

Rising British self-employment used to obscure worsening job situation

John Farmer
19 August 2014

While unemployment continues to grow in the European Union (EU) countries, the seemingly contradictory employment figures recently released in the UK shows an increase in employment, in the midst of the worst recession since the 1930s.

George Osborne, Chancellor of the Exchequer in the Conservative Party/Liberal Democrat government, recently announced figures showing employment was at its highest recorded level in the second quarter of this year.

Unemployment fell to 6.5 percent in the three months to May with a record 30.6 million workers in employment, representing 73.1 percent of the working population. While the economy has just recovered to its 2008 pre-financial collapse level, Osborne boasts that for the first time in 35 years, the UK has more people employed than the US proportionally and that between 2011 and 2018 three million new jobs will be created.

According to government figures, an estimated 1.3 million jobs have been created since the coalition came to power in 2010. Over the first three months of 2014, employment rose by 345,000, the highest quarterly rise since records began. Jobs increased over the year by 780,000, the largest expansion since 1989. This is despite a collapse in UK manufacturing jobs by 325,000 since 2008.

What the figures reveal is that a significant change is taking place in the UK labour force, with the rise of self-employment, part-time working and zero-hour contracts.

Although the number of employees, i.e., those working for an employer and paying pay-as-you-earn tax (PAYE), has declined by 201,000 between 2008 and 2013, the number of self-employed jobs has increased by 330,000. The Trades Union Congress (TUC) estimates that just over half of the one million jobs created since 2008 are self-employed. They also note that self-employed incomes have declined by 20 percent since 2006 and by 40 percent

since 2000, with around 40 percent of those self-employed working part time.

Self-employment is defined as a person supplying their labour and/or materials as a sole trader or business to make a profit rather than wages.

Self-employment was regarded as a step towards reaching a certain turnover (currently set at £79,000) at which they would begin to pay Value Added Tax (VAT), becoming fully-fledged businesses. The number of self-employed making this transition is in decline with only 100,000 achieving it since 2000, of which the overwhelming majority were in the property sector.

The rise in self-employment is not driven by an “entrepreneurial spirit” but rather its opposite: the lack of full-time employment offering adequate income and pensions.

Self-employment has been a large part of the construction industry since the 1970s—renowned for unregulated working and varying pay rates. After many previous booms and slumps, the collapse of the housing bubble in the course of 2008-09 saw 350,000 construction workers jobs go. Unable to find other forms of employment, building workers returned to the industry as self-employed, sole traders, often on less pay, and with the loss of holiday and other entitlements but with acquired overheads.

Self-employment was given an enormous fillip in 1999 with the introduction of outsourcing by the then Labour government.

This allowed the public sector, particularly in health and social care, to farm work out to the private market. Umbrella companies and labour agencies took off around this time in response to the creation of a large pool of self-employed and part-time workers. Public-sector workers were encouraged by Labour to become small businesses and take advantage of privatisation.

Barry Mellor, on the Accounting Web web site,

describes an umbrella company as “a solution used by contractors, temps, locums and freelancers as a fully compliant method of getting paid for temporary assignments. The umbrella company employs you the contractor on a full-time permanent basis and supplies you for short-term assignments to different end clients.”

The coalition government has outsourced 457,000 public-sector jobs, including low or unskilled work in health and social care, providing a continuous source of labour for the umbrella companies.

Self-employment is growing at an annual rate of nearly 10 percent with 4.58 million self-employed currently representing about 15 percent of the workforce. Public-sector employment fell by 4.9 percent over the last year.

Unemployed workers claiming the paltry Job Seekers Allowance and facing constant harassment often remove themselves from the system, some registering as self-employed. Job Centres advise claimants to register as self-employed or as part-time to remove them from the unemployment register.

The new self-employed often combine sole trading with temporary employment as they attempt to keep working and eke out a living.

A recent report by Richard Murphy of Tax Research LLP, “Disappearing Fast: The Falling Income of Britain’s Self Employed People” states; “one of the big surprises in the UK economy over the last few years has been that unemployment has not risen to four million, which many, me included, were expecting. What’s often said is that this is because many people are working part-time, for low pay, and so are being kept off the unemployment statistics.”

He stated that apart from the 2 percent of self-employed who earn £100,000 plus a year, average earnings fell from £15,000 in 2000 to £10,400 in 2011 representing a 31 percent decline in real earnings.

The TUC, who haven’t lifted a finger whilst hundreds of thousands of full-time jobs have been lost, notes “The rise of self-employment is just part of a much wider move towards more casual, insecure working arrangements.”

The enormous decline in the income of the self-employed corresponds with the rise of outsourcing and development of umbrella companies. Umbrella companies, which can offer their services to a range of companies, hold workers on different terms including self-employment and zero-hours, are often set up as off-shore tax havens and offer low tax rates and in some cases avoid national insurance contributions. In April of this year, the government was forced to introduce legislation to regulate

tax and national insurance contributions that had been going unpaid.

Her Majesty’s Revenue and Customs (HMRC) recently brought a case against Reed Employment, who had been supplying temporary labour to companies, paying minimum wage levels by including travel expenses. Reed was able to claim tax on the travel expenses. It shows how umbrella companies not only exploit cheap labour but attempt to do so at taxpayers’ expense. The case ended with Reed having to pay HMRC a tax bill of £158 million.

Commenting on the case, Richard Murphy of Tax Research LLP stated; “this whole area remains out of control. Umbrella companies are undoubtedly engaged as intermediaries by some employers to reduce or remove their obligations to employees e.g. to make pension contributions or offer security of contract. The companies themselves promote an environment in which tax abuse appears endemic.”

Labour supply group Right Management states that the majority of employers believe that most of their employees will be replaced by umbrella contractors or temporary freelance personnel by 2020 because they offer much more flexibility.

This combination of self-employment and working on zero-hour contracts by a large percentage of the UK working population, which offers no guaranteed income has not been factored in to earnings reports issued by the Exchequer, who recently issued a distorted report suggesting earnings were rising by 0.7 percent (0.3 percent excluding bonuses). The reality is one of declining earnings for most.

A recent Office of National Statistics (ONS) survey shows a shift in jobs from high paying ones in skilled employment and finance to that of low-paid work in the service sector. The ONS says the trend is in line with rises in employment in the care industry and hotel and catering industries, notorious for their use of zero-hour contracts. It adds that depressed wages in these sectors have helped to make the last five years the longest period of falling real incomes in two generations.



To contact the WSWS and the
Socialist Equality Party visit:

wsws.org/contact