

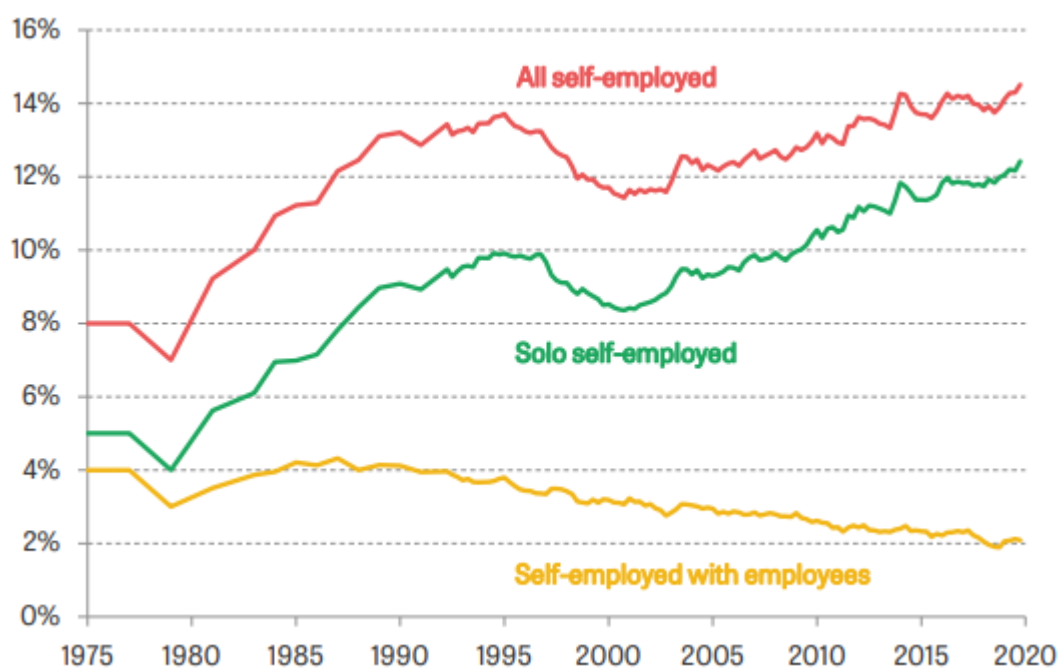
UK Labour Market: Employment and self-employment

In a speech earlier this year, the Chancellor, Jeremy Hunt, highlighted the ‘economically inactive’ as a key issue facing the UK. The economically inactive is the proportion of people aged between 16 and 64 years who are not working – neither in a job or looking for one. The chancellor said that the large numbers of working age adults who were economically inactive amounted to “*an enormous and shocking waste of talent and potential*”.¹

Some of this inactivity however is due to long-term ill health which has risen to over 2.5 million, an increase of over 400,000 since the start of the coronavirus pandemic. The number of people inactive due to ill-health makes up nearly 30% of all economic inactivity.² Other economic inactivity is the result of such things as caring responsibilities, studying, retirement, people who can afford not to work, and people who are waiting for jobs to start. Between May and July this year the total number classed as economically inactive was 8.78 million or 21.1% of those aged between 16 and 64.³

Total employment, which measures the proportion of the population aged 16 to 64 who are in work, plus those looking for work who are unemployed, was 30.1 million or 75.5% in May to July.⁴ Employment rates have been increasing since early 2012. This is largely because of a rise in employment among women, particularly among older women. Rising employment among 60 to 64-year-old women accounts for about one third of the overall increase in the employment rate over the past decade. It is partly a result of changes to the State Pension age which has resulted in fewer women retiring between the ages of 60 and 65 years. Cuts to benefits have also played a part by reducing payments, particularly among those with the lowest incomes. Over the past decade, incomes from benefits have fallen by 14 per cent for the bottom 10% of people and 13 per cent for the next 10%.⁵

Self-employed and solo self-employed: 1975 to 2020



The increase in overall employment has also been affected by an increase in self-employment. The chart⁶ shows that self-employment in the UK has risen dramatically since the 1970s. In 1975 only 8% of workers were self-employed. The share of workers in self-

employment rose in the 1980s mainly due to workers moving from manufacturing to service industries and also because of an increase in subcontracting, particularly in the construction industry. After falling in the 1990s, self-employment has been rising steadily again since 2000. The numbers of self-employed reached their highest level of 5.0 million or 15.3% of total employment at the end of 2019 but then fell during the pandemic to 4.2 million or 12.9% in early 2022.⁷ As of July 2023, the number of self-employed was still around 4.2 million.⁸

The chart also shows that the rise in self-employment has been entirely due to an increase in ‘solo self-employment’, that is individuals working by themselves without employees. The rise in solo self-employment accounts for 38% of all employment growth since the onset of the financial crisis in 2008. In 1975 almost 50% of those who were self-employed had employees, but by 2019 only 15% of them had employees. Around 85% of solo self-employed workers are sole traders – single owners of businesses with no employees. The rise in self-employment in Britain is almost unique among advanced economies. In 2019 the UK had the second-highest level of solo self-employment as a percentage of total employment, with only Italy higher.⁹

The occupations with the highest proportion of solo self-employed workers before 2000 were construction and building trades and artistic, literary and media occupations. These were also the occupations which increased most between 2000 and 2020 – construction and building trades from 288,000 to 429,000 and artistic, literary and media occupations from 101,000 to 276,000. On average the solo self-employed earn less than employees. Over 55% of sole traders earn less than £300 a week, compared with 33% of employees who earn that.⁹

The evidence suggests that many people enter solo self-employment after having been unemployed or inactive.¹⁰ Around 46% of those who fell out of employment in the run-up to becoming solo self-employed had been dismissed or made redundant from their previous job. In addition research shows that an employee is more likely to enter self-employment as a means of escaping from a bad job - one which pays poorly, requires long hours, offers poor job security and provides little opportunity for career enhancement.¹¹ Around two-in-five self-employed workers would move to a salaried job if they could secure the same pay, and around one-in-eight would accept a 20% pay cut to become an employee. The main reason given is not being able to find a paid job at a similar wage.¹² *“Solo self-employment is often something that people do when they would prefer a more typical employment arrangement but cannot find such an opportunity.”*

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Note

The solo self-employed also include those who run their businesses as a limited liability company with themselves as the only director and no employees, sometimes referred to as owner-managers. The number of solo self-employed owner-managers has also grown since 2013, accounting for 12% of total employment growth since 2008. Around a half of the solo self-employed who run their businesses as a limited liability company also earn less than £300 a week, although 11% of them have very high earnings of over £1,200 a week. Only 5% of employees and 3% of sole traders earn as much as this.