



***Centre for Research
on Self-Employment**

Response to the Taylor Review of modern employment practices

May 2017

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About the Centre for Research on Self-Employment (CRSE)

The CRSE is an international think tank working to improve the understanding of the self-employment sector and its impact on the economy.

Central to the CRSE's work is promoting the knowledge acquired through our research and providing a comprehensive analysis into the sector to inform public policy and add value to practitioners. This is achieved through strong collaboration with a network of university-based researchers and experts in the field.

Response to review

Do current definitions of employment status need to be updated to reflect new forms of working created by emerging business models, such as on-demand platforms?

The CRSE has recently consulted with a number of leading academics and industry experts at our annual Global Workshop on Freelancing & Self-Employment Research in November 2016. At this two day event, those at the forefront of self-employment studies presented research in this area with a focus on translating it into policies that support the self-employed.

The CRSE is responding to this review as a pertinent theme to emerge from the workshop, and our network's research, is concerned with debates about the definitions of self-employed workers, as well as the advent of the gig economy and how it is changing the nature of self-employment and work.

This response presents a view that current definitions for employment status are inadequate and must be redefined to reflect the reality of today's labour market. It presents evidence of the need to properly distinguish between the various segments of the self-employed and proposes a possible solution for the parameters with which this could be achieved.

Highlighting the heterogeneity of the self-employed

The research of our academic network, in particular that published in *The Handbook of Research on Freelancing and Self-Employment*¹, has clearly shown that the self-employed are not a homogenous group, and that there is great diversity across this segment of the workforce.

Many researchers in the CRSE network recognise the importance of the self-employed in driving innovation, entrepreneurship and business growth.² This is the case particularly among those highly skilled self-employed professionals working in jobs that fall into Standard Occupational Classification (SOC) 2010 groups 1-3 (managers, directors and senior officials, professional occupations, and associate professional and technical occupations). This group, often referred to as independent

¹ CRSE (2015), *The Handbook of Research on Freelancing and Self-Employment*, Senate Hall, Dublin, available online: <http://www.crse.co.uk/research/handbook-research-freelancing-and-self-employment>

² Burke, A.E. (2012), *The Role of Freelancers in the 21st Century British Economy*, PCG Report, available online: www.ipse.co.uk/sites/default/files/documents/research/Andrew-Burke-Report-v1.pdf

professionals or freelancers, is the fastest growing subset of the self-employed workforce³, which contributed £119 billion to the UK economy in 2016⁴. This of freelancers can command premium rates because they provide businesses access to more diverse expertise on a variable cost basis, as well as enable entrepreneurship, innovation and business growth⁵. These activities empower businesses to generate new sustainable revenue, which creates employee jobs.

Furthermore, the Freelancer Confidence Index, a quarterly economic survey by the Association of Independent Professionals and the Self Employed (IPSE), has consistently shown that these highly skilled independent professionals in SOC 1-3 occupations typically earn more than twice the income of equivalent employees and, on average, are working above 85 per cent capacity utilisation.⁶ This highlights that freelancers' rates of pay have little if anything to do with firms attempting to avoid paying employers' national insurance contribution tax. If this were true the maximum earning premium for freelancers would be the maximum rate of tax being avoided, which in the UK is 14 per cent. The reality is that the premium is usually around 10 times this amount which indicates that firms are instead paying for the extra value add that these highly skilled freelancers can generate for business that employees cannot. In addition, freelancers distinguish themselves from employees by undertaking project-based work – usually being paid for the output of their work and/or have multiple clients.

The CRSE's research has mainly focused on skilled freelancers who are the most highly value added segments of the self-employed workforce, mainly because this segment has been sparsely covered by researchers and public policy. Notwithstanding, the CRSE is also concerned about low or unskilled segments of the self-employed workforce, who do not share the attributes and privileges outlined in the previous paragraphs. A significant portion of the self-employed are lower skilled with limited bargaining power, who can find themselves subjected to low income and work insecurity. Therefore, the policy challenge is to seek to protect the freedom, privileges and huge economic contribution of skilled freelancers, while simultaneously avoiding the exploitation of the vulnerable low paid self-employed. We believe the answer is to segment the self-employed labour market and adopt a differentiated approach to public policy.

The problem with a broad-brush policy approach

At present, there is no legal definition that adequately represents new forms of work that do not fit within the traditional notions of employment. If policy does not recognise the diversity of the modern workforce, and instead utilises a broad-brush policy approach to the treatment of the self-employed, we have no doubt this will have detrimental effects.

Businesses and the economy benefit from the variable costs of engaging both manual and highly skilled professional self-employed workers. For example, the construction industry mainly use skilled manual workers, such as plumbers, plasterers, electricians and bricklayers, who are only required on

³ Department for Business Innovation & Skills (BIS) (2015), Self-Employment in the UK. www.gov.uk/government/publications/self-employment-in-the-uk

⁴ IPSE (2017), 'Exploring the UK Freelance Workforce in 2016', London, IPSE, available online: https://www.ipse.co.uk/sites/default/files/documents/research/exploring_the_uk_freelance_workforce_in_2016_v2.pdf

⁵ IPSE (2016), The Freelancer Confidence Index Q3 2016. www.ipse.co.uk/research/freelancer-confidence-index

⁶ IPSE (2016), The Freelancer Confidence Index Q3 2016. www.ipse.co.uk/research/freelancer-confidence-index

projects for an average of 20-40 per cent of the time⁷. If they were forced onto employee contracts then construction companies would either have to adopt less specialised skilled labour with associated lower productivity and/or pass on a substantial proportion of the cost of labour idle time to the home buyers. The industry would be faced with a very significant rise in the price of homes in by around 20 per cent.

At an individual level, while safeguards are required to protect low skilled precariat and sometimes disguised self-employment, simultaneously and by contrast, good policy should also exist that protects the freedom and legitimises genuine higher skilled freelancers. For example, if unfair dismissal rights were allocated to the highly skilled, professional segment of the self-employed, then the primary reason to take on freelancers is undermined as it would effectively eliminate the variable cost model that enables businesses to use specialised skills on a low-risk basis. Genuine freelancers don't need these rights, because well-defined project-based contracts are remunerated on an output (project completed satisfactorily) and not on an input (hours/days delivered) basis.

Equally, a policy that only seeks to encourage greater use of a flexible labour business model would leave significant swathes of the workforce vulnerable to exploitation and exposed to a precariat working career.

A solution is required that distinguishes between the various types of self-employment that will enable a differentiated policy approach across the various segments. It means that policymakers will be able to provide the appropriate support to those who need it, whilst at the same time enabling those who are driving the economy. CRSE research has already distinguished freelancers as a unique economic agent distinct from employees with reference to the following contractual features.

Table 1: Distinctions between freelancers and employees⁸

	Freelancer	Employee
Term of Contract	Project based, limited duration	Continuous
Intra-project downtime and below expectations productivity: Costs and risks	Entirely or mainly borne by the worker	Entirely or mainly borne by the business
Inter-project downtime: Costs and risks	Borne by the worker	Borne by the business
Remuneration	Output based or if input based is of limited project duration	Usually input based

⁷ Burke, A.E. (2013), The Economic Role of Freelancers in the Construction Industry (Second Edition), Hudson Report, <http://www.som.cranfield.ac.uk/som/dinamic-content/media/Wendy%20Lewis/Research/Freelance%20Workers%20in%20Construction%202nd%20Edition.pdf>

⁸ Taken from Table 3 of Burke, A.E. (2012), The Role of Freelancers in the 21st Century British Economy, PCG Report. www.ipse.co.uk/sites/default/files/documents/research/Andrew-Burke-Report-v1.pdf

A segmented approach

Though Table 1 provides a breakdown of the contractual features that distinguish freelancers from employees, further distinction needs to be made between the project-based economy and the gig economy.

In the project based economy freelancing is about enabling innovation, de-risking growth and being able to manage uncertainty in a highly turbulent business environment. Projects are usually unique, of significant scale and typically involved in a new venture, new product, innovation or implementation of growth in a new area of business. Therefore freelancers operating in the project based economy are typically key enablers of business growth.

By contrast, the gig economy typically involves well-defined, smaller and micro non-innovative work tasks that have little uncertainty. Preventing gigs really only has major negative economic consequences if the gigs themselves only exist because the work is so occasional, unique, unpredictable and sporadic that it would never be viable to replace these jobs with employees.

Researchers from the CSRE note that it is clear there are distinct types of self-employment which can be distinguished by legal factors, welfare, motivations of the individual and the nature/characteristics of the work. By applying these parameters it is possible to distinguish between self-employed professionals who are flourishing and productive, to those who are in the precariat and less productive – where for the most part the former do not need or want employee rights, and the latter would prefer to have employee rights. Distinguishing between the various types of self-employment would also help identify false self-employment that ought to be reclassified as employment.

To this end, the CRSE is commissioning a major segmentation research project, and is in addition nurturing a range of independent research projects related to heterogeneous types of solo self-employment and freelance activity in a forthcoming special issue of the Small Business Economics: An Entrepreneurship Journal (SBEJ). The CRSE is heartened that this review is also taking segmentation into account, as central to the CRSE's mission is to produce research that is motivated by and will inform public policy.

The CRSE's segmentation research project seeks to provide clarity that will help enable a differentiated policy approach across the various segments of the self-employed labour force. The final results will be published in a report due in autumn 2017, at which point we would be pleased to share them with the panel. The SBEJ is expected to be published in a similar timeframe, if not before, and will be shared with the panel as soon as it becomes available.

