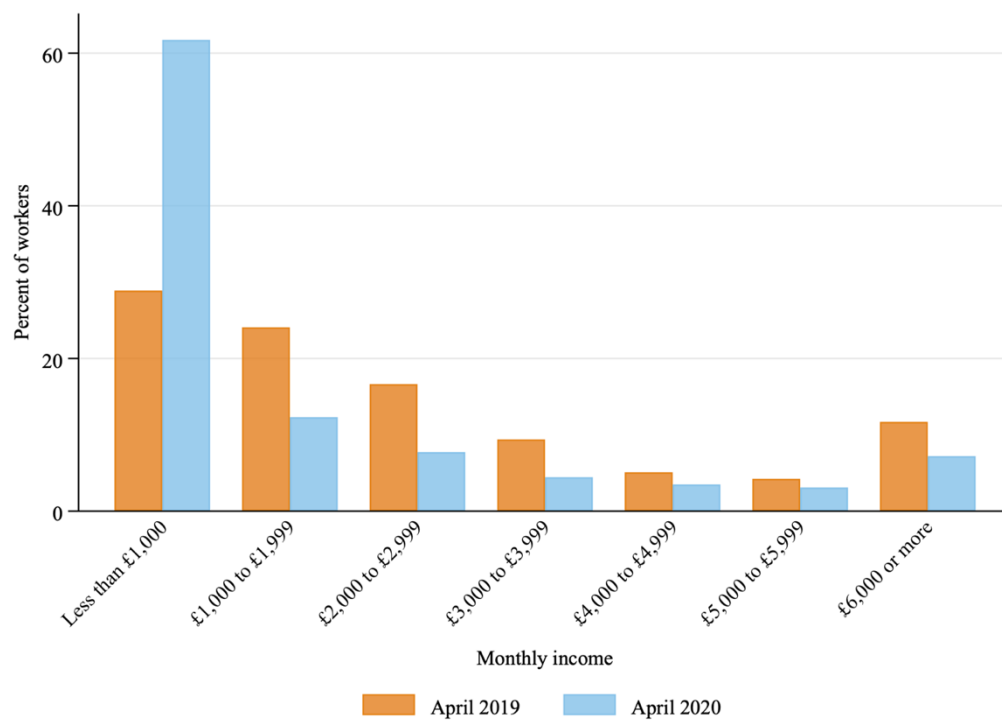
<sup>3</sup> Our survey sample is slightly higher educated and more likely to be female than overall self-employment based on the most recent Labour Force Survey.

**Figure 1: Weekly hours in April 2019 and April 2020**



Notes: Self-reported hours worked in April 2019 and April 2020.  
Source: LSE-CEP Survey of UK Self-employment May 2020

**Figure 2: Monthly income in April 2019 and April 2020**



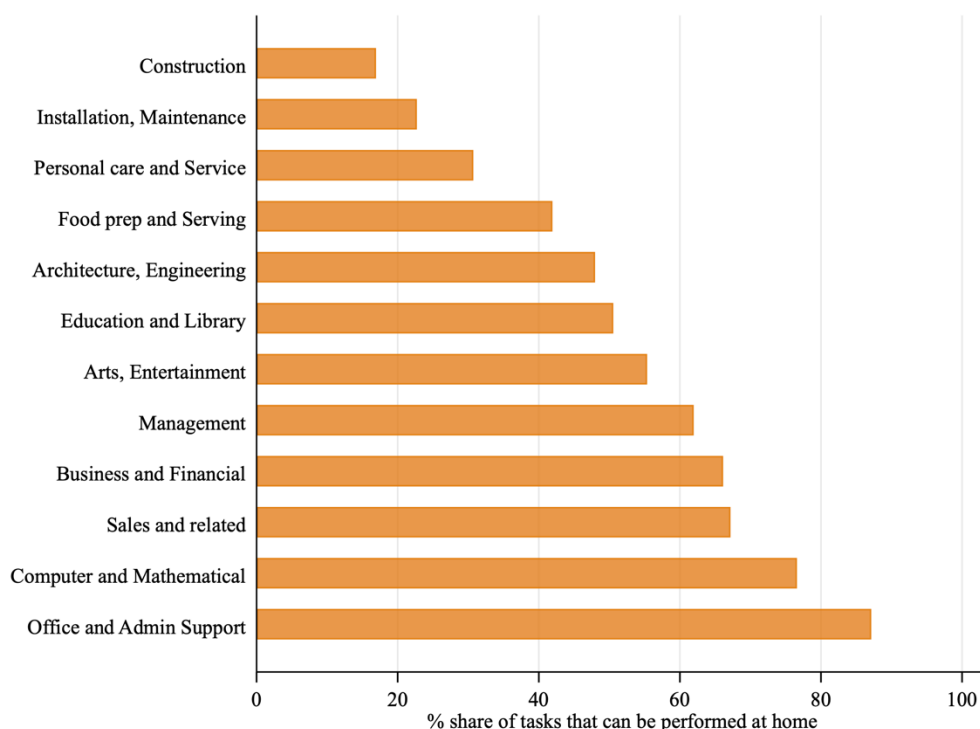
Notes: Self-reported income from main job in April 2019 and April 2020.  
Source: LSE-CEP Survey of UK Self-employment May 2020

The survey suggests that this reduction in income is causing real financial distress for the families of those affected. Over the last month, 46% of them have had trouble paying for basic expenses such as rent, mortgage payments or essentials. When asked whether they could afford an emergency £500 expense, 20% of workers report that they would be unable to pay or forced to sell something to cover the bill. This is despite previous work by the ONS demonstrating that the self-employed tend to have a relatively high savings buffer compared to other workers (ONS 2020).

While, on aggregate, the self-employed face a significant negative shock to hours and incomes, there is substantial variation across individuals. Consistent with evidence on other types of UK workers, lower income individuals have seen more of a decline in income and hours. We also find that the solo self-employed have seen greater losses than those who have employees. The solo self-employed are 15 percentage points more likely to report a reduction in their work in April 2020. This is consistent with previous work showing that this growing group are substantively different to those with employees and are more vulnerable to economic shocks (Blanchflower, Costa and Machin 2017).

By far the most significant predictor of hours and income changes is the extent to which a job can be performed at home. Figure 3 shows substantial variation across occupations. Self-employed workers in office and administrative support report that 87% of their tasks can be performed at home on average, whereas workers in construction report only 17%.

**Figure 3: Ability to work from home by occupation**



Notes: Mean responses within self-reported occupation (US SOC) to question “To what extent can your work be done from home?” where answers are given on a sliding scale of 0 to 100.  
Source: LSE-CEP Survey of UK Self-employment May 2020

One distinctive feature of the current crisis is that unlike in other economic shocks, women have been shown to be particularly vulnerable. This is in part due to the sectors in which they work, and also due to asymmetric care-giving responsibilities (Hupkau and Petrongolo, 2020). For the self-employed, however, there is no noticeable gender difference on average. This is primarily driven by the fact that self-employed women are more likely to be able to work from home. Comparing men and women who are equally able to work from home, women are significantly more likely to report a reduction in work hours. Interestingly, there is a robust relationship with age. But this runs in the opposite direction to that shown for other populations of workers, as older workers are more likely to have seen a reduction in hours, a relationship that is robust to a variety of controls.

To summarise, the data demonstrates that self-employed workers have experienced significant declines in income and hours worked during the crisis. Lower-income and older workers have been hit particularly hard, whereas women have been relatively shielded compared to non-self-employed counterparts, due to the types of self-employed jobs they do. A minority of

predominantly higher-income older workers actually reported more work than usual in the crisis. The crisis has exacerbated inequalities among self-employed workers.

### **Self-employed workers feel they have put their health at risk**

Underlying the current economic shock is a public health crisis. Given the lack of an employer, the inability to furlough themselves and the long wait for government support, one concern is that the self-employed may work despite health risks. Indeed, 33%, of self-employed workers have felt that their health was at risk while working. This is particularly high for younger workers, with 47% of self-employed workers under the age of 30 reporting feeling at risk.

Interestingly, self-employed individuals who use apps to find their work, most synonymous with the “gig economy”, are particularly likely to report health risks. Among this group, 79% reported feeling that their health was at risk while working. They reported that they worked despite the risk primarily due to the immediate financial incentives, but also out of fear of losing work in the future. This is concerning, given that one of the supposed advantages of these employment relationships is that workers can choose when, and how much, they would like to work.

### **Many workers are accessing support, but others are not sure if they are eligible**

The survey was specifically timed to launch just as the Self-employment Income Support Scheme (SEISS) opened, for which the first claims were made on 13 May.<sup>4</sup> This allows us to provide rapid evidence on how well the process is working, and on who is claiming.

The SEISS provides a grant of up to £7,500 to those who report losing some business due to the crisis. Payments are not linked to the actual financial loss experienced, but rather are pegged to 80% of profits in previous years. As discussed in Adam, Miller and Waters (2020) this means that workers who receive only a small income loss could be quite substantially better off than if the crisis had not occurred. There are stringent conditions on who can claim. Those earning profits of over £50,000 are excluded, as are those who earned less than half their income from self-employment. Workers who did not trade in tax year 2018 to 2019 are also excluded. Adam, Miller and Waters (2020) estimate that among those who receive most of their income from self-employment, 18% of workers are ineligible for the scheme.

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<sup>4</sup> 4% of our sample responses were made before the scheme opened. All results are robust to the exclusion of this group.



We find high rates of claiming from the scheme. Of those surveyed on the day of opening, 34% had already claimed. After two days of the scheme being open, that had increased to 43%. While the scheme excludes those with the highest profits, the probability of claiming from the scheme increases as personal income increases, though not as household income increases. Those with incomes between £40,000 to £49,999 a year were twice as likely (48%) to claim as those with incomes less than £10,000 (24%). These lower-income self-employed workers may not be the main earners in their household or could have another source of income, so the need to claim support could be lower. Older workers and those who work from home were also less likely to claim, consistent with these groups being less likely to experience a negative shock. Somewhat worryingly, of those who had not claimed 41% were not sure whether they were eligible or not.

As well as the SEISS, self-employed workers were the intended beneficiaries of the removal of the Minimum Income Floor (MIF), which increased the amount of Universal Credit (UC) that low-earning workers could claim. There are high rates of claiming UC among survey participants, with just over a quarter (27%) reporting that they had claimed since February. The vast majority (82%) of these were first-time claimants. As has been shown in other work (Brewer and Handscomb, 2020), the crisis has brought many new workers into contact with the benefits system. We find that younger workers who cannot work from home are more likely to claim. We also find that higher income workers are more likely to claim, however this relationship does not hold when household income rather than personal income is used.

Numerous business support schemes were also introduced, and the chancellor suggested that the self-employed could draw on these while awaiting support from SEISS. We find that 21% of respondents do so, the most common form of support being the Coronavirus Business Interruption Loan Scheme. Unsurprisingly, claims for the scheme were disproportionately from higher income workers who tended to have employees.

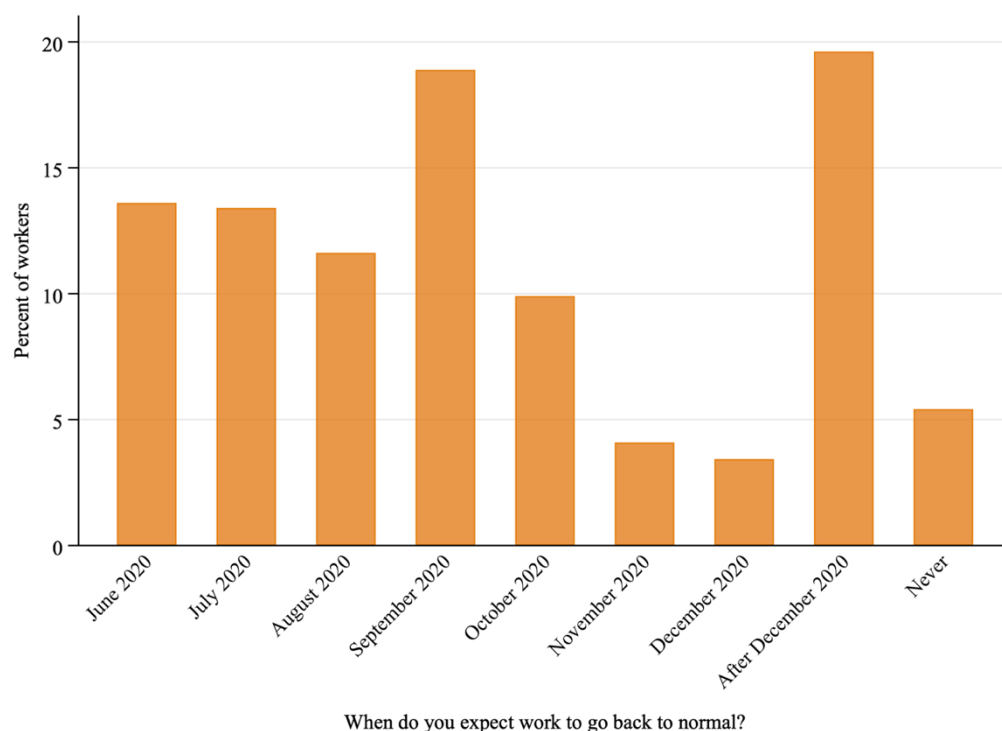
The evidence discussed above demonstrates that many are accessing the help that the government has provided. As with the furlough scheme, this is impressive for a wholly new system, all the more so given that the SEISS was delivered ahead of schedule. However, it is somewhat concerning that we find many of those who have not applied are not sure whether they are eligible. This suggests that government needs to work to ensure that the rules for eligibility are made clear as a matter of urgency.

## **Most expect work to go back to normal by September, but some think it will take far longer**

There is immense uncertainty over how long this shock will last, and whether it represents a more fundamental shift in the structure of work and society more broadly. We find that on average, self-employed workers believe that their work will go back to normal in September 2020. The full distribution is shown in Figure 4. Given the size of the shock, we interpret this as fairly optimistic. Most self-employed workers appear to be expecting a “v-shaped” dip in their hours, income, and work behaviour, with things back to normal relatively soon. But there are exceptions to this. A fifth think it will take until 2021 and 1 in 20 expect that their work will never return back to normal. Among those working in Arts, Design, Entertainment, Sports and Media occupations, over a third (35%) believe that things will not go back to normal until after the end of 2020.

Uncertainty impedes investment (Bloom, 2009). While the types of investments self-employed workers make may be different to those of large firms, the survey responses reveal that uncertainty associated with the current crisis has led to 44% delaying or cancelling investments in work equipment. This increases to 50% for workers who expect no return to normality this year. Given the stagnation of UK productivity growth since at least the onset of the global financial crisis, policymakers ought to give as much certainty as they can provide with respect to future policy. This will help entrepreneurs make investment decisions and ultimately lead to a stronger recovery.

**Figure 4: Expectations for the future**



Notes: Responses to question “When do you expect your work to go 'back to normal' after the current crisis?”

Source: LSE-CEP Survey of UK Self-employment May 2020

### **Workers would sacrifice 10% of income on average to obtain the guarantee of future income support**

Alongside the offer of government support, the chancellor has indicated that the self-employed will be subject to increased tax rates in the future. This will please many who have for years called for an end to the unfairness in the current tax system (Adam and Miller, 2019), in which becoming self-employed accrues considerable tax advantages. The most likely policy shift will be an increase in national insurance contributions (NICs), bringing self-employed NICs contributions in line with those paid by conventional employees and their employers. While some argue that the difference between the self-employed and conventional employees in terms of access to the social safety net is in fact not particularly large, a key input into this debate is the extent to which the self-employed value government support.

To attempt to address the big evidence lacuna on this issue, we ran a choice experiment to identify the willingness-to-pay of self-employed workers for a now well-defined, specific type of coverage. We assessed how much (pre-tax) income workers would be prepared to sacrifice to be assured income support in the face of future pandemics and other economic shocks. The

generosity of the support was specified as equal to that of the current support package. On average, self-employed workers would be prepared to sacrifice 10% of their income in exchange for such a support guarantee. Over three quarters of self-employed workers would be prepared to sacrifice 2% of their pre-tax income in order to receive such support. In ongoing academic work (Blundell and Machin (forthcoming)), we are exploring how this varies across types of workers, and types of self-employment. In percentage terms, the solo self-employed are observed to value income support by twice as much as the self-employed with employees.

Whether or not the current crisis has affected the demand for social insurance among self-employed workers is not possible to address with a single survey. However, the evidence described above suggests that self-employed workers significantly value social insurance and, a sizable group of them, would be prepared to tolerate higher rates of contribution if they are matched with a commitment of future support in hard times.

### **Putting it all together**

The Covid-19 crisis has hit the self-employed hard. The precipitous drop in both income and hours uncovered in our survey is a sign of what has undoubtedly been an extremely challenging period for these workers and their families. Some have been hit harder than others, with lower income, older and solo self-employed workers among the most affected. For those who remain working, an alarmingly high proportion report feeling that their health is at risk. That this is particularly high among app workers whose fear of losing future work is consistent with concerns about how much flexibility digital platforms really offer their contracted workers.

The support which self-employed workers are receiving from the government cannot come too soon for many, but the analysis suggests that there is substantial uncertainty over who is eligible for this support. This only adds to the uncertainty many have over their future work prospects. Looking ahead, the results here suggest that most self-employed workers significantly value social insurance and that many are prepared to tolerate paying more in tax in exchange for the guarantee of future support.

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