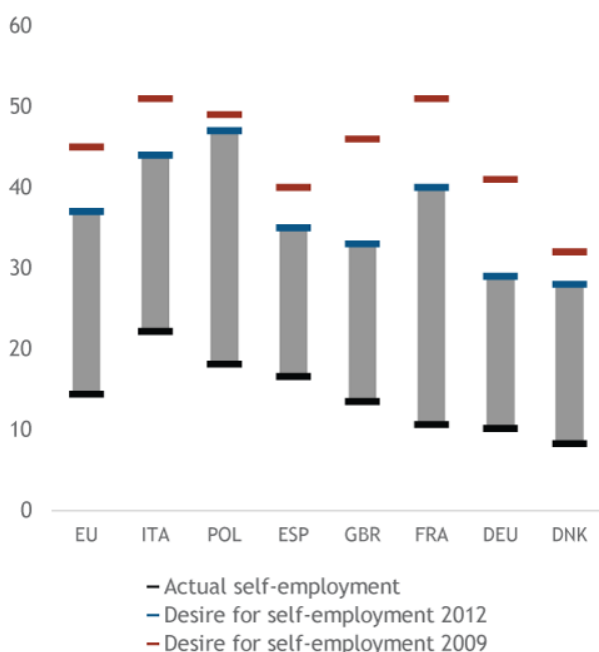


# Budget 2016: plugging the UK's self-employment deficit

Blog post by Adviser Conan D'Arcy, 16 March 2016



**Fig: Percentage of people stating preference for self-employment over being an employee, and actual levels of self-employment**  
Source: Eurostat, Eurobarometer

Today's budget included a tax break for self-employed workers. The government's approach is a rare example in Europe of promotion of the self-employment model, though the prospect of a comprehensive strategy remain remote while the government pursues its deficit elimination strategy.

Percentage of people stating preference for self-employment over being an employee, and actual levels of self-employment

Chancellor George Osborne's budget statement contained high praise for digital entrepreneurs and argued that the UK needed to 'light the fire of enterprise' by supporting the self-employed. His short-term solution is to abolish "class 2" national insurance contributions, an average £130 cut in annual social security payments for self-employed workers, with the prospect for further reductions in the future. This move was accompanied by the introduction of a £1,000 annual tax break for those working on online platforms such as Airbnb and EBay.

The context of the announcement is a gulf between the UK's self-employment rate of 13.5% and the stated desire of British workers for self-employment at 33% - a self-employment deficit of 19.5%. This trend is consistent across Europe (see Fig. 1) including countries where self-employment is common such as Italy and Poland and those where trade unions and collective bargaining are well-entrenched such as Germany and Denmark.

## *Divergent approaches to Europe's self-employment deficit*

Policymakers have so far largely ignored Europe's self-employment deficit and, in many cases, the reaction of political parties and trade unions has been hostile to growing rates of self-employment, often focussed on 'bogus self-employment' practices by employers. In France, there is active consideration in the National Assembly of introducing a new status for platform workers, which would see a new employee-like status introduced for apps like Uber. Trade unions across Europe

have also tended to see self-employment as a potential threat to minimum employment standards and their approach has often been to pressure companies to convert self-employed relationships into full-time contracts rather than improve the protections for self-employed workers.

The measures introduced in the UK buck this trend. While modest in impact, they are designed to increase the take home pay of self-employed workers and, therefore, improve the functioning of the self-employed model.

### *Budgetary constraints on a new self-employment model*

Nevertheless, plugging the UK's self-employment deficit and decoupling the perception of insecurity from self-employment is unlikely to be delivered through tax cuts alone: nearly 60% of self-employed workers surveyed by the Department of Business of Innovation and Skills stated that lack of income when taking time off was a problem. This insecurity could be partly addressed through targeted extensions in welfare entitlements, as recommended by the independent Deane review, but this would be expensive and would run counter to the government's deficit elimination strategy of reducing welfare spending by £12 billion.

With the government struggling to identify these cuts and having been forced into two humiliating U-turns, the prospect for a comprehensive approach through a combination of tax cuts, welfare entitlements and government-supported training programmes appear remote.