

Chapter 7

Is self-employment quality work?

This chapter assesses the quality of self-employment, focusing on earnings, job stability and the quality of work environment. This analysis differentiates between different types of self-employment, notably those with and without employees and considers differences in the quality of self-employment across different social target groups such as women, youth, seniors and immigrants. In addition, the chapter examines the current policy discussion on the quality of dependent and “false” self-employment. Policy advice is provided on improving the quality of new business start-ups and on addressing false self-employment.

Note by Turkey:

The information in this document with reference to “Cyprus” relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognises the Turkish Republic of Northern Cyprus (TRNC). Until a lasting and equitable solution is found within the context of the United Nations, Turkey shall preserve its position concerning the “Cyprus issue”.

Note by all the European Union Member States of the OECD and the European Union:

The Republic of Cyprus is recognised by all members of the United Nations with the exception of Turkey. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.

Key messages

The quality of one's job has a direct impact on their standard of living and well-being. Moreover, it can also be an important driver of labour force participation, productivity growth and aggregate economic performance. Job quality is a particularly relevant policy issue given the emergence of the digital or collaborative economy (including tasks which are collectively done online, such as through Amazon Mechanical Turk and work which is organised through online platform and mobile applications, such as Uber).

This chapter draws on the job quality frameworks used by the OECD, European Commission and Eurofound to assess the job quality for the self-employed. The framework in this chapter focuses on the common elements of these frameworks and where data are available for the self-employed, namely earnings, job stability and working conditions.

The self-employed population is a highly heterogeneous group. Nonetheless, some key conclusions can be drawn. While self-employed with employees often earn more than those without employees, there is also a significant number of solo self-employed with high earnings such as highly skilled freelance workers. Furthermore, self-employment appears less secure than many forms of employment. Considerable numbers of self-employed exit before five years and many of these people do not have access to unemployment benefits.

The working conditions for the self-employed are also highly variable. Overall, self-employment can be characterised by long working hours and the potential for stress and health-related issues is often greater than for employees. These poor working conditions are especially prevalent for some categories of self-employed workers, notably dependent and "false" self-employed people. These workers rely on one or two clients and therefore tend to enjoy few of the advantages of employment (e.g. social security protection), few of the advantages of self-employment (e.g. task diversity) and all of the disadvantages that are associated with self-employment (e.g. low income, financial insecurity, long working hours). Moreover, these workers tend to under-cut those in employment and increase the risk that they will lose their jobs.

Traditionally, public policy has sought to support business creation and self-employment by improving the business environment and increasing the chances of success by offering entrepreneurship training, coaching and mentoring, improved access to start-up financing, business counselling and entrepreneurship networks. In addition, many countries have measures and programmes to help informal businesses formalise, which will help increase the quality work for the owner-operator. It is important to continue to offer such measures to support entrepreneurs in maximising the potential of their businesses.

Much of the current policy debate surrounding the quality of self-employment is focused on the issue of dependent and false self-employment, including work arranged through online and mobile platforms. Three approaches are typically used to minimise

false self-employment: clarify work status (i.e. make it more clear who are employees and who are the self-employed); introduce intermediate work categories that treat this type of work separately; and improve access to social security for the self-employed. In practice countries tend to take a multi-pronged approach to fighting false self-employment, as well as using measures to make it more attractive for employers to hire an employee over a false self-employed worker.

Policy recommendations

- Continue to use the suite of traditional policy instruments with progressive intensity to improve the quality of business start-ups, favouring business ideas with an element of innovation.
- Offer incentives for, and support, the formalisation of informal businesses.
- Use a multi-pronged approach to combat false self-employment that includes removing tax incentives for false self-employment, educating employers and the self-employment about the risks of false self-employment and improving the incentives to hire employees.
- Improve coverage of the self-employed within social security systems.
- Improve the detection of disguised self-employment with improved data collection.

Ensuring quality work

- Job quality can have a strong influence on an individual's well-being. It can also be an important driver of labour force participation, productivity growth and aggregate economic performance.
- The quality of self-employment work is similarly important but must be considered differently since these workers, unlike employees, typically have control over many of their working conditions (e.g. work load, tasks, working hours).
- Public policy has a role in increasing the quality of self-employment work to maximise the economic benefits. It is a particularly relevant policy issue given the increasing prevalence of self-employment.

Labour market activities have a strong influence on an individual's well-being. Unemployment can cause great distress, while working directly impacts lifestyle and standard of living. Since the economic crisis that started in 2008, policy makers have been focussed on job creation as they tried to move people back into work and stimulate economic growth. However, this focus on job creation has often excluded the element of job quality. Job quality has a strong impact on an individual's well-being, including health and overall life satisfaction. It can also impact future opportunities in the labour market as some jobs offer opportunities for personal development and skills upgrading. Job quality can also be an important driver of labour force participation, productivity growth and aggregate economic performance (Cazes et al., 2015).

The quality of work has been increasingly recognised as an important issue by policy makers as many institutions and governments are working to define and measure job quality. This includes work by the OECD, the European Commission, the International Labour Organisation and Eurofound. These actions have been important

in the European Union, where raising awareness about the need to consider the quality of jobs in addition to their quantity led to the setting of policy targets on job quality as part of the successive European Employment Strategies, as well as the recent European Pillar of Social Rights.

Job quality is also relevant for self-employment. However the issue for policy making is different because the self-employed are often in control of their work environment. They can set their working hours, work location, work load and tasks. It must also be acknowledged that this is not always true. Some self-employed are dependent on one single client and in many of these cases, some or all of the working conditions can be set by the client.

There is, nonetheless, an important role for public policy in helping the self-employed understand the benefits of quality work and encouraging them through education and training to arrange their work in a way that maximises both their well-being and their economic contributions. This becomes increasingly important for public policy as the concept and structure of work is shifting (EC, 2017c).

Assessing the quality of self-employment work

- Job quality is measured with a range of variables that can be grouped into three categories: earnings, job stability and working conditions. This framework can also be applied to self-employment.
- The self-employed, particularly those without employees, earn, on average, much less than employees. This, however, masks that the self-employed with employees appear to earn more than employees, and that there are geographic, demographic and sectoral differences. It is also clear that the self-employed systematically under-report their income, which may obscure the pecuniary advantages of self-employment. Further, the work-related benefits available through social security systems are less generous than those available for employees and are more difficult and burdensome to access.
- Self-employment is less secure than employment as considerable numbers of the self-employed exit before five years. The majority of these people do not have access to unemployment benefits, although a very small proportion will move into employment.
- Self-employment brings with it the opportunity for flexibility and autonomy, leading to greater levels of job and life satisfaction. The trade-off, however, is that their working conditions are characterised by long working hours and the potential for stress and health-related issues.
- It must be recognised that the self-employed are an extremely heterogeneous group and the quality of self-employment work can vary greatly. In general, the quality of work is greater for those with employees than those who do not have employees, however the largest variation in work quality is found in the latter group.

Job quality can be measured with a broad range of indicators. Table 7.1 provides an overview of the different frameworks that have been developed by the OECD, European Union and Eurofound to measure job quality. While each takes a different approach, it is quite clear that the different frameworks have common threads.

Table 7.1. Frameworks for measuring job quality

	OECD	European Union (Employment Committee)	Eurofound
Earnings	<ul style="list-style-type: none"> Earnings quality 	<ul style="list-style-type: none"> Adequate earnings 	<ul style="list-style-type: none"> Earnings
Job stability	<ul style="list-style-type: none"> Labour market security 	<ul style="list-style-type: none"> Job and career security 	<ul style="list-style-type: none"> Prospects
Working conditions	<ul style="list-style-type: none"> Learning opportunities Health and safety risks Time pressures Work autonomy Workplace intimidation and social support at work 	<ul style="list-style-type: none"> Employability Health and safety at work Work intensity Autonomy Collective interest representation Work-life balance Gender balance 	<ul style="list-style-type: none"> Physical environment Social environment Skills and discretion Work intensity Working time quality

Source: OECD (2014), "How good is your job? Measuring and assessing job quality", Chapter 3, OECD Employment Outlook 2014, OECD Publishing, Paris. http://dx.doi.org/10.1787/empl_outlook-2014-6-en; European Union (2015), Employment and Social Developments in Europe 2014, Luxembourg: Publications Office of the European Union; Eurofound (2017 forthcoming), "Exploring Self-employment in the European Union".

This chapter focusses on the three common themes across these frameworks, namely:

1. Earnings, i.e. average earnings and their distribution;
2. Job stability, i.e. risk of unemployment and coverage by unemployment insurance; and
3. Working conditions, i.e. hours worked, health and safety, and training and development.

These dimensions of job quality are measured for the self-employed to the extent that data are available. Comparisons are made with employees, and when possible, different groups of the self-employed are examined (Box 7.1). In most data sources, this is limited to comparing the self-employed without employees to those who have employees. However, a recent analysis of data from the Sixth European Working Conditions Survey identified five groups of self-employed: Stable own-account workers (i.e. the self-employed without employees who operate strong businesses), Small traders and farmers (i.e. the self-employed without employees who operate small or part-time businesses), Employers (i.e. the self-employed with employees who operate stable businesses; some may have strong growth potential), Vulnerable (i.e. the self-employed without employees who operate small business that are at risk of closing) and Concealed (i.e. those self-employed who are dependent on a single client) (Eurofound, 2017 forthcoming). This analysis is added to enrich the data and discussion in this chapter.

Box 7.1. Defining self-employment

One of the basic challenges in evaluating self-employment job quality is adequately defining what constitutes self-employment. Self-employment is defined relative to employment, with employees having a contract of service to the employer while the self-employed have a contract for providing service to clients (Wynn, 2016).

The OECD defines the self-employed as those who own and work in their own business, including unincorporated businesses and own-account workers, and declare themselves as "self-employed" in population or labour force surveys (OECD, 2016). Further, self-employment jobs are defined as those "jobs where the remuneration is directly dependent upon the profits (or the potential for profits) derived from the goods and services produced (where own consumption is considered to be part of profits). The incumbents make the operational decisions affecting the enterprise, or delegate such decisions while retaining responsibility for the welfare of the enterprise" (15th Conference of Labour Statisticians, January 1993). The

Box 7.1. Defining self-employment (cont.)

definition thus includes both unincorporated and incorporated businesses and as such differs from the definitions used in the System of National Accounts which classifies self-employed owners of incorporated businesses and quasi-corporations as employees.

However, implicit in this is that there are three core features which help to distinguish independent self-employment work from dependent employment, namely that the self-employed:

1. Have greater control over how they work than employees;
2. Have greater independence about which work they choose;
3. Are also more likely to bear the risks involved in contracting their services than employees.

By definition of Eurostat, a self-employed person is considered to be working in their own business, farm or professional practice rather than for an employer. In addition they meet one of the following criteria:

1. Works for the purpose of earning profit;
2. Spends time on the operation of a business; or
3. Is in the process of setting up his/her business.

A number of factors complicate any attempt to define self-employment. First, there are a large number of terms used to describe the self-employed, including the solo self-employed, own-account workers, sole traders, freelancers, independent professionals (“I-pros”), contractors, portfolio workers and working proprietors in businesses with no employees, to name a handful. The conflation of different categories is partly for data availability reasons and partly because it has become conventional to use terms interchangeably.

This is further complicated by the emergence of “new” forms of self-employment with the growth of the digital and collaborative economy (see Box 7.4) and a growing tendency for firms to outsource work to contractors. It is therefore increasingly difficult to distinguish those who are independently self-employed from more dependent forms of self-employment, or even employees.

Earnings

Earning considers income quality, both in terms of the level of earnings as well as its distribution. Both aspects are important as there is a positive correlation across countries as well as between persons within countries between levels of earnings and subjective well-being and satisfaction measures. Further, for a given level of average earnings, overall well-being tends to be higher when there is a more equal distribution (Cazes et al., 2015).

In assessing earnings quality, choices need to be made on how individual earnings are measured. Earnings can be measured in either gross or net terms (i.e. before or after deductions of employee taxes and social security contributions) and on an hourly, monthly or even annual basis. OECD work on measuring job quality often uses gross hourly wages. Gross wages are used due to methodological challenges in measuring net wages across countries, while hourly wages are preferred to differentiate job quantity issues from job quality issues.

A different approach is used here since the focus is on measuring the quality of self-employment. The concept of net earnings is preferred since this has a more direct impact on an individual’s quality of life. In addition, usual monthly earnings are used since the

nature of self-employed work is different from standard employment. The self-employed tend to work more hours per week and the work flow is typically more inconsistent than that experienced by employees. To minimise the impact of these irregularities, monthly earnings are considered rather than hourly earnings.

Income earned

Fondeville et al. (2015) identified that the net median earnings of the self-employed without employees are lower than that of median earnings of employees.¹ In 2007, two-thirds of the self-employed without employees had earnings that were below median employee earnings and 46% had earnings that were below 60% of the median employee earnings. This was particularly pronounced in countries such as Estonia, Spain, Romania, Slovenia, Finland and Sweden where more than 80% of the self-employed had earnings below the median for employees.

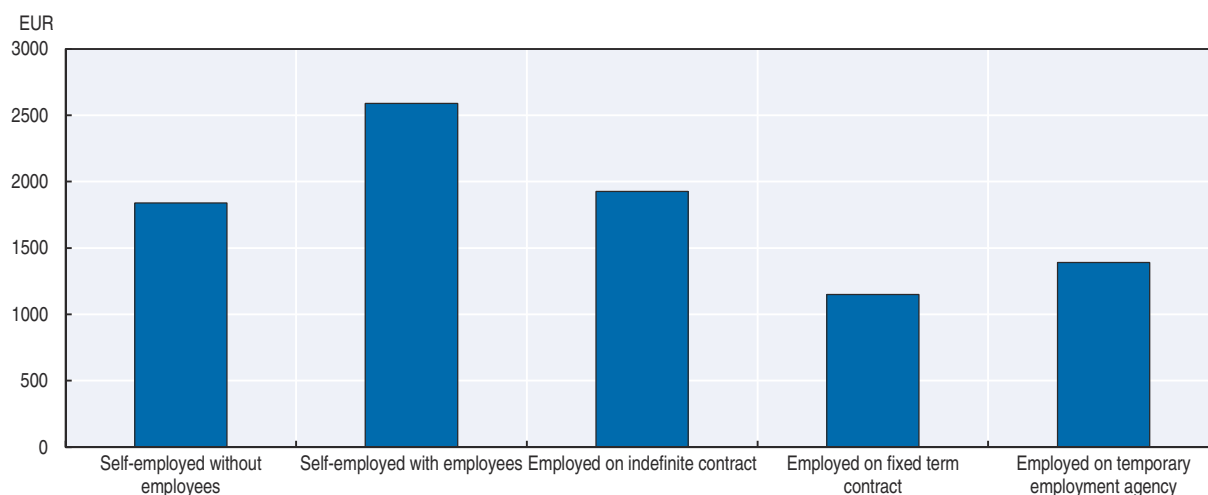
This situation has worsened since the economic crisis. In 2012, the relative earnings of the self-employed (without employees) had dropped further (Fondeville et al., 2015). 73.3% had earnings that were below the median employee earnings and 51.3% had earnings that were below 60% of the employee median. These data further show that, compared to employees, the household income of the self-employed (including the self-employed with employees) had fallen and material deprivation had increased over the period 2007-12.

However, this general evidence is nuanced by differences in earnings between incorporated and unincorporated self-employed workers, differences between countries and in the personal circumstances of the self-employed. Figure 7.1 shows that the self-employed without employees earned about EUR 700 less net (i.e. after taxes and social contributions) per month than those with employees and EUR 100 less than those in standard employment (i.e. those employed on an indefinite contract). However, the self-employed with employees earned approximately EUR 600 more per month than those who were employed on indefinite contracts. This is consistent with country-level evidence such as evidence for Germany showing that employees earn more than the self-employed without employees but less than the self-employed with employees (Sorgner et al., 2014).

More generally, the self-employed are more likely to be found among both the lower and upper tails of the income distribution than those in wage employment (Parker, 2009). For example, the contribution to total social value (i.e. income, business profits and capital gains) by self-made billionaires in the United States was 4600 times larger than that of the median self-employed (Sanandaji and Leeson, 2013).


Recent research by Eurofound (2017) used cluster analysis to confirm the heterogeneity across the self-employed. Overall, this analysis found that the self-employed earned approximately 21% more than employees in the EU when considering monthly real earnings after tax. However, there were stark differences between the five categories of self-employment identified in the cluster analysis (i.e. stable own-account workers, small traders and farmers, employers, vulnerable and concealed). Employers had the highest earnings, while the vulnerable group earned far less than other self-employed but this could be explained partially by the sector and geographic location. Earnings for the other types of self-employment were greater than those of the vulnerable group but lower than the self-employed with employees (Eurofound, 2017).

There is evidence to suggest there are likely geographical and sectoral differences in self-employment earnings. For example, the median self-employed (including those with

Figure 7.1. **Net monthly earnings among workers, 2015**

Note: The data presented in this figure exclude people working in apprenticeships, those who work without a contract and “other” employment arrangements such as family workers.

Source: OECD calculations based on microdata from the Sixth European Working Conditions Survey (Eurofound, 2016b).

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ownership of limited liability businesses) earned 16.4% more than the median employee in Norway (Berglann et al., 2011), and in Germany they earned 13% more (Martin, 2013). However, the self-employed earned 15% more than employees in East Germany, while they earned 14.8% less in West Germany (Martin, 2013). This German evidence also points to differences across sectors. The “liberal profession” (e.g. doctors and accountants) were more likely to earn more than equivalent employees.

There is also evidence that earnings from self-employment depend on the characteristics of the individual person. In most European Union Member States, women in self-employment earn less than men and are more likely to be reliant on supplementary income sources (OECD/EU, 2014). Further, evidence from Germany and the United States suggests that the better-educated have higher earnings levels when in self-employment relative to employment (Sorgner et al., 2014; Hartog et al., 2010).

The evidence on self-employment earnings by age is mixed. Some find a “U-shaped” pattern to self-employment earnings, with the self-employed earning more in their early and later lives (Terigman, 2010), while other evidence shows that early-career and voluntary self-employment leads to relatively higher earnings gains while late-career and involuntary self-employment has negative effects on earnings (Munk, 2015). This is consistent with the finding that young disadvantaged self-employed men earn more than equivalent employees, suggesting that self-employed can be a mechanism for alleviating disadvantage (Fairlie, 2005). However, the data from the European Union show that self-employed seniors and youth tend to rely more on non-business sources of income than core-age male self-employed workers (30 to 50 years old) (OECD/EU, 2014).

Despite all of the evidence that suggests that the self-employed earn less than employees, there is a need to be somewhat circumspect about the use of earnings data to assess the quality of self-employment. The self-employed have much greater latitude in terms of what they report as earnings to their tax authorities than employees whose salaries are often taxed at source. There is now an established body of international evidence that identifies that the self-employed significantly under-report their earnings

(Table 7.2). This income under-reporting reflects a number of issues. For example, the taxation system may lack simplicity, making it difficult for the self-employed to understand their tax obligations. There may also be opportunities to under-report earnings if tax information is not collected in real time or if the tax system struggles to identify who amongst the self-employed are more likely to under-report their earnings.

Table 7.2. **Recent estimates of under-reporting of self-employment**

Study	Percentage of income under-reported	Country
Hurst and Pugsley (2014)	30%	United States
Astebro and Chen (2014)	42%	United States
Kukk and Staehr (2014)	62%	Estonia
Martinez-Lopez (2013)	25%	Spain

Other dimensions of earnings quality

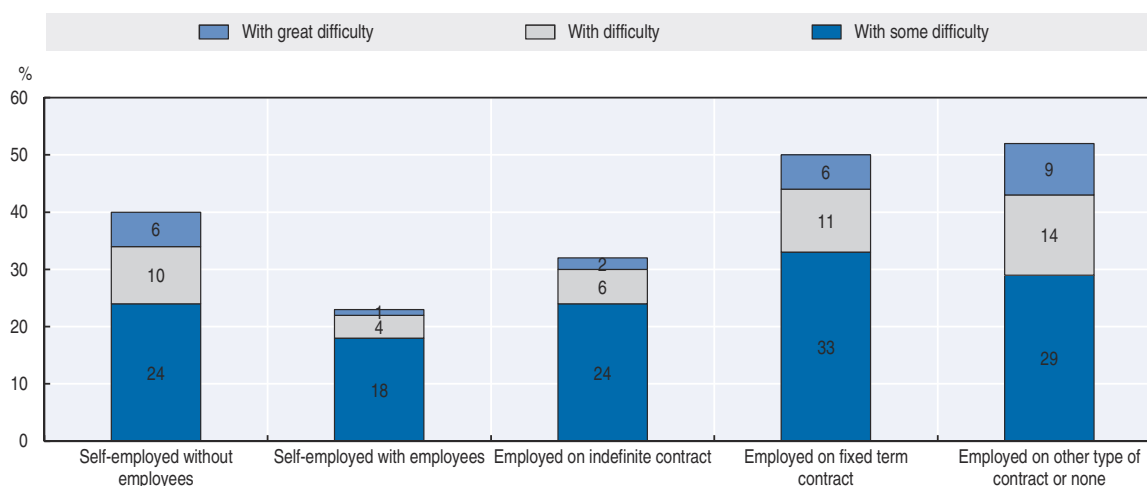
One of the features of self-employment is that they have fewer work-related benefits (e.g. maternity coverage, family and partner benefits) than employees (OECD/EU, 2014). For example, in the United Kingdom, the self-employed are not eligible for sick pay and, in Malta, have lower entitlements to sick pay and maternity coverage than those who work as employees (Library of European Parliament, 2013). Furthermore, the self-employed are less likely to be affiliated with old-age pension schemes than employees in high-income countries (63% for the self-employed vs. 89% for employees) (ILO, 2015). Moreover, they appear to be much less likely to make contributions to private pension schemes. For example, only 21% of the self-employed in the United Kingdom contribute to a private pension compared to 51% of employees (DWP, 2014).

While these lower levels of benefits may be seen as appropriate given the lower social contributions that the self-employed tend to make, the administrative costs associated with accessing social security benefits also deter people from considering self-employment and make it more difficult to access benefits (OECD/EU, 2014). These barriers are likely greater for some groups, such as women. For example, better maternity coverage and lower child care costs would not only increase female participation in the labour market but also have a disproportionately positive effect on increasing the likelihood of women taking up self-employment (OECD/EU, 2017 forthcoming; Elam and Terjesen, 2010).


Financial security

One further symptom of the risky nature of self-employment is the incidence of part-time self-employment, which has increased since the financial crisis. This increase has largely been involuntary with 30% of the self-employed across the European Union suggesting that they could not find work (GEM, 2017). Moreover, over the period 2007-12, evidence shows that the percentage of self-employed workers looking for another job has gone up in many EU Member States, although there are exceptions such as Germany and Poland (Hatfield, 2015).

Other evidence shows that 40% of the self-employed without employees judged themselves to be more financially insecure than self-employed with employees, and employees on indefinite contracts (Figure 7.2). However, the self-employed with employees were less likely to assess themselves as financially insecure as employees on fixed term or other types of contracts.

Figure 7.2. **Financial insecurity by employment status in the European Union, 2015**

Source: Eurofound (2016), "Sixth European Working Conditions Survey – Overview report", Publications Office of the European Union, Luxembourg.

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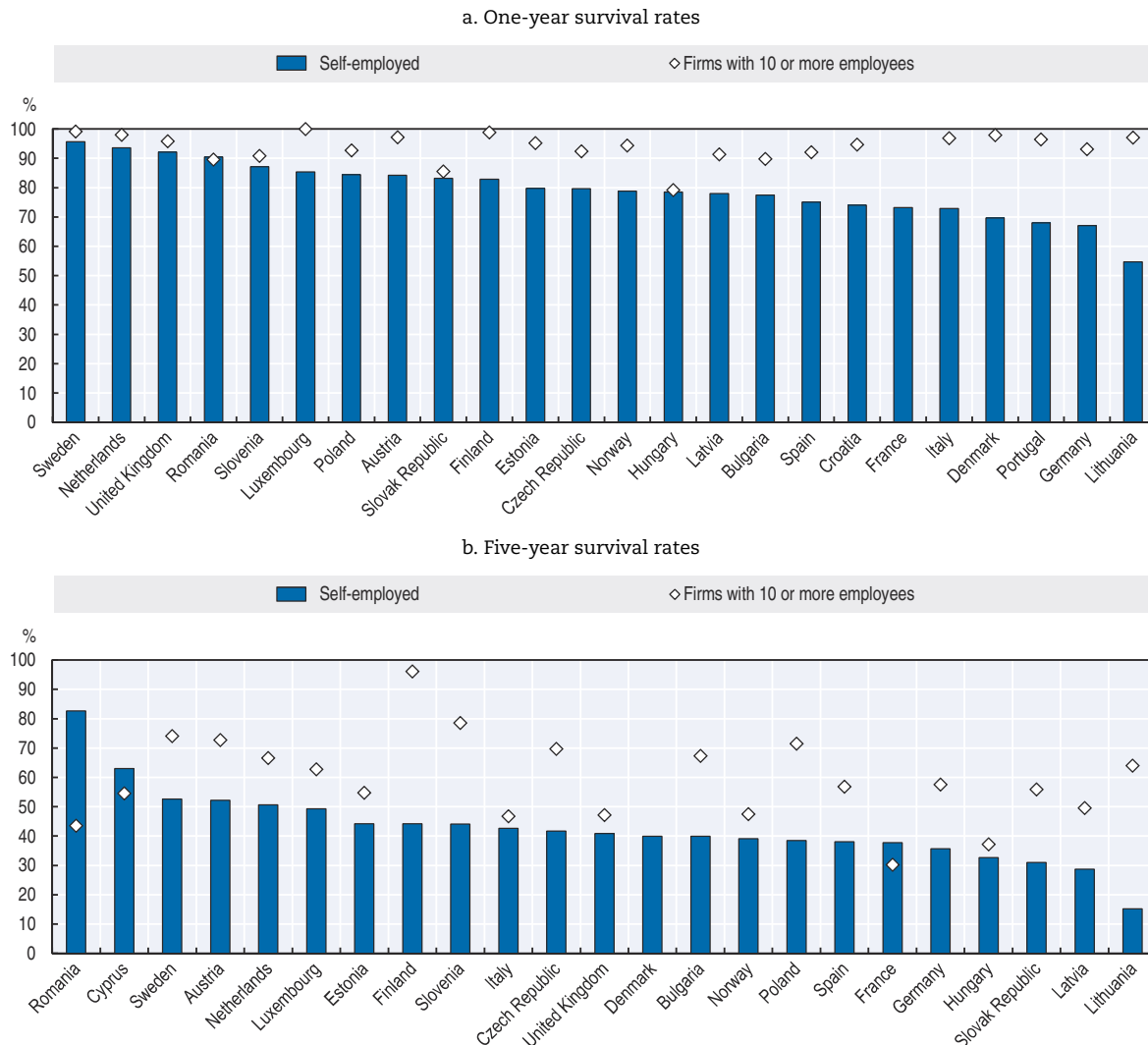
Job stability

Another important issue to consider when assessing job quality is the security of work. For employees, this is measured in terms of the risk of unemployment and the likely duration of unemployment. However, this measure needs to be adapted for the self-employed. Self-employment is often ended by a closure of the business, thus the rate of business exit can be used as a proxy for the probability of unemployment. Other measures of the potential precarious nature of self-employment include the expected likelihood of job loss, job tenure, the outcomes of a spell of self-employment on future employment prospects, and the accessibility of unemployment benefits.


Duration of self-employment

One of the stylised features of self-employment is its very high exit rates. This reflects that the self-employed struggle to assess their likely financial returns (Berkhout et al., 2016), are over-optimistic about their likely chances of success in business and are over-confident in their own abilities to succeed (Cassar, 2010; Townsend et al., 2010; Dawson and Henley, 2013; Hyytinen et al., 2014). The precarious nature of self-employment is shown in Figure 7.3a, which depicts how many of the self-employed survive their first year. It shows that there is wide variation across the European Union in terms of the self-employed without employees. In some countries, more than nine out of ten of the self-employed survive for one year (Sweden, the Netherlands and the United Kingdom). In contrast, more than three out of ten of the self-employed do not survive their first year in Denmark, Germany, Portugal and Lithuania. Figure 7.3a also shows that among the self-employed with ten or more employees, approximately 90% survive their first year. With the exception of Hungary, this is broadly similar between EU Member States.

Figure 7.3b shows that business survival rates are much lower after five years. Among the self-employed without employees, more than half will have exited self-employment. This varies substantially between countries. In Romania, Cyprus, Sweden, Austria and the Netherlands, more than half of the self-employed will still be self-employed after five years. However, in Latvia about 70% will have exited, while in Lithuania, it is more than 85%. For the

Figure 7.3. **Business survival rates of the self-employed, 2014**

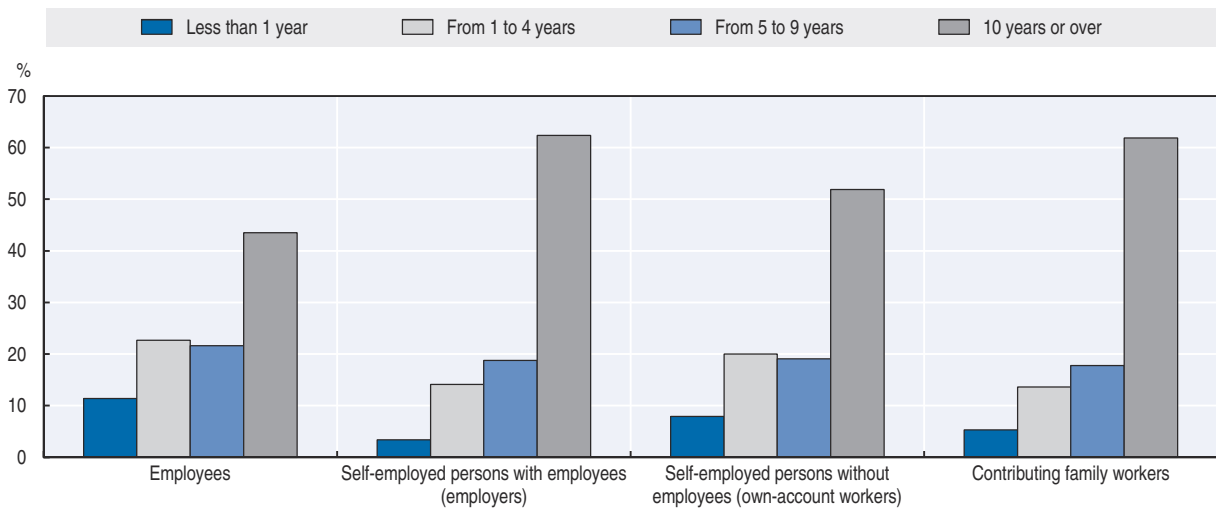
Source: Eurostat (2017a), Business demography by size class, available at: <http://ec.europa.eu/eurostat/web/structural-business-statistics/data/database>.

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self-employed with ten or more employees, their survival rates are generally higher than the self-employed without employees (with the exception of Romania, Cyprus and France). The survival rates for this group also vary greatly from above 90% in Finland to below 40% in France and Hungary. This reflects wider evidence that the chance of the self-employed with employees exiting is much lower than that of the self-employed without employees (Millán et al., 2014).

Data on job tenure confirm that self-employment jobs are less likely to have shorter tenures than employees but more than half of the self-employed have been in their “jobs” for more than 10 years (Figure 7.4). This is greater than the proportion of employees, 42%. Slight differences in job tenure are observed between the self-employed with and without employees. Those with employees were more likely to have been operating for more than 10 years (62%) whereas those without employees were more likely to have been operating for less than five years.

Figure 7.4. Job tenure in the European Union, 2015



Source: Eurostat (2017b), Labour Force Survey, available at: <http://ec.europa.eu/eurostat/web/lfs/data/database>.

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Box 7.2. Freelance workers

Freelance workers are defined as a subset of own-account workers (Kitching, 2016), even though it is not a legal status in most national jurisdictions. Instead, it is a commonly used term that refers to self-employed workers in occupational groups that provide skilled non-manual services and require little capital, often referred to as “knowledge workers”. Often this includes those working in creative and media occupations, but it could also cover own-account workers in managerial, professional, scientific, technical and creative occupations. Freelance workers operate under a range of legal business forms: as self-employed sole proprietors or partners in unincorporated businesses, as directors of their own companies and as umbrella company employees.

Approximately 40% of the self-employed without employees in the European Union were classified as managers, professionals or as technicians or associate professionals in 2016 (Eurostat, 2017b). The occupational composition of the self-employed varies considerably across countries both in absolute terms and relative to employees. In Germany, Luxembourg, Belgium, Switzerland, Estonia, Netherlands, Sweden and Denmark, more than 50% of the solo self-employed worked as managers, professionals or as technicians or associate professionals (significantly more than the proportion of employees working in these occupations, except Sweden where the proportions were identical). In contrast, in Lithuania, the figure was less than 15% and in Romania, just 3% – in all cases, substantially less than the proportion for employees.

A concept which is almost identical to freelancers are so-called “independent professionals”, a group of self-employed without employees engaging in a service activity and/or intellectual service not in the farming, craft or retail sectors. Their number was estimated to be about 10 million in the EU in 2014 and to have doubled since 2000. The group accounts for 40% of all self-employed without employees and almost 30% of all self-employed (close to the 26% share of “stable own-account workers” in Eurofound 2017) (Leighton 2015; IPSE 2015).

Those who work as freelancers tend to be high-skilled workers. Provided that there is a sufficient demand for their services, this type of self-employment is high-quality work. These workers often receive higher incomes than they would in employment, including a risk premium that compensates them for irregular and uncertain work flows. Moreover, they have a great deal of influence over the type of work that they do and therefore derive very high satisfaction from their work.

Exit outcomes of self-employment

Exits from self-employment are often considered to be “failures” but they do not always lead to negative outcomes. Approximately one-third of business exits are “successful” voluntary closures where the business is sold or transferred to a family member (Headd, 2003).

Moreover, the self-employed often return to self-employment (Taylor, 2011; Millán et al., 2014b). This habitual self-employment is quite common, varying from 30% in Finland (Hyytinen and Ilmakunnas, 2007), 25% in the United Kingdom (Westhead and Wright, 1998), 20% in Portugal (Rocha et al., 2015) to 17% in Germany (Gottschalk et al., 2016). Habitually self-employed people often also return speedily to self-employment but this is likely dependent on the outcomes from the previous spell in self-employment (Amaral et al., 2011). The self-employed with a positive founding experience are more likely to return quicker to self-employment. This reflects that the self-employed who were previously successful and were motivated by an opportunity often “take a look” at a particular opportunity to assess its potential and quickly close a new business if it fails to meet their expectations without any real loss to their income or wealth (Arora and Nandkumar, 2011). However, other evidence suggests that the better educated and those with longer prior employment experience take longer to re-enter into self-employment (Amaral et al., 2011).

Exiting self-employment may also have a limited impact on future earnings and future employment states (Daly, 2015). However, most studies find that after a spell of self-employment, these individuals tend to earn less than waged workers (Kaiser and Malchow-Møller, 2011; Baptista et al., 2012). Re-entering wage employment may be difficult for many disadvantaged communities, for example when immigrants exit they are more likely to become unemployed (Joona, 2010). In the European Union, men are more likely than women to exit self-employment to paid employment but are less likely to become inactive (Millán et al., 2012). After their spell of self-employment, individuals who enter self-employment from unemployment or were previously inactive in the labour market are more likely to respectively switch back into unemployment or labour market inactivity. There does not appear to be a significant difference among those with and without employees (Millán et al., 2014a). Of note, however, is that several studies indicate that the provision of public subsidies to support the unemployed into self-employment improves the self-employment survival prospects specifically among those individuals that were formerly unemployed (OECD/EU, 2014).

If the self-employed do become unemployed, there is substantial variation across the European Union in their entitlement to unemployment benefits. Across the European Union, 14 Member States provide full access to unemployment benefits, while another seven provide partial access and five allow for voluntary opt-in schemes (Table 7.3). However, since these arrangements require overcoming bureaucratic hurdles to opt into and access unemployment benefits, these arrangements are likely to dissuade some of the self-employed from taking advantage of these benefits (OECD/EU, 2014).

Working conditions

The third component of job quality, the quality of the conditions in the working environment, captures the nature of working conditions faced by those in work. This covers hours worked, health and safety and the potential for training and development).

Some point to work or life satisfaction as another important indicator for the self-employed as it is often an important factor in their decision to become self-employed. However, there is a body of evidence that suggests that job satisfaction should not be

Table 7.3. Entitlement of self-employed to social benefits, 2016

	Self-employment rate (%), 2016	Unemployment benefits	Sickness benefits	Old-age pensions
Greece	29.5	Partial	None	Full
Italy	21.5	None	None	Full
Poland	17.7	Partial	Voluntary opt-in	Full
Romania	16.5	Voluntary opt-in	Voluntary opt-in	Partial
Czech Republic	16.2	Full	Voluntary opt-in	Full
Spain	16.1	Voluntary opt-in	Full	Partial
Netherlands	15.5	None	Voluntary opt-in	Partial
Slovak Republic	15.2	Full	Full	Full
Ireland	14.6	Partial	Partial	Full
United Kingdom	14.1	Voluntary opt-in	Partial	Partial
Portugal	13.9	Full	Partial	Full
Belgium	13.5	None	Full	Full
Malta	13.2	None	Full	Full
Finland	12.4	Partial	Full	Full
Cyprus	12.1	None	Full	Full
Croatia	11.8	Full	Full	Full
Latvia	11.8	None	Full	Full
Slovenia	11.5	Full	Partial	Full
Lithuania	11.1	None	Full	Full
France	11.0	None	Partial	Full
Bulgaria	10.8	None	Voluntary opt-in	Full
Austria	10.8	Voluntary opt-in	Full	Full
Hungary	10.0	Full	Full	Full
Estonia	9.5		Partial	Full
Germany	9.3	None	Partial	Partial
Luxembourg	9.0	Full	Full	Full
Sweden	8.7	Partial	Full	Full
Denmark	7.7	Partial	Full	Full

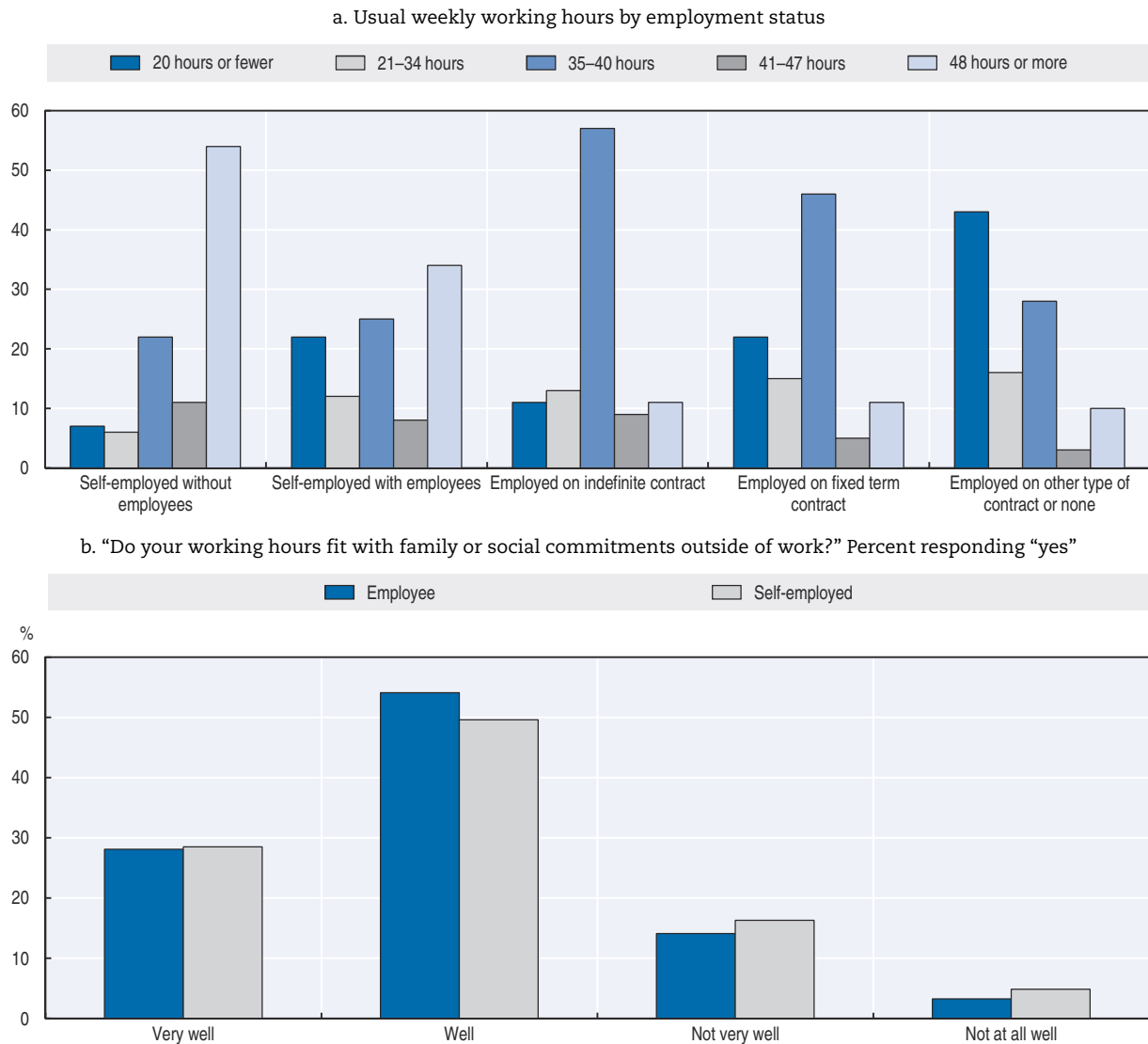
Source: Eurostat (2017b), Labour Force Survey; Spasova, S., D. Bouget, D. Ghailani and B. Vanhercke (2017), "Access to social protection for people working on non-standard contracts and as self-employed in Europe A study of national policies", available at: <http://ec.europa.eu/social/main.jsp?catId=738&langId=en&pubId=7993&furtherPubs=yes>.

considered to be an element of quality of work since it is subjective and highly variable (Eurofound, 2012; EC, 2015). Moreover, it is difficult to justify public policy actions to support an individual in self-employment only to make them happier or more satisfied.


Hours worked

The full-time self-employed with employees work longer hours than the self-employed without employees who, in turn, work longer hours than employees (Figure 7.5a). This evidence also shows that the self-employed work longer working days, have shorter time periods between work, and work more unsocial hours, which eats into their leisure time (Hyytinen and Ruuskanen, 2007). Unsurprisingly, they are less likely to be absent from work (Lechmann and Schnabel, 2013).

Some may be content with part-time self-employment as it enables them to achieve a better work-life balance. However, the evidence does not point to a great difference in how employees and the self-employed view how working hours fit with family and social commitments (Figure 7.5b). This suggests that some might be dissatisfied with their limited hours and would prefer to work more to be able to generate more earnings. Hours of work are therefore an ambiguous indicator of self-employment quality (Baumberg and Meager, 2015).

Figure 7.5. **Working hours in the European Union, 2015**

Source: Eurofound (2016a), "Sixth European Working Conditions Survey – Overview report", Publications Office of the European Union, Luxembourg.

StatLink  <http://dx.doi.org/10.1787/888933624996>

Part-time self-employment has become more common in Europe since the financial crisis (Fondeville et al., 2015). Over the 2007-14 period, the proportion of solo self-employed usually working less than 35 hours a week rose by almost four percentage points, while those working less than 20 hours a week rose by two percentage points. In some countries, such as the United Kingdom, the increase in part-time self-employment has been substantial: between 2001 and 2015, part-time self-employment rose 88% while full-time self-employment grew by just 25% (ONS, 2016). One effect of the shift to part-time work over the crisis period was a reduction in the average number of hours worked by the solo self-employed by just over two hours a week across the European Union during 2007-14, more than twice the reduction in average hours worked by all in employment (the self-employed with employees also reduced their hours worked).

The proportion of self-employed people working part-time can increase due to individuals voluntarily choosing to start self-employment on a part-time basis or by reducing full-time hours to part-time. Both routes to part-time self-employment may be voluntarily chosen or be forced on workers by circumstances. The self-employed are perhaps better placed than employees to adjust their hours of work downwards; employees are more likely to be made redundant. One cannot read off motivations to work part-time purely from data on work hours alone. Much of the increase in part-time working among the self-employed seems to have been involuntary, in the sense that many reported that the main reason for them working part-time was that they could not find full-time work. Between 2007-14, the proportion of self-employed in the European Union working part-time reporting that they did so because of being unable to find full-time work increased by six percentage points (Fondeville et al., 2015). The proportion working part-time increased in 19 Member States. Changes in part-time self-employment have surely contributed to the lower earnings of the self-employed relative to employees and to the increasing proportion of self-employed earning less than 60% of median employee pay (Fondeville et al., 2015).

Box 7.3. Hybrid self-employment

Hybrid self-employment refers to those combining employment with working self-employed in a second job (Molenaar, 2016) or to those working self-employed in a main job and employed in a second job (Atherton et al., 2016). The benefits of hybrid working, defined as employment in a main job while working self-employed in a second job, include: reduced risk at start-up; learning before embarking on full-time self-employment; continuing to earn wages or a salary from employment (or from social security transfers); a second income; a means of escaping unemployment and/or reliance on social security benefits; a means of self-development; and a means of balancing paid work with other life concerns. For some, hybrid self-employment will be perceived as necessary to provision an adequate livelihood (combining it with employment), for others it is optional (to provide non-monetary benefits and/or to supplement a financially comfortable life). Clearly, the precise nature and role of hybrid self-employment in an individual's work career and personal life is variable.

There is limited data on the phenomenon of hybrid self-employment as labour force surveys tend to focus on the primary occupation and the current evidence base provides a mixed picture on the quality of this type of self-employment. Evidence from Sweden suggests that a high proportion of hybrid entrepreneurs are young, high-skilled workers who are testing self-employment and that there is a high likelihood of these workers moving into full-time self-employment (Folta et al., 2010). More recent Swedish evidence provides a slightly different picture. A sample of 2013 hybrid entrepreneurs suggests that hybrid entrepreneurship is more common among the young and seniors, but both groups are motivated by non-economic reasons (Thorgren et al., 2016). This is consistent with recent evidence from the United States that shows that hybrid entrepreneurs are likely to enter into full-time entrepreneurship and have much higher survival rates than those who move into self-employment from full-time employment (Raffiee and Feng, 2014). This collection of evidence suggests that this type of entrepreneurship leads to high-quality self-employment once the business establishes an initial customer base and the entrepreneur has acquired knowledge and experience during the early stages of their business.

However, evidence from Germany and the Netherlands suggests that hybrid entrepreneurs operate businesses with low-growth potential (Conen et al, 2016). Other research in Austria suggests that hybrid entrepreneurs typically generate supplemental income to complement full-time employment (Bögenhold and Klinglmair, 2016), which is consistent with research in the United Kingdom that found that many in hybrid entrepreneurship are motivated by high housing and living costs (Atherton et al., 2016).

Health and safety

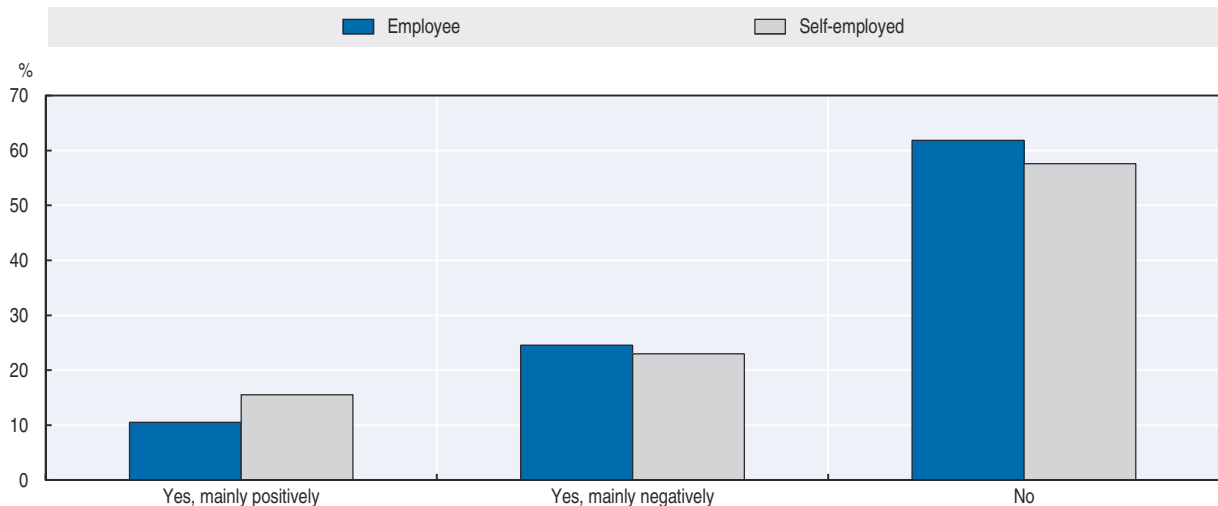
Due to longer working hours, on average, some studies have pointed to the self-employed being more likely to suffer from stress (Cardon and Patel, 2015), have health-related problems (Eurofound, 2016a) and mental health issues (Bogan et al., 2014). The self-employed with employees face greater job demand pressures and subsequently have greater levels of stress than employees or the self-employed without employees, but this can be mitigated to some extent by the greater amount of control that the self-employed have over their work (Hessels et al., 2017).

It is also clear that small and medium-sized enterprises account for a disproportionately large share of work-based accidents and injuries (Targoutzidis et al., 2014). This may be due to the self-employed being concerned with minimising costs and having an imperfect knowledge of relevant health and safety procedures and policies (Hasle and Limborg, 2006).


However, surveys show that the self-employed are slightly more likely than employees to report that their work has a positive impact on their health (Figure 7.6). This may be due to greater degree of flexibility that the self-employed often have to manage their work loads and work flows.

Figure 7.6. **Perceived impact of work on health in the European Union, 2015**

“Does your work affect your health?” Percent responding “yes”



Source: Eurofound (2016a), “Sixth European Working Conditions Survey – Overview report”, Publications Office of the European Union, Luxembourg.

StatLink  <http://dx.doi.org/10.1787/888933625015>

There are also differences across different types of self-employed workers. Cluster analysis by Eurofound shows that those who operate very small businesses with little growth potential and farmers were nearly five times more likely to experience a negative health effect from their job than those who operate stable businesses without employees (Eurofound, 2017 forthcoming). Those working in “false” self-employment jobs were also more likely to have negative health effects. However, very little difference was found between stable businesses without employees, employers and the self-employed who were vulnerable to closing (Eurofound, 2017).

Training and career development

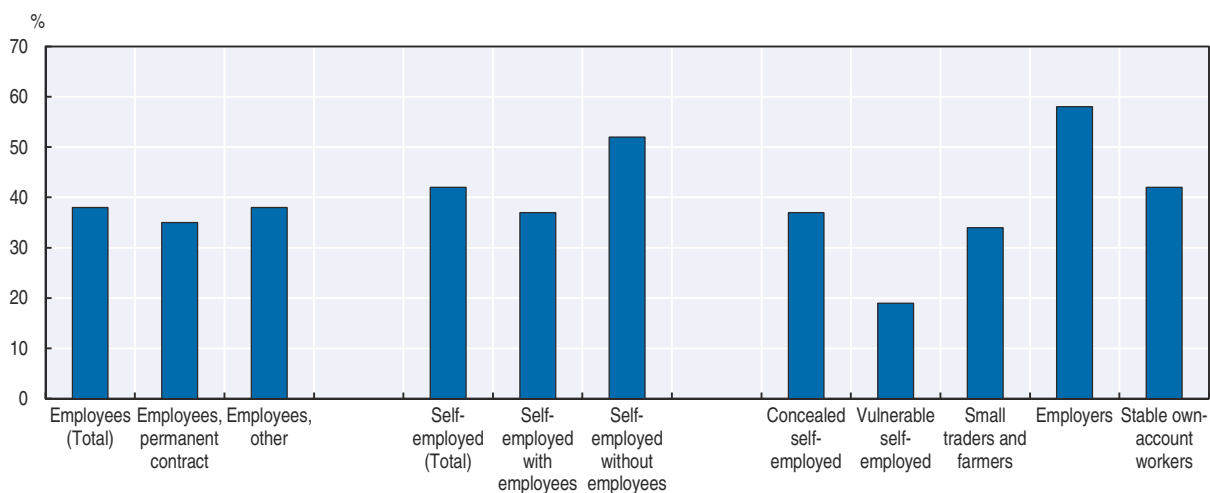
The self-employed are also less likely to undertake formal training, either for themselves or for any workers that they employ, than larger sized businesses (Storey and Greene, 2010). Although this may be offset by informal on-the-job training, these differences reflect that the self-employed are often less aware of the value of formal training, are put off by its cost, and are concerned that if they train their workers they are more likely to be poached by rival businesses who can offer their employees better opportunities. They are therefore less likely to have a clear pathway for professional development than employees.

However, recent evidence from the Sixth European Working Conditions suggests that the self-employed are more optimistic about their prospects for career advancement (Figure 7.7). Overall, 38% of employees indicated that they had good prospects for career advancement in 2015 while 42% of the self-employed did. Caution is needed in comparing the responses of employees and the self-employed because career advancement likely has very different meanings. For employees this likely refers to a promotion or moving to a new and presumably better job. For the self-employed, this could be increasing business revenues, hiring employees or opening additional businesses. These outcomes are clearly not equivalent.

Among the self-employed, those with employees were much more likely to have a positive outlook than those without employees (52% vs. 37%). This is likely because they operate larger businesses with more stable income and greater opportunities for growth. Eurofound's cluster analysis confirms that the vulnerable self-employed are the least optimistic about future career advancement, likely because they started their business because they did not have any other opportunities in the labour market. The cluster analysis also confirms that concealed self-employed workers have the same outlook as employees and employers were the most optimistic (Eurofound, 2017).

Figure 7.7. **Prospects for career advancement in the European Union, 2015**

Proportion who self-report that they have good prospects for career advancement



Note: The five categories of self-employment on the right-hand side of the figure were identified through a cluster analysis. Concealed self-employed are those who most closely resemble employees; vulnerable self-employed were those who were strongly characterised by high economic dependency and precariousness; small traders and farmers were self-employed people who operate small-scale businesses but did not start out of necessity; employers were self-employed people operating on multiple sites with multiple employees; and stable own-account workers were the largest group and they enjoyed operating a sustainable business and did not start out of necessity.

Source: Eurofound (2017 forthcoming), "Exploring Self-employment in the European Union".

StatLink  <http://dx.doi.org/10.1787/888933625034>

The quality of dependent self-employment

- Dependent and “false” self-employment is often low-quality work. These workers tend to gain none of the advantages of employment (e.g. social security protection), few of the advantages of self-employment (e.g. task diversity) and all of the disadvantages (e.g. low income, financial insecurity, long working hours). Moreover, these workers tend to under-cut those in employment and increase the risk that they will lose their jobs.

Solo self-employment accounts for the bulk of self-employment, especially for social target groups such as women, youth, seniors and immigrants (see Chapters 2 to 6). At the European Union-level, the proportion of solo self-employment has increased a half percentage point since 2002, increasing from 9.5% of employment in 2002 to 10.0% in 2016.

It is tempting to point to the global financial crisis as a trigger for recent increases in self-employment numbers, but in many countries the proportion of self-employment in the total labour force declined or remained stable rather. Even in those countries experiencing an increase in the proportion of self-employed in total employment (i.e. Austria, Czech Republic, Denmark, Estonia, Germany, Italy, Luxembourg, Malta, Netherlands, Slovak Republic and United Kingdom), this is often attributed to a shift in the age composition of employment towards the older age groups in which the self-employed make up a relatively large share (Fondeville et al., 2015). This shift reflects three factors – population ageing, the widespread tendency for people aged 50 years old and over to continue working rather than retire, and a reduction in employment among younger people (especially those under 25 years old). However, it is also clear that people had fewer opportunities in the labour market during the crisis and that this caused some to move into self-employment.

The emergence of the digital and collaborative economy has also influenced the nature of self-employment. New non-standard work arrangements are increasingly common, including freelance work, hybrid entrepreneurship and dependent self-employment. These new forms of self-employment are the focus of current policy debates as these new forms of work have brought with them a wide range of policy questions, including the extent to which they are covered by social security, how they are treated in the tax system, the extent to which labour regulations are applicable. These all point to the fundamental question about whether these new forms of self-employment compare with traditional employment and self-employment in terms of quality and whether public policy should be encouraging these types of work and if so, under what conditions (see Box 7.4). At the same time, however, the

Box 7.4. The quality of self-employment work in the digital or collaborative economy

Self-employment work in the digital economy is extremely difficult to define because it includes a wide range of activities. For example, this type of self-employment work includes very small-scale, short-term activities undertaken by individuals (e.g. tasks completed through online platforms such as Task Rabbit), but it also includes collaborative work in online markets (e.g. Amazon Mechanical Turk) and work undertaken by individuals as part of well-resourced networks (e.g. Uber). Comparing these forms of work with each other and with traditional self-employment and employment is a challenge because there is very little data available on the number of workers in the digital economy and the characteristics of their work.

Box 7.4. The quality of self-employment work in the digital or collaborative economy (cont.)

Relatedly, the European Commission uses the term “collaborative economy” which refers to business models where activities are facilitated by collaborative platforms that create an open marketplace for the temporary usage of goods or services often provided by private individuals. The collaborative economy involves three categories of actors: i) service providers who share assets, resources, time and/or skills – these can be private individuals offering services on an occasional basis (“peers”) or service providers acting in their professional capacity (“professional services providers”); ii) users of these; and iii) intermediaries that connect – via an online platform – providers with users and that facilitate transactions between them (“collaborative platforms”). Collaborative economy transactions generally do not involve a change of ownership and can be carried out for profit or not-for-profit – see European Commission (2016).

Nonetheless, the existing evidence base can provide some insights into whether this work is quality work or not. Surveys from the United States suggest that many self-employed workers in the digital economy are active only part-time and few earn an income that would be equivalent to full-time employment. In addition, the average Airbnb host only rented out their accommodations for 67 nights per year, which is not enough to generate a full-time income. However, data on Uber drivers in France indicates that nearly 80% work full-time as drivers for Uber and do not generate any other income. Therefore incomes are highly variable but these activities appear to be typically used as a complementary income source.

Many of the self-employed are only temporarily active in the digital economy. Data on Uber drivers in the United States show that one-third of drivers stop after six months and half after one year. Surveys suggest that the reasons for leaving this type of work are that incomes are insufficient.

Despite the seemingly precarious nature of this type of self-employment, both individuals and economies can benefit from this work. For economies, this type of work can activate some people because of its extremely flexible nature. It also appears to be satisfying a demand and therefore can contribute to aggregate economic growth. For individuals, many appear to enter the digital economy from unemployment and there is therefore the potential for this type of work to be used to acquire skills and experience that will lead to higher quality self-employment or employment.

Source: OECD (2016b), “New forms of work in the digital economy”, Working Party on Measurement and Analysis of the Digital Economy, available at: [www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=DSTI/ICCP/IIS\(2015\)13/FINAL&docLanguage=En](http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=DSTI/ICCP/IIS(2015)13/FINAL&docLanguage=En).

potential for growth and jobs in the digital and collaborative economy has also to be acknowledged: it enables disadvantaged groups to get into the labour market, where more traditional forms of employment are not suitable or available to them. Moreover, young workers, those coming back after long inactivity and migrants can all benefit from these alternative inroads to work.

Dependent self-employment

Dependent self-employment refers to those self-employed occupying the “border” (Muehlberger, 2007a) or “grey area” (Kautonen et al., 2010) between self-employment and employment. The dichotomy between independent self-employment and dependent employment has been described as a “false duality” because each of the two categories is

heterogeneous and, therefore, any binary divide between the two obscures such differences (Freedland, 2003). Work relationships often involve varying degrees of dependency rather than simply being dependent or independent. Dependence has two elements: i) economic dependence, where the worker carries much of the financial risk if they do not produce or sell goods; and ii) being subordinate to the direction of the end-user with regard to the methods, time and location of work (Muehlberger, 2007a; Eichhorst et al., 2013).

Dependent self-employment applies where the worker is formally self-employed yet works under conditions similar to those of dependent employees (Muehlberger, 2007a; Eichhorst et al., 2013). The dependent self-employed typically work for a single organisation and thereby lack the range of clients considered to be an important feature of independent working (Jorens, 2008). Others describe such working practices as “hierarchical outsourcing” where the end-user organisation exercises a high degree of managerial control over the worker’s methods, hours, and location of work (Muehlberger, 2007b). End-users are motivated to use dependent workers to achieve numerical and financial flexibility, while maintaining a high degree of control over working practices, externalising risk and in some cases, avoiding legal and social security obligations (Muehlberger and Bertolini, 2008; Muehlberger and Pasqua, 2009; Eichhorst et al., 2013).

Dependent self-employment is often found in construction, transport, insurance, business services, architecture, and the creative industries (Eichhorst et al., 2013). It is also more common in Southern European (e.g. Italy, Spain, Greece) and Eastern European countries (e.g. Slovak Republic, Latvia) (Eurofound, 2013). However, estimates of its prevalence vary widely. Recent cluster analysis based on data from the Sixth European Working Conditions Survey estimates that 56% of the self-employed are “genuine” (i.e. they have more than one client, latitude in hiring staff, making strategic choices). Approximately 13% are dependent self-employed, accounting for approximately 1% of employment in the European Union (Eurofound, 2017). This distinction, however, is blurred because a further 31% of the self-employed falls in between the two, suggesting that approximately 4% of the employment in the European Union is some form of disguised self-employment.

Workers might choose to work on a dependent self-employed basis for tax and other reasons; while others might have limited job options and better be described as involuntary self-employed (OECD/EU, 2013). Many dependent self-employed workers might perform jobs that were previously undertaken by employees. Employers might switch employees to this status from employment as seen in many countries, including Austria (Muehlberger and Bertolini, 2008). Evidence from the United Kingdom suggests that men, older workers and those with little or no formal education are more likely to be in dependent self-employment (Böheim and Muehlberger, 2006). Such workers exhibit persistence in this status but short job tenure with specific end-users.

In some cases, dependent self-employment can be considered “false” or “bogus” self-employment (Roles and Stewart, 2012; Deakin, 2013). This type of self-employment is the deliberate classification of workers as self-employed by end-users despite their work situation resembling dependent employment, in order to evade labour law and social insurance obligations. These “disguised employees” typically work for a single end-user/employer, are dependent on them for work, have no right to refuse work, perform the work under the end-user’s direction, use their equipment, are integrated into end-user’s HR systems, cannot substitute another worker to perform their designated tasks and yet carry

the financial risk for time spent not working or for work judged unsatisfactory by the end-user. This type of self-employment is a particular problem in the construction industry (Jorens, 2008; Behling and Harvey, 2015) but also extends beyond it into catering, social care, logistics and car valeting services (Davis, 2015). Many of the types of work that are associated with the digital or collaborative economy can be considered as “false” self-employment as companies use online platforms to organise work across independent contractors.

This type of self-employment may suit some workers and increase labour market flexibility (Williams, 2013). However, such activities can have social welfare consequences because they inhibit tax receipts and social security contributions. Since those working in false self-employment effectively save on these costs (as do their employers), one further disadvantage is that they can undercut workers and businesses in the formal economy, thereby threatening their livelihood (Muller, 2014). It also has costs for the false self-employed if they just work for one employer because they may gain none of the advantages of employment (e.g. holiday, maternity pay, access to training); gain few of the advantages of self-employment (e.g. task autonomy and diversity); and have all of its potential disadvantages (e.g. poor pay, stress, financial insecurity and long working hours). Evidence from the United Kingdom shows that those in dependent self-employment tend to be older and have lower skill levels (Böheim and Mühlberger, 2009), suggesting that there is a high likelihood of these workers becoming trapped in precarious, low-quality work.

Traditional policy approaches to improving the quality of self-employment

- Policy makers have traditionally sought to support business creation and self-employment by improving the business environment and increasing the chances of success by offering entrepreneurship training, coaching and mentoring, business counselling, improved access to start-up financing, and support in expanding entrepreneurship networks. In addition, many countries have measures and programmes to help unregistered businesses formalise, which will help increase the quality of the business activity.
- Most policies are implemented with integrated suites of programmes that include entrepreneurship training, coaching and mentoring and financial support. These support packages are typically provided in a progressive manner with an increasing intensity of support provided to those who have demonstrated a quality business idea and potential for success.
- The quality of self-employment is highly heterogeneous and not all forms of self-employment should be supported by public policy. Inclusive entrepreneurship policies seek to provide all an opportunity to start a business and there are many successful policies and programmes across the European Union. However, policy makers need to be aware of the risks (e.g. displacement and deadweight loss) and opportunity costs (e.g. support for high growth potential businesses) and weigh them against the benefits of successful businesses creation for groups that are under-represented and disadvantaged in the labour market (e.g. labour market attachment, savings on social security benefits and long-term health costs).

Self-employment policy has traditionally worked on the assumption that self-employment equates to own-account business ownership. Standard policy interventions to support business creation and self-employment have simultaneously focussed on improving the business environment (e.g. by reducing the administrative burden on new start-ups) and

providing individual supports to entrepreneurs to improve their chances of success (e.g. entrepreneurship training, coaching and mentoring, start-up financing, business counselling, networking). Often, the individual support offers are tailored to different groups (e.g. women, youth, seniors, the unemployed, immigrants), which can be justified since these groups face different barriers to start-up and often have difficulties accessing mainstream support services (OECD/EU 2015; 2014; 2013). Many governments also seek to support informal businesses in formalising with both incentives and penalties (OECD/EU, 2015b).

The preceding sections confirm that the self-employed population is highly heterogeneous. It appears that some forms are high-quality, both for the individual as well as for society and the economy. The self-employed with employees clearly fall into this category as they earn more and have a higher-quality work environment, including greater discretion over their tasks, method of work, work flow and decision making (Eurofound, 2017 forthcoming). Further, they generate employment for others. There is therefore a clear rationale for supporting these entrepreneurs.

However, while it is a highly heterogeneous group itself, the self-employed without employees do not always have quality jobs. Some of these workers such as freelance workers (see Box 7.2) or hybrid entrepreneurs (see Box 7.3) undertake highly skilled work in a manner that allows for control over working hours, work load and decision making. There are, however, other groups of solo self-employed workers that have low levels of earnings, less income security, more working hours and less access to social security. These are typically small business activities that have limited potential for future development. They often make small contributions to the economy as they are less likely to introduce new products or services and spend on R&D, and are slow to adopt new technologies. Moreover, they are unlikely to hire other employees. Many of the social target groups discussed throughout this book are more likely to fall into this category, including women, youth, seniors and especially the unemployed.

Nonetheless, there is a strong argument for public policy in supporting people from under-represented and disadvantaged groups in business creation and self-employment, especially the unemployed. The unemployed tend to be poorer than either the employed or the self-employed. Long periods of unemployment are also associated with a range of inferior outcomes such as poor health and psychological issues for the individual, and wider social impacts that impact negatively on their family and their community. An unemployed individual should be made aware of the opportunities (and challenges) of self-employment as an alternative to unemployment. Helping an unemployed individual to shift into self-employment is likely to improve their chances of re-integrating back into the labour market.

There is very strong evidence that public assistance can have positive benefits for the unemployed seeking to switch into own account self-employment, especially for those with low skill levels and in rural areas (Rodríguez-Planas, 2010), youth (Caliendo and Künn, 2011), low-educated (Caliendo, 2016) and women (Caliendo and Künn, 2015; O'Leary, 1999). Financial support alongside a package of business development services also appears to improve labour market integration outcomes for the unemployed. The main issue is the cost of such support. For example, Caliendo et al. (2016) showed that the German start-up support for the unemployed amounted to EUR 6.4 million over a four year period (2007-11). There is an opportunity cost of this support, in the sense that other evidence has identified that supporting existing and fast growth businesses can be beneficial (Morris and Stevens, 2010; Autio and Rannikko, 2016) and it may, therefore, be better for public assistance to be

focused on those businesses that are more likely to create jobs. There is, of course, also a risk of displacement where the unemployed who are supported simply take markets away from other entrepreneurs for no net gain.

Despite this positive evidence, in general, the majority of the unemployed would still be better off in standard employment. The unemployed are more likely, for example, to have greater training opportunities, better pay and safer working conditions in employment. Again, however, this is likely to be nuanced by particular circumstances. For example, self-employment amongst seniors has grown very rapidly in recent years, reflecting both the difficulties that seniors have in gaining employment, and in response to their desire for autonomy and task discretion and variety (OECD/EU, 2014).

Policy approaches to combatting false self-employment

- One of the current policy debates on self-employment is focused on the issue of false self-employment. Evidence suggests that those working in false self-employment are highly likely to be trapped in low-quality work. So policies combatting false self-employment will also improve the overall quality of self-employment.
- There are three approaches that are currently used to minimise false self-employment. First, some countries are working to clarify work status, i.e. make it more clear who are employees and who are the self-employed. Second, some countries have introduced intermediate work categories that treat this type of work separately. Third, some countries are improving access to social security for the self-employed.
- In practice countries tend to take a multi-pronged approach to fighting false self-employment, including measures to make it more attractive for employers to hire employees over a false self-employed worker.

Clarify work status

Defining work status, though a notoriously difficult task, is fundamental for combatting false self-employment and improving the quality of self-employment, at least as long as there are substantial differences in the taxation, labour law, and/or social security entitlements and liabilities of the self-employed and employees. Employees are deemed to be dependent on, and subordinate to, employers and therefore in need of legal safeguards. The self-employed, conversely, are treated primarily as being able to transact with others on a more equal footing and deemed less in need of statutory protection (Engblom, 2001). Hence employees are covered by labour law whereas the self-employed are governed by civil and commercial law and excluded from most labour law (Schulze Buschoff and Schmidt, 2009).

Unless work statuses can be clearly demarcated, and individuals allocated to the correct category, policy makers will find it difficult to ensure that everyone operates within the intended framework of legal rights and obligations with regard to tax, employment law and social security. There is a danger that workers who cannot be classified unambiguously might be excluded from certain social benefits and labour rights (Böheim and Muehlberger, 2006). Governments, moreover, might receive lower tax receipts if employees are incorrectly treated as self-employed, with both employers and employees paying lower taxes and/or social insurance contributions.

The binary divide between employment and self-employment has been inadequate to fully capture the emergence and expansion of new forms of non-standard work (Burchell et

al., 1999; Jorens, 2008). There is therefore a need for policy makers to adopt definitions and methods used to classify workers as employees or self-employed. The Netherlands has been one of the most active countries in this regard as there has been a rapid increase in solo self-employment over the last decade, due in part to a policy-induced increase in false self-employment. The government has adopted a comprehensive approach that addresses both the self-employed workers and the hiring companies. Many of the actions are related to clarifying the status of the worker through the tax system (see Box 7.5).

Box 7.5. **Combatting “false” self-employment in the Netherlands**

Description: The Netherlands is using regulatory and tax measures to clarify the differences between employees and the self-employed to fight false self-employment.

Problem addressed: Since 2004, self-employed workers submit an Employment Relationship Declaration (VAR) to the Tax Service that describes their work status. Those who hire the self-employed can then assume that the relation is not an employer-employee relationship. Consequently, the hiring company or individual does not have to pay any wages or cover the employee-insurance premiums for services purchased. This offers companies an incentive to work with the self-employed, especially since the self-employed person is held accountable for the accuracy of the VAR. However, this has led to an increase in false self-employment.

A second problem that has arisen is that the confusion surrounding VAR-certified workers has led to some occasional conflicting decisions from the tax and social insurance authorities (Westerveld, 2012).

Approach: To combat false self-employment, the government has adopted both short-term and long-term approaches. In the short term, one of the main actions has been to clarify the differences between employees and the self-employed by moving away from the VAR. As of April 2016, the Tax Authority now uses a model contract for the self-employed to help clarify their regulatory obligations and those of the company or individual hiring them (*DereguleringsBeoordelingArbeidsrelaties*). This also attempts to remove the incentives for setting up false self-employment arrangements by shifting to a joint-accountability approach where both the employer and employee are legally responsible and accountable.

In the longer term, the government is working to increase the attractiveness of hiring employees. Incentives have also been introduced for the self-employed to avoid false self-employment relationships, including the provision of access to a public pension (AOW), exemptions of pension savings in means-tested social assistance, improved access to sectoral training funds and voluntary insurance against sickness and/or disability.

Impact: Many of these measures are still being implemented so the scale and scope of their impact is unclear. However, in the longer term, the government is considering further changes to the tax and social security systems to remove differences in how the self-employed and employees are treated. For example, studies are underway to assess the effects of decreasing tax benefits for the self-employed vs. decreasing labour costs for employees, and increasing social security coverage for the self-employed vs. decreasing social security coverage for employees.

End-user clients might also benefit from legal measures intended to clarify work status, for example, with regard to their liability for tax or social insurance contributions. However, there is a risk that some genuine self-employed may be hurt by being misclassified as employees.

Create an intermediate work status between employment and self-employment

Difficulties in clarifying work status have led some policy makers to introduce one or more intermediate work categories between employment and self-employment in order to provide greater legal protections for some of the emerging forms of self-employment than are available for more “traditional” and independent forms of self-employment. The creation of clearly defined intermediate categories between employment and self-employment is a potentially promising means of establishing an operational labour market status (Eichhorst et al., 2013), although this might also risk multiplying boundary problems because there are more boundaries to be distinguished, between dependent employment and independent self-employment respectively (Office of Tax Simplification, 2015). Thus there is a risk of further complicating an already complex issue (see also Eurofound, 2017).

In most jurisdictions, dependent self-employed workers are not defined as a distinct legal category and instead are usually treated as part of the self-employed workforce (Eichhorst et al., 2013). Some countries, however, do distinguish a category of economically dependent workers from the independent self-employed who are genuinely in business on their own account, although the criteria used to define the status vary. Such new legal forms of employment have been introduced mainly to broaden the coverage of social security arrangements, notably pension schemes but also to distinguish entitlement to labour law rights.

Austria (Box 7.6) and Italy (Box 7.7) are examples of EU Member States that have acknowledged that changing work patterns have necessitated institutional responses to better account for newer forms of work. The evidence from these two countries suggests that there is a tricky balance to be struck between protecting workers’ rights and giving them flexibility. This requires clarity about what constitutes dependent or false self-employment. In doing so, policy makers also have to be sensitive to sectoral issues and concerns by engaging in dialogue with key partners.

Box 7.6. Social Security Protection for “New” Forms of Self-Employment, Austria

Description: Austria reformed its social security system between 1996 and 2000 to incorporate various types of self-employment.

Problem addressed: Some forms of self-employment could not access unemployment insurance, public health insurance or public pension schemes despite working under similar conditions as employees.

Approach: The Labour Law and General Social Insurance Amendment Act (*Arbeitsund Sozialrechts-Änderungsgesetz, ASRÄG*) extended social insurance coverage to many self-employed workers earning more than a specified income threshold. Austrian law distinguishes *freieDienstnehmern* (“free service workers”), *NeueSelbständige* (“new service workers”) and *Werkvertragsnehmer* (“contractor for work and services”).

FreieDienstnehmer provide on-going services, often to a single employer for a long period of time. They are subject to limited or no end-user authority regarding job content and are economically dependent on the employer. Workers are covered by health, industrial injury and pension insurance. Since 2008, they are included in the unemployment and health scheme, and now they have rights to parental leave.

Box 7.6. Social Security Protection for “New” Forms of Self-Employment, Austria (cont.)

The *NeueSelbständige* are obliged to perform a well-defined task rather than an ongoing service. This task may be sub-contracted to a third person and need not be fulfilled personally by the contractor. This category comprises a diverse category including scientists, artists, teachers, doctors, journalists and others. Such workers are insured under the terms of the Social Insurance Act on Self-Employed Persons (*GewerblichesSozialversicherungsgesetz, GSVG*), covering sickness (without granting sickness benefits), industrial injuries and old age.

Werkvertragsnehmer/in are engaged to deliver a product or service with their own assets at their own risk without instructions from the end-user. The contract ends on delivery. Like *freieDienstnehmer/innen*, *Werkvertragsnehmer/innen* are excluded from major employment protection acts.

Impact: The impact of these changes has been a reduction of free service contract workers over the period 2000-2011. At the same time, there has been an overall increase in the numbers of new forms of self-employed workers. Eichhorst et al. (2013) suggest that this is indicative of an increase in dependent forms of self-employment as it reflects that employers have sought out to outsource work to those workers that are not subject to Austria’s high level of worker protection rights. Nonetheless, there are heterogeneous impacts according to sector. While some of the dependent self-employed in Austria are older and less qualified, other evidence suggests it is also associated with higher educational attainment levels (Eichhorst et al., 2013).

Sources: Muehlberger 2007a; Vogt and Adam 2009; Eichhorst et al. 2013.

Box 7.7. Social Security Protection for “New” Forms of Self-Employment, Italy

Description: In 2015, a new Jobs Acts was passed in Italy to help give self-employed workers more security.

Problem addressed: Misuse and exploitation of dependent self-employment contracts.

Approach: Italian legislation on quasi-subordinate work featured inadequate forms of social protection, which led to misuse and exploitation of dependent self-employment contracts, such as the contracts of continuous and coordinated collaboration (*Collaborazionicoordinate e continuative* or “co.co.co”), as well as contracts based on projects (*Collaborazionicontinuative a progetto* of “co.co.pro”).

The Jobs Act (Law 183/2014) was designed to hinder the possibility of misusing self-employment contractual forms, as well as to enhance job security protection of the self-employed. Law 183/2014 eliminated job contracts based on one or more specific projects and assimilated those into other types of employment contracts, since this type of job contracts has been denounced as the worst kind of job precariousness. The Act made social security contributions compulsory for semi-subordinate workers, obliging contribution to a separate National Institute of Social Security fund. A new income support measure called “DIS-COLL” was granted to self-employed workers whose contracts were expiring, although they were paid a limited amount and involved very stringent requirements. In addition, people who receive DIS-COLL can benefit from an “outplacement contract”, a new tool designed to support the unemployed people in search for a new job.

Box 7.7. Social Security Protection for “New” Forms of Self-Employment, Italy (cont.)

Impact: The new regulation on economically dependent self-employed work has been welcomed by employers’ organisations. The General Confederation of Italian Industry (Confindustria) supports the government objective of stopping the misuse of different types of work collaboration, though it considers that the new rules unduly extend the scope of proper employment relationships. On the other hand, trade unions perceive forms of protection in the reform not in favour of workers and could therefore lead to precarious jobs. The Italian General Confederation of Work (CGIL) has also criticised DIS-COLL since it does not provide a comprehensive form of protection intended to support income, which was one of the original goals of the Jobs Act.

Sources: Caponetti 2015; Muehlberger and Bertolini 2008; Eichhorst et al., 2013.

There is also a need for co-ordinated policy making across Europe in recognition that workers and employers are increasingly geographically mobile. One way of achieving this is to develop general principles of social protection.

Make social protection less dependent on work status

Most countries treat the self-employed and employees differently in terms of social insurance contributions and entitlements, although these need not be consistent with tax law or labour law. Countries vary with regard to access to unemployment, sickness or incapacity to work benefits, child and parental benefits, earnings-related pensions and other social security supports (Spasova et al., 2017; Fondeville et al., 2015).

Historically, differences in the tax liability, labour law rights and social insurance contributions of the self-employed and employees have in general led to lower protection for the self-employed. The possible savings on leave entitlements, sickness benefits, and maternity and paternity pay, offer end-users a sizeable incentive to use self-employed workers rather than employ them directly. Increasing contributions for self-employed workers *and* especially for the end-users (businesses) who use them would reduce the economic incentives for all parties to organise their relations on a self-employed basis (Centre Forum, 2013; Eichhorst et al., 2013; Office of Tax Simplification, 2015). In many countries, the differences between how employers cover employees and end-users cover the self-employed in relation to tax are large. For example, in the United Kingdom, employers pay a National Insurance Contribution rate of 13.8% for annual employee earnings above GBP 8 112 (approximately EUR 9 840), whereas end-users using self-employed workers pay nothing at all.

Countries vary on how the self-employed are treated by general social security arrangements or by dedicated schemes, the nature and extent of coverage, and whether contributions provide basic allowances (which may allow voluntary top-ups) or are income-related (Spasova et al., 2017; Social Security Advisory Committee, 2014). Eligibility conditions, qualifying criteria, contribution rates and payment conditions vary markedly across countries (Social Security Advisory Committee, 2014). In some countries, many of the self-employed opt to make lower contributions and, therefore, also have fewer benefit entitlements. Table 7.3 provides details of coverage of unemployment, sickness and old-age pensions for the self-employed in the European Union.

One means of tackling the quality of self-employment issue would be therefore to separate the provision of social security from employment contributions (Eichhorst et al., 2013). An alternative way would be to change the conditions for contributions. Unemployment benefits are often confined to those paying sufficient social insurance contributions through their employment.

Contributory financing systems with low income thresholds (e.g. mini-jobs) are not suitable for covering the specific risks related to non-standard employment, especially the new forms of self-employment (Schulze Buschoff and Protsch, 2008). Instead, an extension of tax-financed basic income guarantees in old age can be used to cover the risk of extreme income disparity or volatile income streams related to self-employment: Tax-financed basic income guarantees would prevent or at least mitigate extreme poverty for the self-employed in old age (Schulze Buschoff and Protsch, 2008).

In many countries, the self-employed enjoy fewer rights with respect to work-family balance (e.g. public childcare, maternity, paternity and parental leave entitlements) (Annink et al., 2015). Welfare state provision is often strongly gendered, assuming a full-time male breadwinner/female carer model that finds it difficult to accommodate women who work part-time, or irregularly, to combine paid work with caring responsibilities (Thébaud, 2015). In contrast, the dual-earner family model is adopted in Sweden, which supports women's labour market participation (Sevä and Öun, 2015). This suggests that policy makers must attend to differences in male and female working patterns if they are to construct a comprehensive system that covers all of the self-employed whatever their working situation.

Because of national variations in how income tax and social insurance systems have evolved, it may be extremely difficult to incorporate employees and the self-employed in a single system that facilitates more equitable treatment of both groups, while retaining incentives to work on a self-employed basis, or to hire the self-employed. It is likely that any new system aligning income tax and social insurance contributions, or reducing differentials, will likely incur large implementation costs and may disrupt incentives to work as or hire a self-employed (Office of Tax Simplification, 2015).

Making social security coverage less dependent on work status requires rethinking the traditional job model. In April 2017, as one of the first concrete initiatives of the European Pillar of Social Rights, the European Commission started a consultation of social partners on access to social protection, to define possible new rules in this area. The Commission wants to close the gaps and explore ways to ensure that everyone who works has access to social protection coverage and employment services on the basis of their contributions (EC, 2017a; 2017b).

Conclusions

Self-employment constitutes an important and growing part of the workforce across the European Union. On average, the self-employed earn less than employees on standard contracts, work longer hours and tend to have lower quality working conditions. However, self-employment is extremely heterogeneous and these generalisations do not apply to many. The job quality picture is especially mixed for emerging forms of self-employment. Freelancers appear to have the potential for high-quality work, provided that there is sufficient demand for their products or services. Moreover, the available evidence suggests that hybrid entrepreneurs rarely operate high value added businesses or generate

substantial income but often move into sustainable full-time self-employment. Dependent self-employed, especially the false self-employed, appear to frequently have poor working conditions. They assume none of the benefits of self-employment (e.g. task variety) but take on all of the negative aspects (e.g. low income, long hours, insecurity).

Public policy to support business creation and self-employment often focuses on increasing the quantity of new businesses started and on labour market inclusion. However, it is as important to consider how the quality of self-employment can be improved. Traditional approaches have sought to improve the quality of the business idea and increase its chances of success by upgrading the skills of the entrepreneur, improving access to capital for starting and growing the business, facilitating access to markets and strengthening entrepreneurship networks. Policy makers should continue to offer this suite of support, seeking to minimise displacement and deadweight loss. There is also a need to continue to offer opportunities for informal businesses to formalise, which will improve the quality of the business.

However, the emergence of new forms of self-employment has introduced new challenges for policy makers as some of these forms of work may be low-quality and have little economic impact. Policy makers must therefore be careful when supporting people in self-employment because some may be better off as employees. Moreover, false self-employment should be minimised as this is essentially a substitution of low-quality employment for low-quality self-employment. Outcomes for individuals and government are even worse as individuals receive low incomes (often below minimum wage), work irregular hours, have little or no access to social security and have no prospect for career progression. Governments collect less in tax revenue and social security contributions as self-employed are not treated the same as employees.

Note

1. However, the report also had a caveat on the reliability of the data used on earnings of the self-employed as recorded in the EU-SILC.

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