

Is this the death of the traditional employee?

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1. Through the traumatic months of 2011 and 2012 when the economy flatlined, David Cameron and George Osborne hugged data releases from the jobs market like a comfort blanket.
2. Job creation surged upwards even as the economy went nowhere, giving beleaguered ministers something positive to cite in speeches.
3. And the growth in the jobs market was largely driven by burgeoning self-employment. Around four in 10 of the jobs created between the formation of the Coalition in 2010 and the beginning of last year were in this category.
4. But self-employment has not been merely a stagnation story.
5. Since the recovery finally kicked in last year, there have been further stunning gains in the number of people classified as working for themselves.
6. The total number of self-employed has now hit 4.5 million. That's around 15 per cent of the workforce and the highest self-employment ratio on record. Analysts are now vigorously debating the significance of this explosion in the self-employment figures.
7. What does this trend tell us about the state of the economy and, indeed, our society?
8. Yesterday's minutes from the most recent meeting of the Bank of England's Monetary Policy Committee showed the experts of Threadneedle Street grappling with this question. Does the trend represent, they pondered, concealed unemployment and therefore temporary "slack" in the economy? Or is it a permanent structural change in the labour market? To put it crudely, the former strengthens the case for keeping interest rates on hold for longer, while the latter supports a hike.
9. Members of the MPC, the minutes related, hold a "range of views", which is a polite way of saying they disagree. And no wonder. The evidence informing this debate is ambiguous and fragmentary.
10. For one thing it is unclear as to what is driving the trend. Demographics seem to be part of the story. The surge in self-employment has coincided with a glut of baby-boomers reaching retirement age. Anecdotally, many of us know people from this generation who have quit full-time jobs and set themselves up as consultants. And the statistics show over 65s are more likely to be self-employed than other age groups. As the Bank's minutes put it, many of these workers are likely to be choosing self-employment as an alternative to retirement, rather than an alternative to employment.
11. But this is unlikely to be the whole story. The self-employment surge also coincided with benefits reform by the Coalition. This seems to have pushed more people into setting up shop on their own in order to protect their incomes. The number of women entering self-employment has been particularly striking. While historically they have accounted for 30 per cent of the total, since 2007 they have represented 60 per cent. Many less well off women have been hit by the Government's tightening of eligibility for lone-parent income support.
12. An important question, then, is: how comfortable are people with being self-employed? A recent survey by the Resolution Foundation think tank found three-quarters of those entering self-employment in the past five years were happy to be their own boss. But that still left a quarter, around 450,000 people,

apparently hankering after a job in a firm.

13. There seems to be underemployment too. Around half of the newly self-employed of the past seven years are part-time. And the proportion of people working part-time who would like to work more hours is around 18 per cent, up from around 10 per cent before the financial crisis.
14. We know less about the financial circumstances of this group of workers than we know about those of regular employees. But the Resolution Foundation estimates that the median self-employed salary is £12,000 a year. That is only just higher than the minimum wage, implying that living standards for a large number of people have been battered (although one must, of course, take into consideration that many will be choosing to work fewer hours).
15. There are other vital economic questions too. How will the fact that one in seven of the workforce is self-employed impact on consumption? Can people be expected to spend less and save more if their income is more precarious? Will they work longer hours and more weeks if their holidays are not paid for?
16. There are implications for tax revenues here and, indirectly, the levels of public sector spending that Britain can afford.
17. Some regard the rise in self-employment as an encouraging trend, suggesting it indicates a blossoming of entrepreneurship among former wage slaves. Researchers at Morgan Stanley, however, doubt this, and point out that the number of self-employed individuals who have staff has fallen by around 10 per cent since 2007.
18. Others describe the trend as an inexorable reversion to an older pattern. They describe the "job for life" expectation of the post-war years as a historical aberration, which is now giving way to the rise of "portfolio careers".
19. Trade unionists, on the other hand, fear that the surge in self-employment is part of the pernicious casualisation of the workforce. The TUC argues firms have been sacking employees and hiring them back on temporary contracts in order to avoid the cost of pensions or the hassle of employee rights.
20. As with other puzzles thrown up by the economy in recent years, such as the collapse in productivity and the chronic weakness of exports, there is no shortage of solutions to the self-employment surge. But with our present state of knowledge it is impossible to say which one is correct.
21. Is the age of the traditional employee over? Are we turning into a nation of empowered entrepreneurs? Or will the new-born army of self-employed flow back to their old desks and workplaces as the economy returns to full capacity?
22. It is hardly a satisfactory answer when so much is at stake but only time – and more data – will reveal the answers.