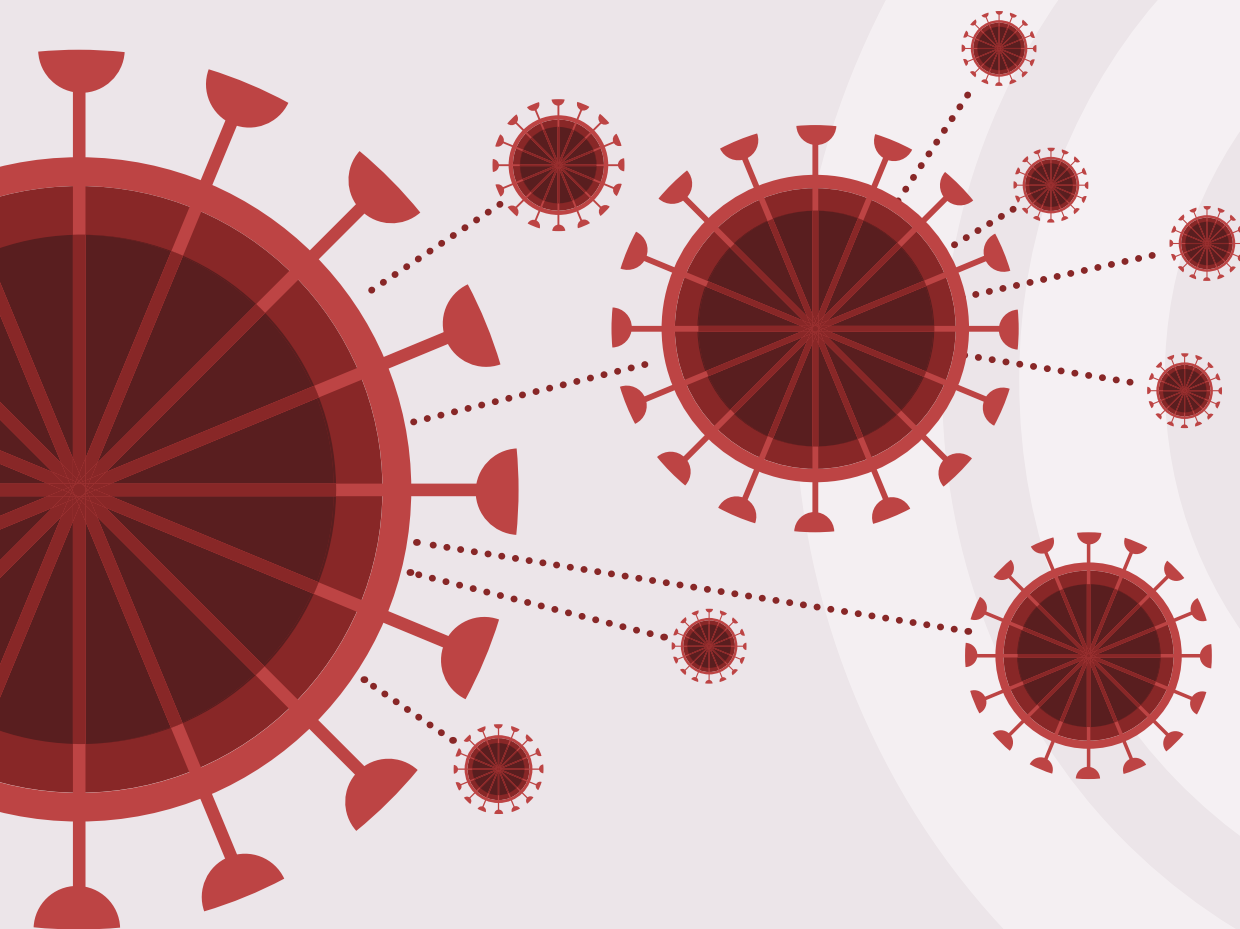


No.028  
July 2022

# **Covid-19 and the self-employed - A two year update**

Robert Blackburn  
Stephen Machin  
Maria Ventura



## **Covid-19 and the Self-Employed – A two year update**

### **CEP COVID-19 ANALYSIS**

Robert Blackburn, Stephen Machin and Maria Ventura

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#### **Summary**

- The fifth LSE-CEP survey of the self-employed was undertaken in May 2022, following the previous four surveys of May 2020, September 2020, February 2021 and September 2021.
- The prior surveys reported that the self-employed have been hit particularly hard throughout the pandemic. The results of this fifth survey show that this remains the case, two years on, as the drop in incomes and profits suffered by the self-employed over the previous two years are proving to be highly persistent.
- This report also finds an on-going impact on the number of self-employed. While in the last two years the number of employees working in the UK has grown above pre-pandemic levels, self-employment has not recovered to pre-2020 levels.
- A third of self-employed report experiencing financial difficulties, dealing with basic expenses. This has not improved since August 2020.
- During the last months inflation has exacerbated the challenges the self-employed have to encounter. They reported the rising cost of energy as the greatest challenge facing their business.
- The value the self-employed place on extra support in times of hardships has remained virtually unchanged in the last two years. However, high income, male self-employed are less likely to report needing government support.
- Overall, the analysis shows a relative increase in the attractiveness of employee jobs vis-à-vis self-employment as an employment option. As the economy has picked up, many would-be self-employed have moved into employee jobs.
- Although the self-employed have historically shown resilience to environmental uncertainty, whether they are able to absorb repeated shocks within a short space of time remains to be seen. Following the challenges associated with Covid-19 over that past two years, they have low levels of resources to cope with any renewed financial hardship and their immediate future remains vulnerable.

## **Introduction**

The UK economy has suffered unprecedented economic shocks in the past two years. The Covid-19 crisis has caused the largest drop in GDP (20 per cent) since 1948 (Harari et al, 2021) and employment was still short of half a million workers in February 2022, compared with pre-pandemic levels (Powell et al, 2022). The end of all Covid-19 restrictions at the beginning of 2022, signalled signs of recovery. At the same time, recent economic and geopolitical events have combined to create new challenges for businesses. Inflation has hit a 40-year high, with energy and raw materials playing a key role in driving prices up across industries (ONS, 2022a). While employment rates and hours worked are now, on average, very close to pre-pandemic levels, strong differences persist between different types of workers (ONS, 2022b). Compared to salaried employees the self-employed, who have been among the hardest hit by the crisis, have been affected by a longer lasting shock, which has meant their numbers remain much lower than in the first quarter of 2020. Hence the inequities that were accentuated by the Covid-19 crisis appear to be persistent.

This report is the fifth policy brief from the Centre of Economic Performance (CEP) that analyses the condition of the self-employed in the post-Covid economic context and the newly emerging challenges (Blundell and Machin, 2020; Blundell et al, 2020, 2021; Blackburn et al, 2021). Given the withdrawal of access to most of the support that was available to them during the Covid-19 period, this survey is of particular significance in that it analyses how the self-employed are faring in the post-pandemic world where Covid-related support and restrictions have been lifted. In line with official sources, our analysis finds very slow changes in the situation of the self-employed. While hours worked show some improvement, income and profits are still below the pre-pandemic levels, and even worse than one year ago. We discover that as the impact of Covid-19 restrictions lightens, high costs of energy and raw materials are contributing to their financial difficulties, and particularly so for small businesses.

Between 12 May and 7 June 2022 we ran the fifth round of the LSE-CEP Survey of UK Self-employment, collecting responses from 1,500 self-employed workers.<sup>1</sup> The survey questions ask for information on: income, profits and hours worked, both at the time of collection and retrospectively, application for government support, expectations for the future, and basic demographics. In this latest round, we also investigate the extent to which the self-employed are dealing with the new challenges created by materials shortages and inflation. We complement this data by drawing upon the Labour Force Survey (LFS), whose most recent wave we use to weight survey results and make them representative. Additional details on how the data were collected are provided in Appendix B.

### **Incomes remain persistently low with little or no recovery**

At all points in the Covid-19 crisis the self-employed have proved to be the hardest hit group of all types of worker and employer, with significant falls in income and profits. Even in September 2021, when most sectors of the UK economy showed promising signs of recovery (OBR, 2021), this category was struggling to catch up (Blackburn et al, 2021). Two years after the beginning of the Covid-19 crisis, the economic fortunes of the self-employed remain at their downturn levels. In this fifth survey, 41 per cent of the self-employed report having less work in April 2022 than they would usually have at this time of the year, somewhat comparable

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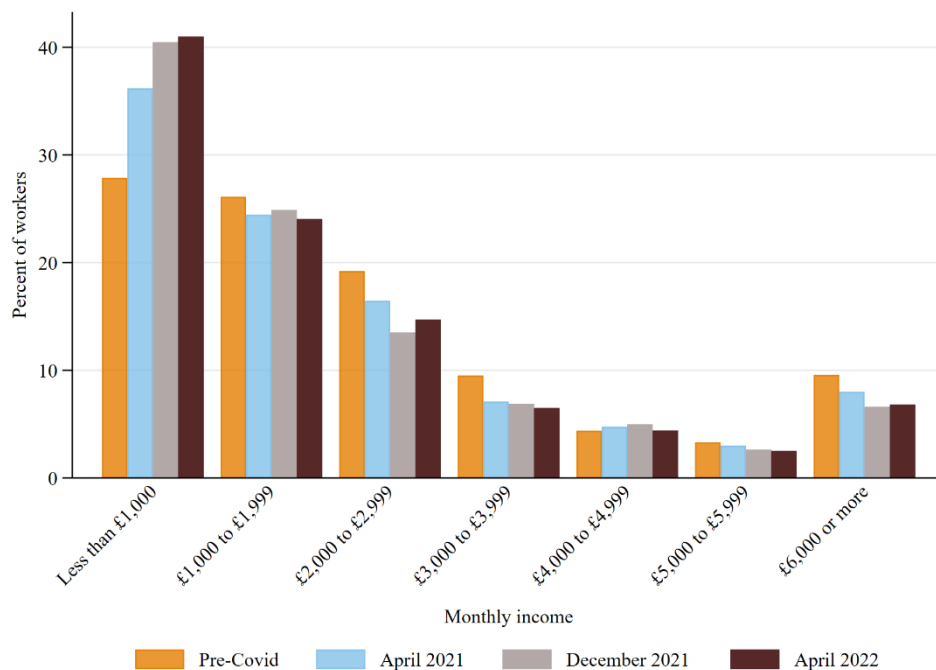
<sup>1</sup> Of these, about 1157 were still self-employed at the time of the survey, while the rest has survived the panel selection due to outdated records.

to 39 per cent in August 2021 (Blackburn et al, 2021). Our detailed analysis finds that two thirds of this particularly affected group attribute this to Covid-19.

The distribution in Figure 1 describes how this translates into income losses. The plot shows a rise in the share of self-employed in the lowest monthly income bracket (over 40 per cent). Moreover, the share represented by the bottom group is higher than a year ago and has remained virtually unchanged since December 2020. Profit levels, often the income of the self-employed, in Figure A1 in Appendix A, present an analogous picture. Hours of work (in Figure A2) show more encouraging signs with a decrease in those working 10 or fewer hours. Yet, projections of a rebound may be premature, as the proportion of self-employed working 30 or less hours is 14 percentage points higher than it was before the pandemic.

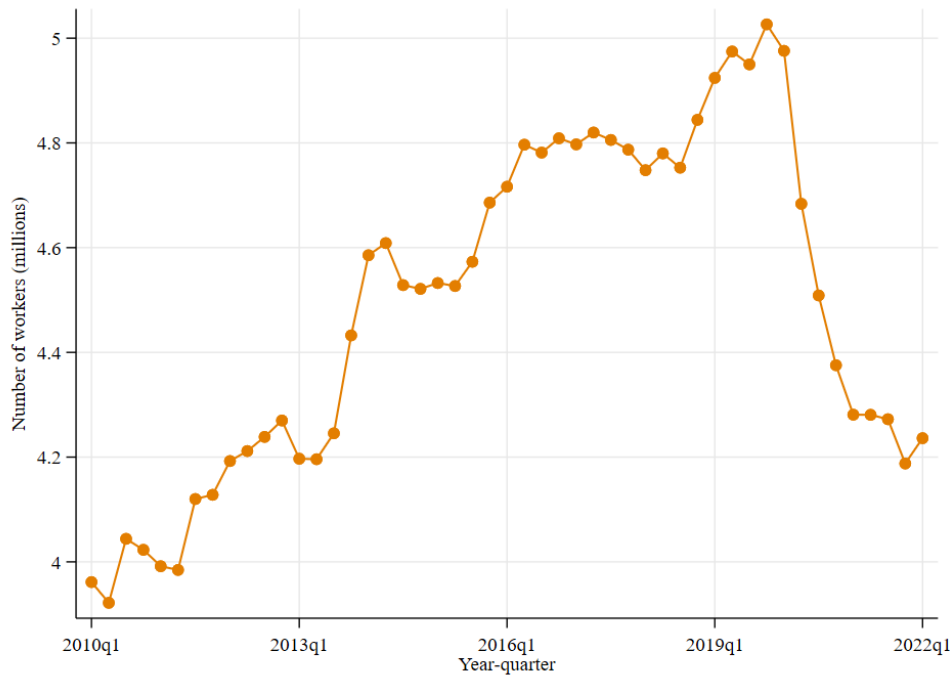
As financial gains from self-employment remain low, so do incentives for people to move into this sector. In contrast, the number of full-employees has increased, although at slower rate than in previous years, throughout the pandemic (ONS, 2022b). Average weekly earnings for employees have increased by more than 10 per cent since pre-pandemic levels (ONS, 2022c). Figure 2 uses quarterly data from the Labour Force Survey (LFS) to illustrate how the number of self-employed workers has varied in the last 10 years. The picture is clear and paints a gloomy prospect: the UK has lost around 800,000 self-employed during the Covid-19 pandemic and they do not seem to be coming back.

**Figure 1: Monthly incomes – Pre-Covid, April 2021, December 2021, April 2022**



Source: LSE-CEP Survey of UK Self-employment May 2022.

**Figure 2: Number of self-employed workers**



Source: Quarterly Labour Force Survey.

Evidence from the LFS (Figure A3 in Appendix A), confirms the view that self-employment has become less attractive than employee positions. This is demonstrated by an increase in the outflows from self-employment that has not been matched by a commensurate increase in inflows. The net outflow may also be a result of the withdrawal of financial support for self-employment (SEISS), rendering some enterprises unviable.

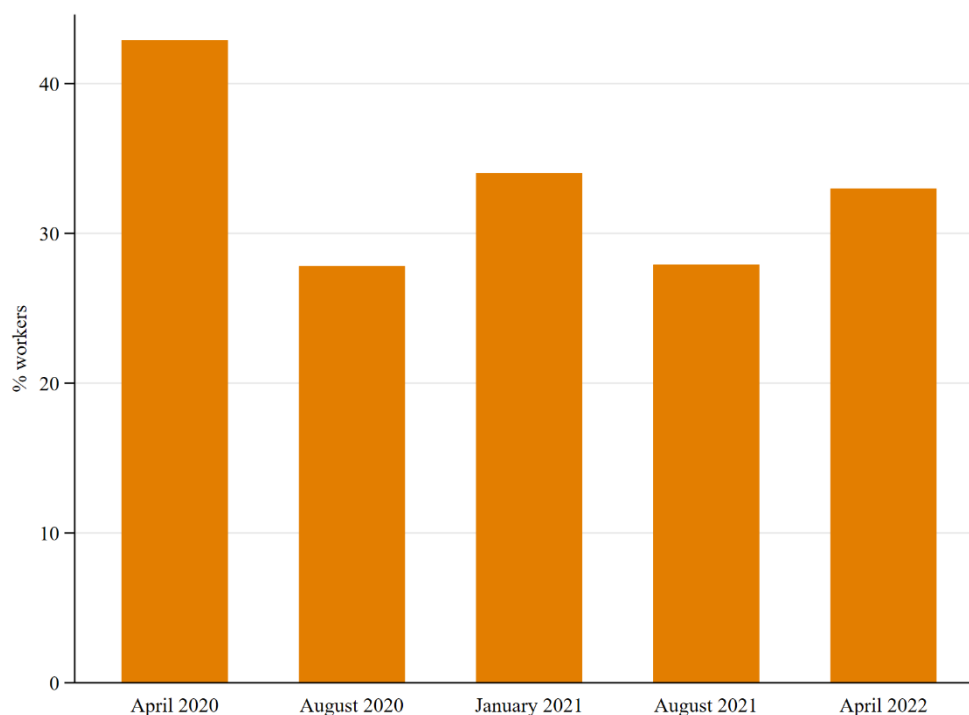
### **The self-employed struggle with their daily finances**

The financial insecurity experienced by the self-employed permeates up to their day-to-day needs. A third of the self-employed have recently experienced trouble paying for basic expenses. Figure 3 illustrates how, although below the level of the beginning of the pandemic, this share has displayed little variation since August 2020. These findings are consistent with those for European countries: Ahrendt et al. (2021) found no significant differences in the share of self-employed reporting difficulties between summer 2020 and spring 2021. A detailed analysis finds that there is also variation within the self-employed by occupation (Figure A4 in Appendix A). For example, those in those in healthcare support were found to be four times more likely to report having financial difficulty than those in education. Hence, not only are there inequalities between employees and the self-employed, within the self-employed there are stark differences in economic experiences, income and profit levels.

As a result of their economic instability, the self-employed are inclined to draw from their savings for living costs. Our survey results confirm this tendency with 44 per cent of workers using their savings to meet an expected expense. Even more worryingly, about 13 per cent report they would be unable to meet an emergency £500 payment. This further underlines the accentuated inequalities between the self-employed and employees. According to the ONS

(2021) in April 2021 the former were twice as likely to use savings to cover living costs compared to employees.

**Figure 3: Share experiencing financial difficulties**



Source: LSE-CEP Survey of UK Self-employment May 2020, September 2020, February 2021, September 2021 and May 2022.

### **New challenges are exacerbating the Covid-19 hit**

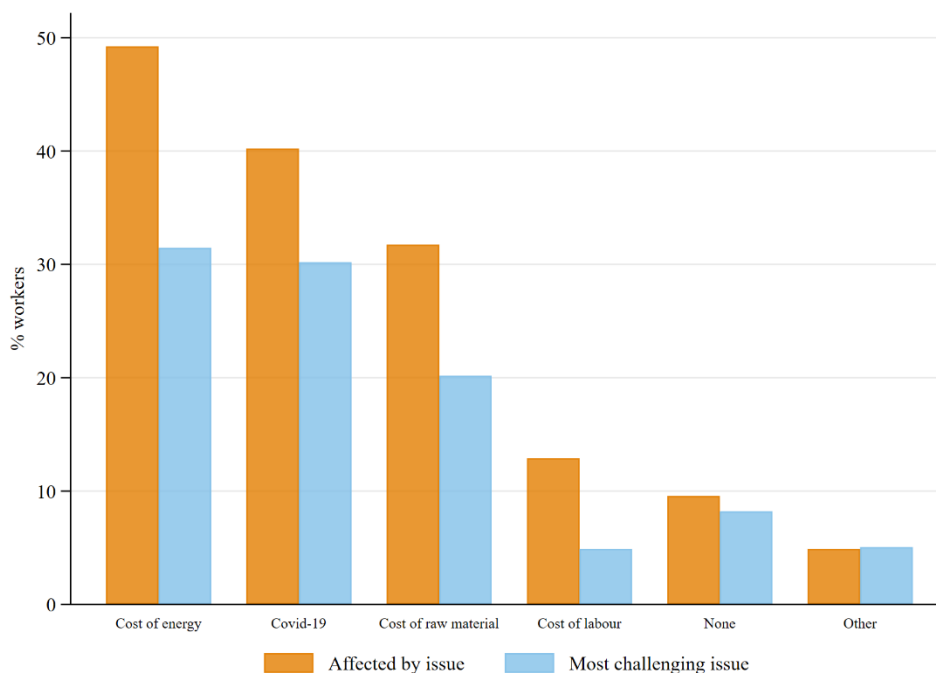
Alongside the slow recovery from the Covid-19 crisis, businesses have been confronted with a combination of exceptional circumstances producing a veil of uncertainty around the economic outlook of the country. The post-pandemic rise in demand, Brexit and the recent geopolitical events have pushed inflation to its highest since the 1980s. This has had a disproportionate impact on the population, adversely affecting the weakest agents in the economy (Holdsworth and Leslie, 2022). Among these, smaller firms are bearing a heavier burden from increased input prices (FT, 2022). The predominance of solo workers in the composition of UK businesses could further amplify the incidence of inflation on the self-employed.

In this fifth survey, we investigate how the macro-economic climate is affecting the self-employed. Figure 4 shows the share of workers who report being affected by any of the considered issues, together with the one they claim to be the most challenging. The graph makes clear that the self-employed have faced several obstacles in the last few months, with the increased cost of energy being the most cited (49 per cent), followed by Covid-19 and then the cost of raw materials. Although there is no absolute measure of the impact of these challenges on the self-employed, their combined impact is likely to be considerable. Certainly, the evidence in Figure 3 on financial difficulties, implies that the self-employed are in a worse

situation than in August 2020. Although a lower percentage report having financial difficulties than in April 2020, the current trend is upwards suggesting a reversal in their economic prospects.

Respondents cited energy prices as the single greatest challenge, followed by the effects of Covid-19. This should not be surprising given the speed and depth of the rise in energy prices. A survey commissioned by Tyl by Natwest (2022), for example, highlighted that 70 per cent of small and medium enterprises were worried about the impact their energy bill (representing up to 33 per cent of their total business costs) will have on their growth. Similar results are also found by the Federation of Small Businesses in their survey of small business members (FSB 2022).

**Figure 4: New challenges affecting the self-employed**



Source: LSE-CEP Survey of UK Self-employment May 2022

### **Workers are still willing to sacrifice some of their income for future support**

The Covid-19 crisis has seen an unprecedented effort from the UK government to sustain the income of the self-employed in times of great uncertainty for businesses. The five rounds of the Self-employment Income Support Scheme (SEISS) provided grants to some of the lucky eligible firms (Adam et al, 2020), covering up to 80 per cent of previous profits. When the government first announced the new support for the self-employed in the spring of 2020 the offer came with the caveat that workers would see their tax rates increase in the future. While the way this would happen remains unclear, it opened the question of whether self-employed workers might indeed value a more structured public form of income insurance against future shocks, even if that came at a cost.

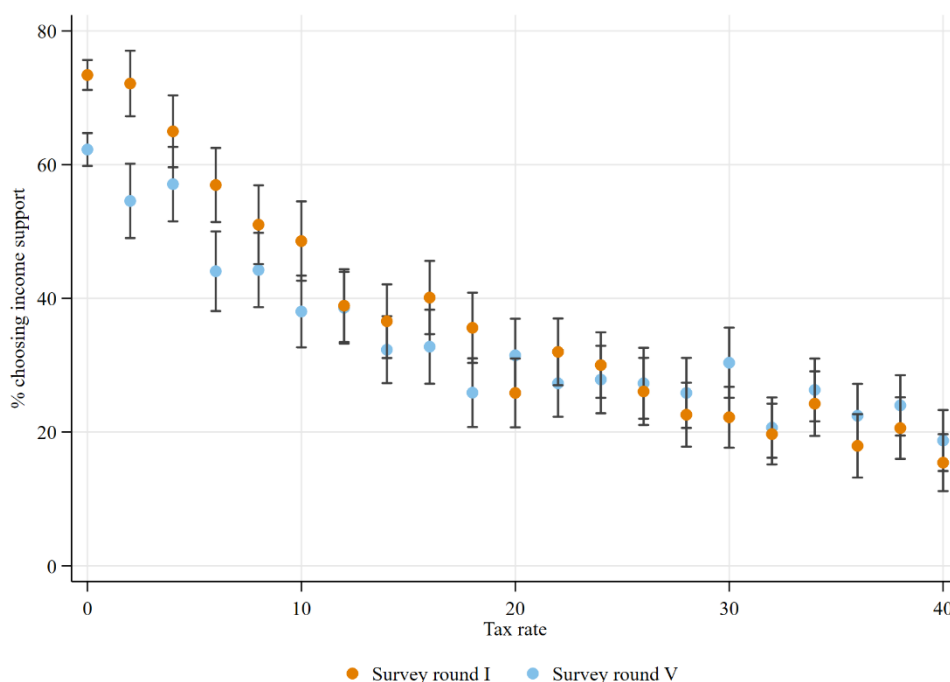
Previous survey findings (Blundell and Machin, 2020) have showed that the self-employed would be willing to sacrifice, on average, 10 per cent of their current income for support

equivalent in generosity to the first SEISS grant. We asked the same question in our most recent survey in order to assess whether, even in times of recovery, the self-employed would still value some form of income insurance.

Figure 5 plots (self-reported) demand for support, two years apart. The responses are quite consistent across waves, with little differences predominantly concentrated on the extensive margin. Overall, 35 per cent of respondents report they would not want the proposed additional support, even when no income sacrifice is associated to it. This is nine percentage point higher than in the May 2020 survey. Consistently, 62 per cent of those who did not apply to SEISS when available, although eligible, declare they did not do so because they did not need it.

Our detailed analysis provides some insight into the variations within the self-employed regarding income support. Regression analysis (Table A1 in Appendix A) reveals that male, high income workers are more likely to report they do not need support. However, there was a positive relationship between those self-employed with employees and the likelihood of them reporting that they need support.

**Figure 5: Willingness to pay for government support**



Source: LSE-CEP Survey of UK Self-employment May 2020 and May 2022.

## Conclusions

This briefing presents evidence from the fifth survey, undertaken by the CEP, of the self-employed under crisis conditions starting in April 2020 (Blundell and Machin, 2020; Blundell et al., 2020, 2021; Blackburn et al, 2021). As well as continuing to monitor the experiences of the self-employed since the start of the pandemic, this particular report is significant in that it is the first since the reduction in support for small firms and the easing of restrictions under Covid-19. Two years after the initial Covid-19 crisis started, however, the analysis shows the



self-employed are under a renewed uncertain economic environment with an impending environmental shock associated with input costs.

Although there had been marginal improvements and resilience over the first 18 months, this fifth survey reveals that while there has been a slight increase in hours worked, the self-employed are experiencing persistent low incomes and profits, and any recovery is faltering. This stalling of any recovery is attributed to a rise in energy prices: energy prices have become the most important financial challenge the self-employed face, compounding the effects of Covid-19. Thus, while there has been a withdrawal in the support schemes for the self-employed that sought to mitigate the impact of Covid-19 and restriction measures, new challenges are looming in the form of rising prices. Compared with employees, the self-employed were especially affected by Covid-19 and given the new uncertainties with price rises, they are experiencing particular hardship.

The report also suggests that self-employment has recently become less attractive as a work-option compared to employee jobs. Indicators in the fifth survey are confirmed by ONS data which shows a net decline in the self-employed, associated with a rise in outflows. Hence, while the pool of the self-employed continues to attract newcomers, the overall effect has been an exodus from self-employment. This should not be surprising, especially given the disproportionate impact of Covid-19 and the new inflationary context they are facing. But it is important in the wider context of the UK labour market, especially given the high importance of new, mainly solo self-employment, positions which helped propel the UK employment rate to record levels just before the pandemic hit (Giupponi and Machin, 2022).

Of course, self-employment comprises a variety of types of organisations and occupations, and people enter self-employment for different reasons. This heterogeneity reflects a variation in their experience and challenges they face. Our findings demonstrate an unevenness in the experiences by occupation, with some occupations reporting very high levels of financial hardship and others much less so. This is reflected in the finding that some self-employed are less likely to support an income support scheme for the self-employed than others.

Overall, the findings suggest that the slow recovery of the self-employed from the effects of Covid-19 and its associated lockdown and support measures, is in jeopardy because of new challenges. The response of the self-employed and small businesses to such shocks can vary (Miklian et al., 2022). Although demonstrating resilience, the condition of the self-employed is already precarious and any new major challenges may tip many of them over the brink into severe financial hardship. From a policy perspective, this may require specific interventions to help them through the new adverse and unstable economic climate.

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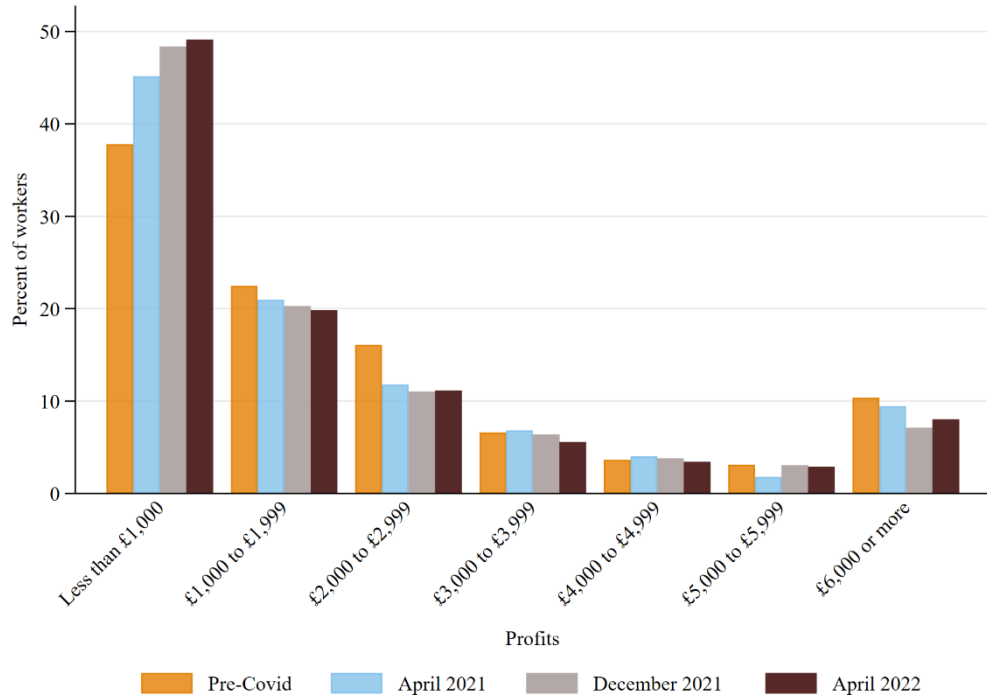
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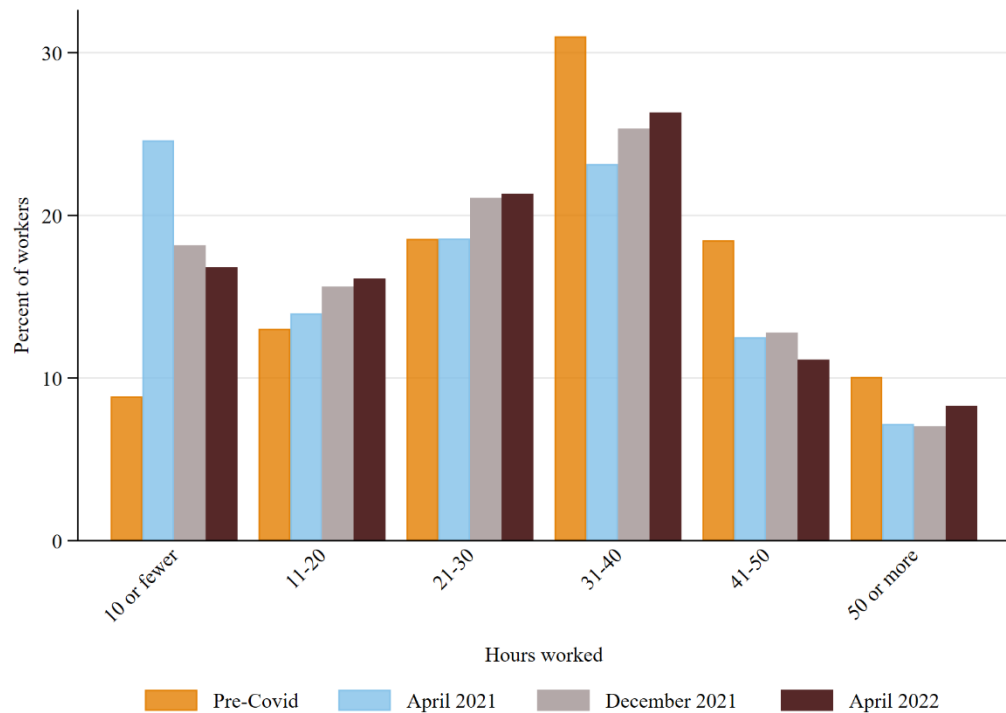
## Appendix A

**Figure A1: Monthly profits – Pre-Covid, April 2021, December 2021, April 2022**



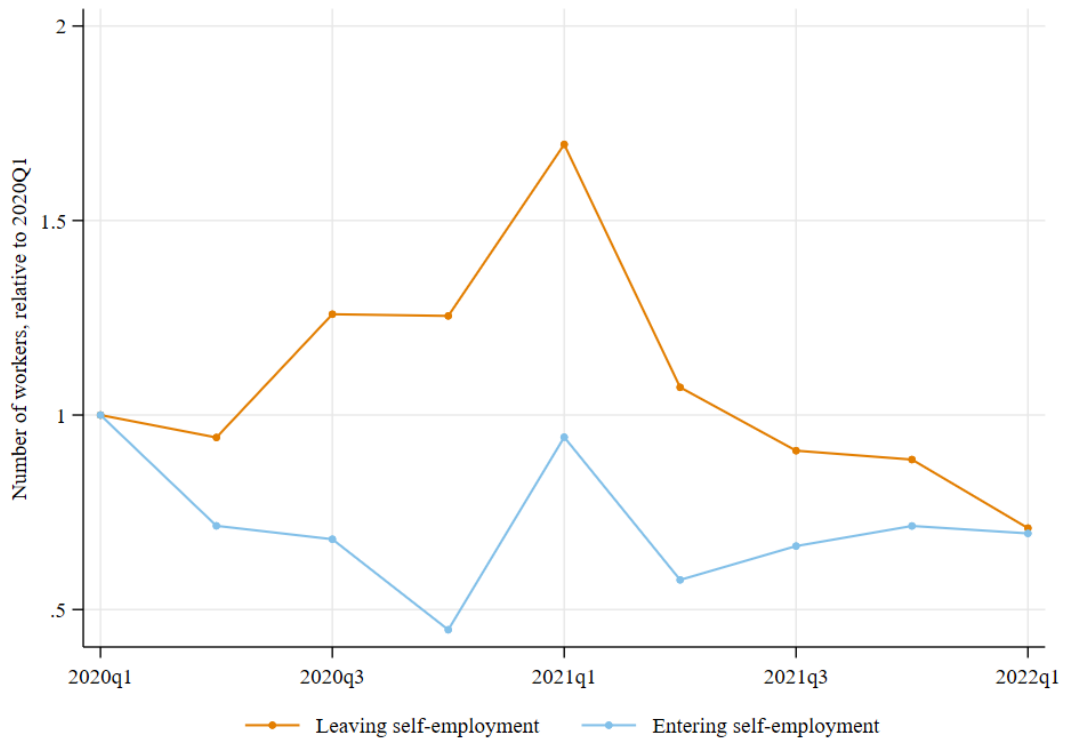
Source: LSE-CEP Survey of UK Self-employment May 2022.

**Figure A2: Weekly hours – Pre-Covid, April 2021, December 2021, April 2022**



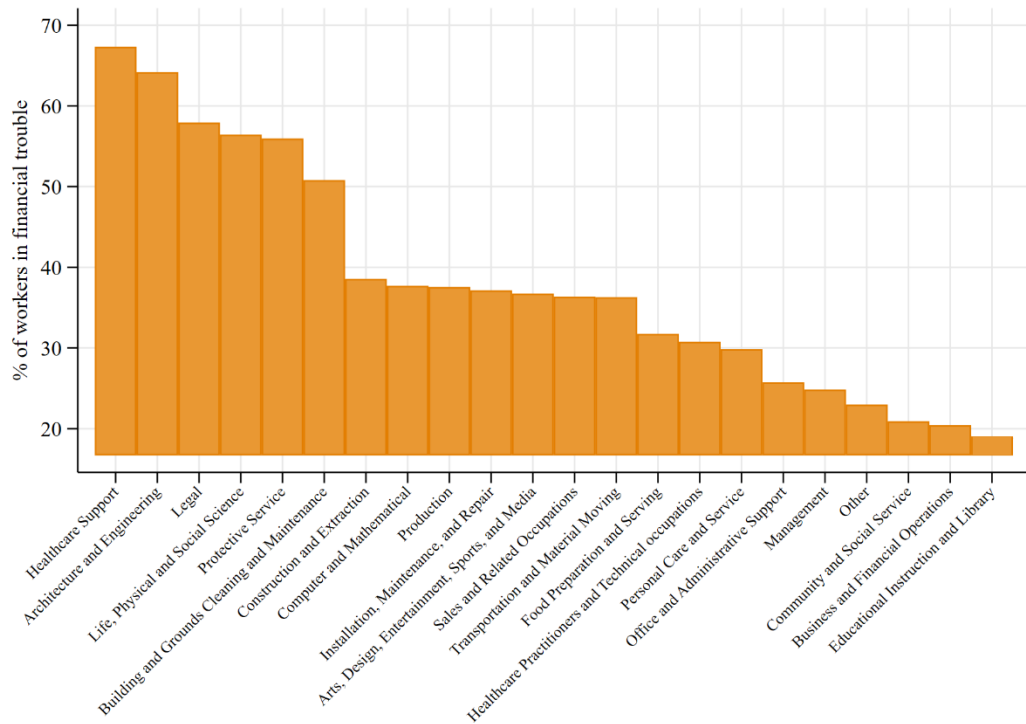
Source: LSE-CEP Survey of UK Self-employment May 2022.

**Figure A3: Flows in and out of self-employment, relative to 2020Q1**



Source: Five quarter longitudinal Labour Force Survey

**Figure A4: Share experiencing financial difficulties, by occupation**



Source: LSE-CEP Survey of UK Self-employment May 2022.

**Table A1: Demand for government support**

	(1) Would not want support when free	(2) Did not need SEISS
Male	0.0948*** (0.0296)	0.1285*** (0.0346)
% Work from home	0.0004 (0.0003)	0.0003 (0.0004)
<b>Income in April 2022:</b>		
1,000 – 1,999£	0.0093 (0.0330)	0.0469 (0.0392)
2,000 – 2,999£	0.0220 (0.0430)	0.1485*** (0.0548)
3,000£ or more	0.1764*** (0.0417)	0.2481*** (0.0502)
Has employees	0.0308 (0.0367)	-0.0785* (0.0441)
Constant	0.2365*** (0.0779)	0.1021 (0.0885)
Observations	1,221	748
R-squared	0.067	0.094

Notes: Robust standard errors in parenthesis. The reference category for April 2022 income is “Less than 1,000£”.

## Appendix B

The data collected for this policy brief represents the fifth wave of the LSE-CEP Survey of UK Self-employment, following the first edition in May 2020 and its follow-ups in September 2020, February 2021 and September 2021 (Blundell & Machin, 2020; Blundell et al, 2020; Blundell et al, 2021; Blackburn et al, 2021). All data is self-reported and has been collected between 12 May and 7 June. The survey was administrated by a third party, who provided the panel of individuals that have recently registered as self-employed.

Because the panel’s composition is not revised daily, we were able to survey respondents that were self-employed at the time of the last update but have changed their status since. We obtained a total of 1,583 responses. The analysis uses the subset of 1,157 respondents who report their current status as self-employed. Responses are weighted to be representative of the relevant population using the aggregates from Labour Force Survey, with gender, age and education level as weighting variables. Given the current instability of the labour market, population estimates of shares are likely to become outdated relatively quickly. We have used the January-March 2022 LFS, the latest version available at the time of writing.

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The logo consists of three concentric circles of varying shades of grey, with a smaller circle in the center, all contained within a larger, dark grey 'C' shape.

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