

FABIAN POLICY REPORT



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NEW FORMS OF WORK

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should do about it, with Andrew Adonis, David Coats,
Sara Horowitz, Chi Onwurah and many more*

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* Oxford Economics 2009, 'The Economic Costs of IR35'

PCG is the association that represents freelancers, contractors and consultants in the UK. Our mission is supporting and promoting the freelance community as a vital force for the UK economy.

FOREWORD



Andrew Adonis is a Labour peer and is currently advising Labour's policy review on industrial strategy

These essays offer an excellent overview of the debate on the future of work. They emphasise continuity as much as change. Despite the growth of independent and more flexible forms of work, full-time jobs with conventional employers remain the norm and the objective for the great majority. As David Coats puts it, despite the rise and fall of industries over recent decades, “the structure of the labour market has scarcely changed over the last 30 years.”

As in past recessions, so in the present one the biggest problem with work is that there isn't enough of it. With unemployment at 2.5 million, and youth unemployment constituting more than 20 per cent of under 24 year olds, the imperative is to generate more jobs. For under 24s, we also need far more good quality apprenticeships leading to jobs. The reinvention of apprenticeships is an especially urgent national priority and needs to be at the heart of Labour's future policy.

Making work pay is also vital. The minimum wage has made a significant difference to pay levels at the bottom, but the debate about a “living wage” is gathering pace and Labour needs to take account of this too. Decent wages are the first and most fundamental form of ‘flexicurity’, as described by Wilson Wong.

Other big issues raised here include the right balance between flexibility and security, the appropriate treatment of the self-employed as against the employed, and the definition of ‘freelancers’. The role of trade unions is also central. In all these areas, these essays contribute new thinking and will help inform Labour's response to the present economic crisis.

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EDITORIAL

The nature of work in Britain is changing. Increasing numbers of workers are turning to flexible working and freelancing in a labour market which is unable to support as many full-time, traditional employees as it was before the financial crash in 2008. But this trend is not just driven by economic necessity – flexible work and freelancing is increasingly attractive as people seek to gain greater control over their working lives, achieve better work-life balance or take opportunities to be entrepreneurial.

New Forms of Work investigates how an increasingly flexible labour market can deliver not only growth but also promote a fairer society. What is the place of flexible working and freelancing in a high wage, high skill economy? How does the workforce need to adapt to the changing labour market and what does this mean for the role of trade unions? Can the left accommodate freelancing and flexible working as part of wider pro-business agenda that emphasises entrepreneurship, whilst maintaining its core mission to protect the rights of working people?

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Labour market myths and realities

David Coats argues that the labour market is evolving rather than being revolutionised and suggests that the challenges facing the UK are amenable to creative policy interventions



David Coats is the director of WorkMatters Consulting and a research fellow at the Smith Institute

MUCH OF THE popular commentary over the last twenty years about the changing world of work has focused on the transformation wrought by flexibility, globalisation, the growth of precarious work and the increasing need for individuals to be entrepreneurial if they are to succeed. In the 1990s Charles Handy was predicting that by 2010 an increasing proportion of us would be self-employed portfolio workers, moving from one commission to another, with no long-term relationships with colleagues or employers. Jeremy Rifkin forecast “the end of work”, with intensifying international competition hollowing out developed world economies and reducing the supply of good jobs. Even Richard Sennett, one of the most creative thinkers about the place work has in our lives, has fallen prey to the same temptations, suggesting that the model of capitalism we now inhabit inevitably leads to more temporary or short-term jobs, weaker relationships and the erosion of both craftsmanship and co-operation.

More notorious perhaps are the oft-repeated nostrums that the job for life has disappeared, that we are living in an age of growing insecurity and all individuals can do is ensure that they have the skills required to make them employable in an increasingly uncertain world. Any casual

reader would be driven to the conclusion that the world of work is pretty awful and likely to get worse as good jobs are shipped overseas and ladders of progression disappear.

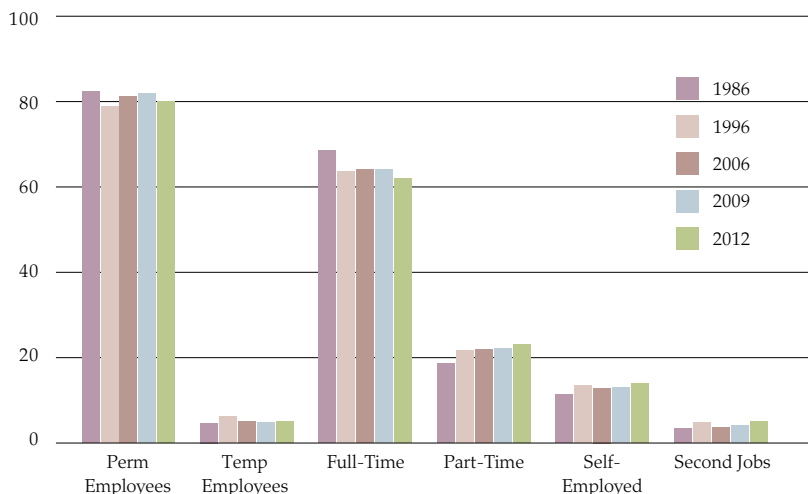
All this adds up to a compelling story and it appeals to some on the left because it offers an indictment of the market fundamentalist orthodoxy that has dominated public policy debates since the late 1970s. But, and this is a major caveat, it would be quite wrong to believe that all these phenomena are clearly identifiable trends or indeed that they are supported by evidence at all. A close scrutiny of the data offers an alternative narrative that leads to a very different set of policy prescriptions. Change is happening, but it is not the change described by many commentators. The Webbs (and other Fabians) taught us a valuable lesson: there is no substitute for good social science and a forensic investigation of the facts.

To begin with, the official statistics show that the structure of the labour market has scarcely changed over the last thirty years. The big increases in part-time work took place in the 1960s and 1970s, temporary work played (and continues to play) a very small role in employment in the UK, self-employment has been generally stable for the whole of this period – with some variations across the economic cycle – and the vast majority of people at work (four in every five) continue to be employees with permanent contracts (Figure 1).

At first glance it appears that nothing has really changed at all – but that would be a misleading interpretation. The real story of labour market change is focused on the rise and fall of industries, the decline of manufacturing, the growth of employment in services, rising skill levels and the burgeoning of jobs in what the statisticians call professional, associate professional and managerial roles.

It is right to say, therefore, that the growth of a ‘knowledge economy’, an article of faith under the 1997–2010 Labour governments, is more than a myth. But there is a paradox here too. Despite rising skill levels, an increasing percentage of workers report declining control and autonomy (important indicators of high quality jobs) and record that their skills are not being fully utilised. One study, sponsored by the Department for Business, Innovation and Skills, found that most British workers are bored and generally disengaged.

FIGURE 1
Structure of the Labour Market 1986–2012 (% of all in employment)



Source: Labour Force Survey

The important conclusion, however, is that permanent jobs are not being swept away by a tsunami of casualisation. Self-employment has risen slightly since the advent of the global crisis, but that is a consequence of recession (people are making a virtue of necessity if they lose their permanent job) not an indicator of rising entrepreneurship. It is also true that part-time work has grown as the number of full-time jobs has fallen. Moreover, a significant percentage of both part-time and temporary workers say that they would like either to work full-time or take a permanent job but there are no opportunities available. Yet all of these changes are on a relatively small scale and are best understood, given previous experience, as consequences of macro-economic conditions rather than profound structural changes in the labour market.

Of course, all this could be true, but the insecurity lodged in the popular policy narrative might still be explained if workers are changing jobs more frequently – and are uncertain where their next job may be found. There is much to be read in this vein too, exemplified by the argument that a new graduate is likely to have more than twenty jobs before they retire. This might be seen as both an opportunity (lots of variety in work) and a threat (more insecurity), but it amounts to little more than crystal ball gazing. Indeed, the most rigorous economic analysis suggests that average job tenure (the length of time people spend in a job) remains fixed at about ten years, which is precisely the same as in the early 1980s.

Once again, however, it would be wrong to conclude that there has been no change: the number of long-term jobs, meaning those which last for more than 10 years, appears to have declined. This is a phenom-

enon affecting men rather than women and reflects the continued fall in the availability of lower skilled jobs for men. To the contrary, women’s job tenures have been rising over the last 20 years, principally as a result of improved maternity rights, maternity pay and the right to request flexible hours of work. For men, especially those with lower level skills, the costs of unemployment have risen too – once you have lost your job it is very difficult to re-enter the labour market and find alternative employment at a similar level of pay.

The evidence is compelling: the UK has a job quality problem not a casualisation problem

There are two features of the UK labour market that differentiate our experience from the situation elsewhere in the EU15: first, the high level of income inequality; second, the relatively high number of low quality secure jobs (see Table 1). The breakdown presented here is by employment regime, which looks at the totality of the employment system and identifies those features that enable distinctions to be drawn between the Nordic economies, the liberal model (the UK and the Republic of Ireland), the continental system (Germany, Benelux and France) and the southern European economies. Job quality is measured on the following dimensions: the opportunities for skill use and skill development, the degree of freedom an employee has in making decisions about the way work is done, work life balance,

satisfaction with pay, the pressure of work and the opportunities available to influence critical employer decisions.

Most disturbingly, perhaps, this analysis suggests that almost three in every five jobs in the UK fall into the low quality category, a doubly surprising finding given that the research was completed under conditions of full employment when employers might have been expected to place a premium on retaining skilled and motivated employees.

Obviously perceptions of employment insecurity will be higher in recessionary conditions – people legitimately fear for the future of their jobs. But a more profound case can be made that the extent of low quality work is a distinctive feature of the short-term and sometimes irresponsible nature of British capitalism. The idea that corporations are simply portfolios of assets to be traded rather than organisations that develop their capabilities to deliver high performance over the long-term inevitably leads to management hyperactivity and endless business restructurings and re-organisations. Employees on the receiving end of the deal making culture can find themselves feeling insecure, rootless, disconnected and disaffected even when they are not threatened with imminent job loss. Many businesses seem to be undergoing a permanent revolution, a phenomenon that is profoundly unsettling for those affected. Organisational instability often begets insecurity.

Labour’s response to these trends must be to make the case for a rapid return to sustainable full-employment. But more than this, a clear link must be forged with Ed Miliband’s argument that the UK needs a more responsible capitalism. Corporations with committed, engaged investors will find it easier to make long-term commitments to their employees than those businesses focused principally on financial engineering.

It would be a mistake and an indication of a spectacular lack of political confidence for Labour to make policy on the assumption that decent, permanent, secure jobs are a thing of the past. The evidence is compelling: the UK has a job quality problem not a casualisation problem. The labour market is evolving rather than being revolutionised. And experience elsewhere suggests that the challenges facing the UK are amenable to creative policy intervention. High quality, secure employment is no illusion but rather a necessity for a new model of stable growth in the post-crisis world. **F**

TABLE 1
Percentage of employees in job quality/job security categories by employment regime

	High Quality Secure	High Quality Insecure	Low Quality Secure	Low Quality Insecure
Nordic	48.3	11.9	25.9	13.9
Liberal	34.4	7.6	32.2	25.8
Continental	38.9	10.2	24.6	26.2
Southern	30.3	9.9	27.3	27.3

Source: Paugam and Zhou 2007, Eurobarometer



New forms of union

Protecting working people from exploitation and securing the full fruits of their labour cannot mean the same in this fragmented but networked 21st century as it did in the 20th, argues *Chi Onwurah*

SOLITARY, POOR, NASTY, brutish and short: that was how the 17th century philosopher Thomas Hobbes described life without legitimate – and active – government. But increasingly it seems an apt description for the working lives of all but an elite few. Not short in overall terms, but part-time or based on short-term contracts, or prey to dismissal or redundancy in an increasingly insecure world of work.

Young people entering work today know it is highly unlikely they will have a job for life. It is also less likely they will join a union: membership has halved in the past thirty years and the number of work-based union representatives has dropped by two thirds. Almost half the workforce are employed by small companies, and this proportion is likely to increase as supply chains adapt to globalisation, technology and evolving markets.

So employees are likely to be on their own.

As for poor, nasty and brutish, well as Chuka Umunna remarked in the debate on the Enterprise and Regulatory Reform Bill, the government seems to think that what is really keeping the country in a double dip recession is the inability of employers to fire at will. Few outside the neo-liberal ghetto believe this, but what is true is that small companies do not have the large HR departments which can help nurture employees, ensure managers have the skills to manage effectively and that both understand both their rights and their duties. This makes more likely a working environment where it is each for their own and all against all.

This is a gloomy vision and one which a progressive left-of-centre party must address. Labour's answer must not be to attack workers rights but to strengthen them, and ensure that working people are neither alone nor lacking in the skills to benefit from a dynamic labour market.

The decline of the workplace is seen as denying unions their key organising dynamic. But unions could be the killer app, the twitter of the networked worker.

And there is reason to believe this is possible. In their recent book, *Gardens of Democracy: A New American Story*, Eric Liu and Nick Hanauer point out that we have been co-operating for longer than we have been competing and argue that this century will see an evolution from atomistic individual units to networked reciprocal communities.

Labour needs to recognise this. Protecting working people from exploitation and securing the full fruits of labour cannot mean the same in this fragmented but networked century as it did in the 20th.

We must redefine collectivity to enable individuals working alone or in small companies to access the support and protection they need. The decline of the workplace is seen as denying unions their key organising dynamic. But unions could be the killer app, the twitter of the networked worker.

There is evidence the decline of the union footprint has contributed to an increase in low level conflict, individual employment law cases, employment tribunals, and a decrease in wage levels in the absence of shop stewards to mediate and collectively bargain.

Unions need to be able to organise and offer support across different companies. There are already examples of unions agreeing minimum wage levels for industry sectors to which companies adhere to show they are 'best practice'. The public sector can give an active lead in supporting such standards through its procurement and employment practises.

In such circumstances withdrawal of labour cannot not be the principal weapon. Part of the value that unions bring includes enhancing the value of labour for both employees and employers. Unions can help employees develop the right skills for the next job, as they already do for around 150,000 people every year, tackling key skills barriers in the interests of employers as well as union members.

Research by the TUC shows that employees still see a strong role for unions in protecting and developing working rights and conditions, but recognise increasingly that unions can help in skill development and general wellbeing. Interventions on health screening, smoking cessation, stress management, alcohol awareness, diet and exercise yield long term health benefits across the social spectrum. Interestingly, employers too are advocating a strong role for unions here, recognising the 'bottom up' approach is much more successful and sustainable than management instruction.

Supporting 1000 people in dynamic relationships with 1000 different employers requires a different skill set from simply representing 1000 workers in negotiations with one employer. But it is a challenge that has to be addressed. The fragmentation of the workplace need not be a barrier to a virtual presence on the 21st century 'factory floor'. Certainly the technology is in place to help.

And an active government can help ensure the right level of transparency so that responsible employers can be recognized by employees, customers and shareholders alike.

The future of work will be changeable, adaptable, evolving. It is right that employers and employees seek greater flexibility in order to succeed in this competitive environment and that we support progressive innovation across working and employment models. But we must make sure flexibility does no translate as insecurity. One thing is certain: strong, sustainable and productive economies are not built by a scared, insecure and badly paid workforce. Good employers and confident employees know that. **F**

Chi Onwurah is MP for Newcastle Central & Shadow Minister for Innovation & Science



Future present

The workforce of the future is already here, writes *Sara Horowitz*. Unions have to deal with this new reality – or risk becoming irrelevant.

THE WORKFORCE IS changing, across the globe and particularly in America.

In the United States, we're seeing a massive and accelerating change. The last time the government counted (before the recession), one in three workers here was 'independent.' That's 42 million self-employed business owners, entrepreneurs, part-timers, and consultants.

Many of these workers are in the creative classes. When most Americans hear the term 'freelancer,' they picture younger people working in graphic design, computer programming, or media (film, television, or journalism). There is some truth to that stereotype – a significant majority of Freelancers Union's 180,000 members fall into those categories.

But that doesn't tell the whole story – and, in fact, misses just how significant the shift to independent work has been. We are seeing more and more non-traditional freelancers joining the union, like nannies, lawyers, real estate agents, financial services providers, yoga instructors, and people looking to simply exit the increasingly unfulfilling corporate world. And people of all ages are finding a new home in the freelance world.

When I started Freelancers Union in 1995, independent work was little-discussed and even less understood. Many people assumed no one chose to be freelance, but rather ended up that way as a result of downsizing or poor job prospects. There was a saying that "'freelancer' was just another word for 'unemployed.'"

Of course, that was never the case, but as more and more people have shifted to this way of working, it is becoming an in-

creasingly attractive alternative for people from many industries.

We recently asked our members what they like most about being freelance and the theme was consistent: freedom.

In the words of one member, freelancing "gives me the freedom to choose clients, work schedule, vacation, and pretty much everything related with work."

Another said they love "being able to take creative risks and not always colour within the lines."

While "freedom" is the watchword for the new workforce, they also know better than anyone that true independence actually requires interdependence. The most successful freelancers are the ones with the most robust networks – people they can call on for gigs, ask for guidance, and turn to when they're overloaded.

We're seeing freelancers employ that same 'network effect' to their economic and consumption power. They are joining together to group-purchase needed products like tax and design software. They're forming groups online to provide advice. They're taking to social networks to commiserate and work through everyday challenges.

What I really see developing in these conversations and connections is an entirely new economic model, one that weaves together companies, entrepreneurs, workers, and other organisations favoring long-term sustainability over short-term profit and shared power over top-down control.

Social enterprises, benefit corporations, credit unions, employee-owned businesses, and traditional co-operatives are on the rise, taking up a larger and larger share of the economy. America's 30,000 co-ops alone produce \$500 billion in annual revenue and employ more than 1,000,000 people.

This is not a boutique movement. And it's one rooted in the successes of history.

Early 20th century unions like the Amalgamated Clothing Workers of America (ACWA) pioneered more sustainable, mutually supportive ways of building economic and spiritual solidarity.

The ACWA used the dues it collected to build affordable, social-purpose businesses like housing, banks, medical centres, and insurance companies. These sustainable businesses – where revenues exceeded expenses – meant workers didn't have to rely



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on government or corporate benevolence to meet their challenges. They did for themselves.

The government, though, must play a catalysing role in supporting new worker-founded institutions. The laws and regulations that gave rise to today's unions were written to fit a manufacturing economy – not today's gig economy.

Just as mass production unions of the 1930s had to evolve from the craft union model of the 1860s, we too have to come up with new kinds of models for this new workforce. It is a high-reward investment to use the tax code and other government levers to promote, grow, and sustain these new institutions.

Of course, this new workforce doesn't share a factory floor, where organising is helped by proximity. Instead, unions must find new ways to connect these workers virtually and empower them to self-organise around shared interests. That will take significant creative and innovation within the labour movement.

The workforce of the future is already here. Labour unions have to deal with this new reality – or risk becoming irrelevant. The adaptive, responsive, centuries-old history of labour in America makes me optimistic we will adjust, learn from the past, and lead the future. **F**

Sara Horowitz is Founder and Executive Director of Freelancers Union

Policy fit for purpose

Freelancers are a distinct group in the labour market and require a distinct policy offer, argues *Patricia Leighton*



Patricia Leighton is Emeritus Professor of Employment Law at Glamorgan University and Professor, IPAG Business School, France

THE PROBLEM WITH ‘flexibility’ as a labour market concept is that it has always been essentially ambiguous. Who is the flexibility for? There is the ‘push’ flexibility for employers who can organise their skills supply to suit their needs, often at the expense of job security of workers. Or there is the flexibility of ‘social pull’ for workers who welcome job sharing, homeworking and other work patterns that provide ‘work-life’ balance or suit their own flexibility needs.

One group in the labour market has no confused thinking on the matter. These are the freelancers or what we call ‘IPros’ (independent professionals) who generally relish the idea of working flexibly, though they recognise that the price for working independently is sometimes high levels of financial and other risk. They take that risk on board.

An IPro may be a member of a regulated profession like law or accountancy, or they may be a ‘new’ professional in a less regulated occupation such as IT, design, writing, translating or consultancy. They may or may not operate through a limited company, may or may not use employment agencies to obtain assignments, may or may not work collaboratively with other IPros and, importantly, may or may not self-define as an ‘entrepreneur’.

This last point is one of the central dilemmas of IPro working. Essentially, are they a distinct element of the labour market? Or, part of business and enterprise? Are they small and medium enterprises? This is an important issue, because in policy development terms, IPros often fall between

government departments and can be then left out in the cold. In EU terms, efforts to get IPros onto EU agendas run up against whether they are the responsibility of the department (Directorate-General in European Commission terms) of Employment, Enterprise or even the Single Market? Even academic employment lawyers, having devoted pages of case-law and debate to the thorny question of how do you differentiate the employee from the self-employed, then despatch the self-employed into oblivion.

Who are they?

The first point to be made is a critical one. If we define IPros in terms of high skill and generally a high level of educational attainment and then disaggregate them from the generality of statistics on self-employment, they are a dramatically increasing element of both the UK and EU labour market. It has been recently reported that between 2008 and 2011, their numbers increased by 12.5 per cent, during a recession and decline in self-employment generally.¹ In some EU states the growth has been well in excess of that. For the UK the figure is 24 per cent, accounting for over 1.6 million people in 2011. It might be noted that there is no research evidence that supports the idea that these people are forced into IPro work due to lack of permanent employment. Generally they have freely chosen to work this way, and equally importantly, regularly conducted surveys from the UK, Netherlands and Australia tell the same story, that many have rejected standard employment. They tend to

dislike working in bureaucratic, hierarchical organisations and even ‘office gossip and backstabbing’ and seek autonomy. Their commitment is to their skill or occupation and not to an individual employer.

What is remarkable about research data on IPros is the consistency of findings across occupations, across countries and even continents.² IPros report that they have very high levels of job satisfaction and self-respect, and they feel valued by clients and others. They look forward to Monday mornings!

The emerging research on this important and talented aspect of the labour market reveals a distinctive, highly motivated and self-reliant group. Research also dispels many preconceptions. Although traditionally many IPros move to self-employment after a period as a standard employee and the group was male dominated, we are now seeing younger people working as IPros directly after qualifying, and increasing numbers of women.

The policy challenges

The first challenge is to explore the research data. IPros are not ‘failed employees’, are not to be simply merged into the SME agenda and need to be recognised and responded to in a distinct way. This is not easy, not least because we still need to learn more about them (a current project, sponsored by EFIP – The European Forum for Independent Professionals – is on-going and will be published in early 2013). We need to move away from debates that depressingly focus on IR35 – Labour’s tax legislation, continued by the coalition government, designed to tax



‘disguised employment’ – expenses ‘fiddling’ and ‘sham’ employment relationships. There can be no defence of tax evasion and shams. But policy needs to develop in a positive, not defensive and negative way. We need to find the right regulatory and supportive framework for IPros. Most importantly, they need to be actually on policy agendas

What seems to matter is macro policy-making and the ‘signals’ given out by government

What are some key issues? In the UK but not in a majority on EU states, IPros do not enjoy social security rights such as sickness or injury pay, pay when without a contract and cannot exercise the core employment protective rights. If they are ‘nano-businesses’ there is a certain logic in this UK approach. But should all at work have a ‘floor of rights’? If not, how and where should IPros be represented and their concerns responded to? What of their need for ‘up-skilling’ and life-long learning? Can we really afford to leave all of the costs of this to be carried by individuals or should the economy see the value of investing in this group?

We urgently need to understand the economic, social and cultural conditions in which independent, innovative and self-supporting individuals thrive. The data from GEM 2011 (The Global Entrepreneurship Monitor) has much to draw on. What seems to matter is macro policy-making and the ‘signals’ given out by government. Comparatively, the UK scores quite well, for example, on the openness of its markets and level of regulation, but much less well on support through education and training, research and development, financial support, along with cultural support: i.e. those signals given out by government.

Overall, this is a talented and valuable group of people. It seems increasingly important to make a relevant policy response to them. **F**

1. Rapelli, S European IPros: A Study (2012) PCG and EFIP
2. For example, see Eurofound 2010 Survey of Working Conditions in the EU (2011); EC Entrepreneurship in the EU and Beyond Flash Barometer no 283 (2010); and Notes 1 and 2. Data from USA is in line also.

Security for the flexible

The world of work is changing fast but our current system of work support is still designed for traditional full-time work and unemployment. 'Flexicurity' for the self-employed could support a vibrant new economy, suggests

Erika Watson



Erika Watson is an inclusive entrepreneurship consultant, trainer and writer at Greenwellfuture.com. She is also editor of Prowess 2.0 Women in Business

THE UK WILL need entrepreneurial talent and innovation if we are to pull through and thrive after the great recession. The summer's Olympics showed what can be done when the infrastructure is in place to nurture, identify and support talent. Our economic future depends on small business: that's where most of the new jobs will come from. But while government rhetoric, whichever party is in power, champions the self-employed risk-takers who'll make it happen, in reality they receive very little support. Rising flexibility is instead matched with diminishing security safety nets. Increasingly only those with personal wealth or assets are in a position to 'go it alone'. Team GB Enterprise is anything but fit for the future.

Where we are now

Our economy is undergoing a fundamental restructuring. Self-employment is at an all-time high. Chartered Institute of Personnel and Development research shows it has absorbed around 40 per cent of employee jobs lost since the recession began: 14 per cent of the working population in the UK are now self-employed, over 4.1 million people. Many commentators believe the shift is permanent: even more of us will become self-employed, flexible workers in the post-industrial, global economy.

In fiscal terms, the implications are initially worrying. Over half of the self-

employed earn less than £10,000 from their business ventures each year, according to HMRC. It is estimated that 83 per cent earn less than the average wage. With self-employment taking the place of a good proportion of lost public sector jobs it is little wonder that GDP has declined while employment appears to be holding up.

The shift from employment to self-employment is likely to mean significantly reduced tax revenues for the exchequer and increased vulnerability for workers. Pensions are a pipe-dream for most of the self-employed. There is often no sickness or maternity leave provision, little to reinvest in training or development.

To some extent the self-employed trade income and security for the immense psychological benefit of having control over their working lives. People who work for themselves, in common with those in higher-status jobs, generally have a greater sense of well-being. In the longer-term of course everyone who works for themselves hopes to be able to establish security and prosperity. And large numbers do. Firms with fewer than five employees accounted for over 50 per cent of new jobs in the UK between 2001 and 2008. Most new jobs in the next 15 years will be created by businesses that don't yet exist.

Just like our Olympic medallists (those with a private school education were

around five times as likely to win a medal), having personal wealth and assets makes a huge difference to business success rates. Privilege alone isn't enough of course, but it can keep you in the game long enough to benefit when a break comes along. It can also provide investment capital or financial leverage; there is a relationship between the level of capitalisation and business success.

As in other areas of life, like sport and the creative industries, where there's no easy way around the immense hard work, commitment and talent needed to succeed, entrepreneurship can sometimes offer a better route to upward social mobility than paid employment. But while we all celebrate the rags to riches success of Mo Farah and Jessica Ennis, Alan Sugar and Michelle Mone, the reality is that in all of those areas of achievement you still have a much greater chance of success if you start from a privileged background. Social mobility has narrowed and inequality has widened in the UK. In the last twenty years we've moved from being one of Europe's most equal societies to one of its least equal. We've become a more rigid society where more people are stuck in the same social and economic groove as their parents. The health and social costs are high. And the cost of squandered potential is higher still to our future prosperity.

The world of work is changing fast. Our current system of work support is still designed for traditional full-time work and unemployment. Unions have rightly fought for and won greater rights for agency workers and other salaried-workers-in-flexible-clothing. But the growing numbers of genuinely self-employed fall largely outside industrial structures of representation, support and security.

The self-employed, as a group, have little bargaining power. Instead of being seen as an economic opportunity by government, they are easy pickings for deficit reduction. Working tax credits, which have provided a buffer to the downward push on incomes and increasing inequality wreaked by globalisation, are being axed by the coalition government and replaced by universal credit. Over 900,000 families on working tax credits are dependent on some income from self-employment; 600,000 have a self-employed person as the main earner and 390,000 have income from self-employment only, figures from the Department for Work and Pensions (DWP) show. The draft regulations for universal credit for the self-employment propose a new job seeker's allowance or disability living allowance type regime of intensive assessment. Start-ups, early stage businesses and the low-paid self-employed will need to provide regular reports on their efforts and monthly cash-flow information to the DWP. And if they are not earning the equivalent of the minimum wage within a one-time one-year period, they'll be 'required to seek other work'. In reality, most businesses take more than one year to establish and they do much better with real investment and support. The punitive approach is likely to push more 'off the books' into the informal sector, with less tax paid and less chance of business growth, employment and tax revenues in future: a downward spiral for us all. Training and development support for those becoming self-employed is a similar story of neglect or avoidance from recent governments.

In common with our winning Olympics strategy, recent governments have also had occasional, selective schemes focused on 'picking winners': identifying and getting behind the small number of start-ups with the perceived potential for high-growth. But unlike the Olympics, Team GB Enterprise lacks the grassroots infrastructure

which has supported increased engagement with sport at all levels. High-growth 'gazelles' are important, but they create just one third of the new jobs created by micro-businesses. They are also notoriously difficult to identify in the early stages, especially by government. And they are more likely to thrive in areas with a larger number of small businesses. An environment where micro-business start-ups are effectively supported has wider benefits.

In all areas of achievement you still have a much greater chance of success if you start from a privileged background

Some European countries have begun to develop employment law frameworks that enable a more effective balance between security and flexibility. 'Flexicurity' has been taken up most enthusiastically in Denmark, as Wilson Wong details over the page. There, employment law around hiring and firing has been weakened in return for a much more robust and respectful system of support and security for people between jobs. Government shares the greater risks of insecurity through accessible lifelong learning and retraining programmes, job and career development and enhanced levels of unemployment benefit.

Understandably unions across Europe have resisted flexicurity. Hard-won employment rights once lost will be almost impossible to regain. Flexicurity may make sense as a reframed social contract for a faster-moving, globalised economy, but workers will want absolute confidence that successive governments will keep their side of the bargain.

Flexicurity for the self-employed makes more immediate sense. The pillars of flexicurity are fundamental for small business success. They include: life-long learning (maintaining up to date skills is a massive issue for small businesses); effective state-backed social insurances (this would enable businesses to deal with critical business shocks, such as losing key customers, sickness or maternity); and more reliable contractual arrangements (cash-flow issues caused by late or non-payment of custom-

ers' debts are the biggest cause of business failure). In essence, flexicurity for the self-employed would provide the support and security to make Team GB Enterprise fit for the future.

Unions and associations for the self-employed have a role to play in providing a collective response to some of those needs. Some like the Musicians Union are already doing a great deal to support the collective interests of self-employed members and there is surely an opportunity here for other UK unions to widen their remit to welcome this new generation of vulnerable workers.

Accessible business support and finance programmes like microcredit and 'community development finance initiatives' (CDFIs) can help even the playing field too. But while unions, associations and CDFIs can mitigate some of the insecurities, and provide a voice to promote common interests, government also needs to play its part by providing a fair level of security to balance the risks of flexible own-account working and increase the odds of business success and growth.

Conclusions

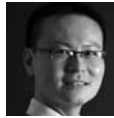
The new self-employed are different. While the traditional, male-based self-employed trades have stagnated or declined during this great recession, the new self-employed are more likely to be female, knowledge-based workers and middle-class. Some will have the assets and personal wealth to remain secure while their business takes root and starts to grow: a redundancy cheque, savings or inheritance. But most people in the UK have no such personal safety net: one in five has no savings at all and a further 35 per cent have savings of less than £500.

A laissez-faire approach to sporting success delivered one meagre gold medal in Atlanta 16 years ago. We can expect no better from laissez-faire enterprise. We will all benefit, from increased enterprise-led employment, tax revenues and innovations, when we have an economic infrastructure which supports enterprise for the many, not just for the few. **F**

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The new deal for Britain?

In Denmark, high mobility between jobs is combined with a comprehensive social safety net for all those who leave employment and an active labour market policy. *Wilson Wong* investigates whether this could be a viable model for the UK



Wilson Wong is a former senior researcher at the Work Foundation

RECENT DECADES HAVE seen fundamental changes in the employment deal offered to workers throughout the UK. For many, these changes have meant reduced pay and benefits, erosion of pensions, increased job insecurity, the probability of having to work many years beyond 65 and limited job mobility. In effect, the onus for remaining gainfully employed in decent jobs – jobs which provide good work on a fair return – have shifted substantially to individuals and households.

This shift is consistent with a liberal political culture in which the state seldom intervenes in the affairs of private actors. National policy since Margaret Thatcher has focused on labour flexibility, with job security enshrined as individual legal employment rights, such as the minimum wage introduced by Tony Blair.

In the past (largely economically benign) decade, the effect of this 'state-lite' approach in the UK labour market has witnessed growth in high-skill, high-wage professional and managerial occupations and insecure lower paid service occupations with a distinct hollowing out of middle-wage occupations. Work by Paul Sissons for the Work Foundation has shown that the large-scale job losses in the post 2008 recession were in routine manual and non-manual occupations, accelerating existing trends in the structure of the UK jobs market.¹ This 'hourglass' labour market poses a threat to

the traditional promise of earnings mobility through hard work and career progression.

This is in sharp contrast to the Danish employment deal. The Danish model often described as a 'golden triangle' combines high mobility between jobs with a comprehensive social safety net for all those who leave employment and an active labour market policy. Theirs is the archetype of 'flexicurity' and has been successfully adapted to the Scandinavian economies of Norway, Sweden and Finland.

Like Britain, Denmark has liberal employment protection. In fact, Danish employers can and do hire and fire at will. Close to a quarter of Danish employees are affected by unemployment and receive unemployment or cash benefits every year.² However, their comprehensive social security system, unlike Britain, is comparable to the other Scandinavian welfare states. The basic income replacement is 60 per cent, which may be enhanced by additional insurance top ups to 90 per cent. Even with the austerity measures introduced by the Danish government in June 2012, the income replacement period is still a credible two years down from four years.

For clarity, labour market flexibility here refers generally to the scope of employers to adjust the number and skills configuration of their workforce. Although often constructed by economists and politicians as a desirable trait, a consequence of labour

flexibility-mobility is a disincentive at firm level to invest in education and training. After all, the firm can buy-in new skills from a fluid labour market. From the employee perspective, the aim of employment is to optimise return on their skills – all very short-term.

In Denmark, the state retains a pivotal role in ensuring labour employability through active labour market policies. Denmark's comprehensive public training and education system corrects potential 'market failure' from high mobility, making Denmark's vocational training for adults the top of the EU league table. These interventions are integral to the effectiveness of Danish flexicurity in delivering the skills demanded by employers, enhancing employability with a highly skilled responsive labour force. A 2007 study by the Danish Economic Council³ compared two groups of citizens who had been unemployed for about 18 weeks. The first group had to participate in job search assistance programmes, training and frequent meetings with jobs officers for at least three weeks. A second control group was left alone. Those in job activation had an exit rate from unemployment about 8 per cent higher than the control group. After 40 weeks of unemployment, the exit rate was still a significant 3 per cent higher. However, up to 2008, this success was delivered within a benign global economy with high growth and low inflation. Increases in real income

could be sustained with low nominal wage increases.⁴

At the heart of the Danish (or Scandinavian) model is a deep trust between state and citizens which put the welfare of citizens at the centre of a compact where workers are prepared to forego conventional job security for long-term employability. Citizens also trust the state to deliver an effective and efficient system of active labour market policies that ensure a positive time-limited transition between jobs. All the actors – state, employer and workers – genuinely believe that they are collectively building a future together.

Adopting flexicurity and active labour market policies modelled on the Scandinavian countries appear attractive but many remain unconvinced that combining flexibility and security is affordable and can be delivered convincingly without jeopardising international competitiveness. The quality of government and governance is also a major caveat. All the evidence suggests that a successful flexicurity model, which gives companies the flexibility to hire and fire employees and adjust their work hours, while supporting job-to-job transitions and providing laid-off employees with solid benefits and job re-training programmes, can help fulfil Europe's promise of both economic sustainability as well as human development – but only with painful structural adjustments.

Flexicurity – a model for the UK?

Flexicurity coupled with active labour market policies has several distinct advantages. It redefines security in terms of employability and credible income replacement for a limited but fair period of adjustment. It secures the compact between state and citizen that in exchange for higher taxes, there is a reasonable social safety net and access to employability enhancing learning and development. The infrastructure for flexicurity encourages workers to improve their skills and re-train, reducing skills obsolescence in the national labour market and dependency on immigration to fill gaps. The reduction of individual risk encourages workers to see employability over a longer time-horizon with opportunities to respond nimbly to changes in international markets, technology and often to explore and initiate new solutions and ways of working. Active labour market policies reduce the interval of worklessness and thus overall well-being



of the working age population given that decent work is a significant contributor to well-being.

However despite this, Britain's projected budget deficit of £126 billion for 2011–12, according to the Office for Budget Responsibility, and Anglo-American aversion to high taxes, suggests the idea of flexicurity is stillborn. But what is the long-term cost of the status quo – a *laissez faire* approach to labour market policy?

With unemployment above 8 per cent, the UK consistently records vacancies in excess of 450,000 every month; jobs that the local labour force do not seem able to fill. In the 2011 Work Foundation study identified the dangers of a *laissez faire* approach to national labour planning. The trend in jobs in the UK is to generate more poor quality jobs with all the proven issues of ill physical and mental health – another huge cost to the public purse.

The urgent need to have in place a vision of how Britain is going to deliver decent jobs and generate wealth for future generations was highlighted by the Business Secretary Vince Cable's open plea to the Prime Minister to introduce a coherent industrial policy and his warning that "market forces are insufficient for creating the long term industrial capacities we need." His call for an industrial policy is supported by many including The Confederation of British Industry (CBI) and NESTA. I would add that given the opportunities presented by an overhaul of benefits by the Department

for Work and Pensions, there is a unique opportunity to link industrial policy with active labour market policies and the social safety net to ensure that Britain is able to deliver the jobs and the wealth to future generations

None of this can be achieved without a Herculean dose of courage and vision. In 2001, Denmark's flexicurity and active labour market policies cost 3 billion DKK (approx. £320 million). That's for a population just over 5 million. Setting up a similar model in the UK will be eye-wateringly costly. The gain is to re-negotiate the relationship between state and citizen. As the UK statistics on industrial action suggest, there is a crisis of trust and confidence in the determination of labour market policies in this country. The trade unions since Thatcher have played a marginal role in the national conversations on policies. Adopting the principles of flexicurity would re-define the role of trade unions as an integral part of policy setting. Without their participation and others like work councils it would be impossible to make the shift to a more interventionist state, higher taxes and greater accountability for the quality and effectiveness of active labour market policies.

David Cameron and George Osborne declared that tackling the fiscal deficit was a national responsibility and that "we were all in this together". A commitment to flexicurity is not only sensible if Britain does not want to entropy into a low cost, low wage, poor job economy, it is also a genuine expression of this desire for togetherness, because the transition to flexicurity will, like all good medicines, require belief in the solution and a period of pain and discomfort. **F**

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Clarity and consistency

George Anastasi writes that the challenge for the left is to meet the dual aims of ensuring that workers' rights are protected and that everyone pays their fair share of tax, without inadvertently hindering the growth of self-employment with over-regulation.

IT IS PERHAPS surprising that despite being in the longest and deepest recession since the Great Depression, unemployment stands at 'only' 2.6 million. Of course, 2.6 million out of work is a high number by any standard, but by rights this figure should be far higher given the severity of the economic crisis. How can it be that there are more people in work now than there were in the less severe recessions of the 70s, 80s, and 90s?

The answer lies with the rise in self-employment and freelancing. According to the Chartered Institute of Personnel and Development, there are over 4 million self-employed workers in the UK, 8 per cent more than at the beginning of the recession in 2008. Freelancers (a subset of the self-employed population limited to professional, highly-skilled workers) have also increased in number 12 per cent since 2008 to 1.6 million.

However, despite the obvious economic benefits, the rise in self-employment is being arrested by a confusing jigsaw of policy and regulation. The challenge for the left is to meet the dual aims of ensuring that workers' rights are protected and that everyone pays their fair share of tax, without inadvertently hindering the growth of self-employment with over-regulation. This requires targeted policies which adequately distinguish between vulnerable workers at risk of abuse and entrepreneurs in business on their own account.

The tax system presents a major policy challenge in this regard. Current rules on self-employment lack clarity and consistency, as Stuart Adam from the Institute for Fiscal Studies argues elsewhere in this report. For example, many freelancers operate their own limited companies, rather than being 'self-employed' within the tax system. Agencies will often demand that a freelancer is incorporated to reduce their legal liability. This creates the potential for false self-employment, where employers will force employees to incorporate, thereby avoiding any responsibilities under employment law. The IR35 legislation was introduced by the Labour government to address this issue in 1999, but it has been unsuccessful in tackling abuse (with only a handful of successful investigations in the last ten years) and has been badly targeted, with hundreds of wasted investigations into legitimate freelancers. It is impossible for an individual to know with any certainty whether they are within IR35's scope. Similarly the current government's plans to tax 'controlling persons' in organisations as if they were employees also restricts the ability of freelancers to provide their services in the way that they are used to commercially. This creates a sense amongst the self-employed community that they are the ones being penalised, rather than those businesses or individuals who abuse the rules. Clearer legislation is needed, which better identifies vulnerable workers without targeting genuine freelancers.

Clearer legislation is needed, which better identifies vulnerable workers without targeting genuine freelancers

This also raises the thorny issue of whether it is right for self-employed workers to pay less tax than employees. The self-employed take on more risk than employees. They do not receive sick pay, or holiday pay, and are only as good as their last contract. Is it right for the tax system to reward this risk, or should this be entirely down to the market? The reality is that the market rewards this risk in some sectors more so than it does in others. Policies

must be targeted to reflect this, supporting individuals in those sectors where abuse is more likely.

Industries such as IT and engineering lend themselves well to project-based work, and because of the specialist skills required freelancers are able to command high day rates. Other sectors are either less suited to freelancing or do not command the same market reward. The creative sectors are traditionally heavily reliant on freelancers. However, day rates are lower than those in IT and engineering. These workers are often less aware of the legislation which exists to protect them. In part because many creative freelancers are comparatively young, they also often have less business and entrepreneurial experience. Providing a targeted combination of business support (such as mentoring) together with advice on legal rights would contribute to the success of freelancing in these sectors, whilst preventing the abuse of freelancers.

Ultimately, better targeting of policy can be achieved by ensuring all stakeholders are engaged in the policymaking process. This approach was taken with the agency workers regulations, introduced in 2010. This legislation has protected vulnerable workers without affecting those at the higher end of the market in business on their own account. The legislation neither severely restricts the market for freelancers nor is it so weak as to be ineffective. Whilst it is not perfect, dialogue with stakeholders and working with social partners such as the TUC and CBI ensured a broadly positive result.

The root of all the regulatory challenges outlined above is in clearly and consistently distinguishing between vulnerable workers and entrepreneurial freelance businesses. This can only be achieved by focussing in on the sectors where there is more likely to be abuse, and by ensuring all stakeholders are consulted in policymaking. The left's challenge is therefore to ensure an open dialogue takes place between freelancers, businesses, and trade unions on issues of contention. History has shown that this can be difficult, but it has also shown that it is possible. Economic growth, low unemployment, and a workforce protected from abuse are in everyone's best interest. **F**

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Taxing employees, the self-employed and small companies

It is hard to find a coherent question to which reduced tax rates for the self-employed and small companies are the best answer, argues *Stuart Adam*

THE UK TAXES employees more heavily than people who are self-employed or who set up companies. Self-employment attracts much lower National Insurance contributions (NICs) than employment; while owner-managers of small companies pay no NICs at all if they take a salary equal to the NICs threshold and take the remainder of their income as dividends. As a result, a person generating £400 of income per week will receive £326 after tax if they are self-employed or £349 if they are the owner-manager of a small company; but an employee whose firm is willing to pay the same £400 to hire them will have only £300 left after tax.

In the case of the self-employed, the lower NICs rate is partly to offset the fact that they are entitled to fewer state benefits than employees are. But the government estimates that the value of lower NICs for the self-employed exceeds the value of their reduced entitlement by £1.7 billion.

The recent Mirrlees Review, set up by the Institute for Fiscal Studies to examine the whole tax system from first principles, concluded that there is little justification for applying lower tax rates to small businesses than employees.

The starting point should be to tax economic activity equally whatever form it takes. Whether a person runs their own business or is employed by someone else should be a decision as to what suits them best, taking account of factors such as the

money, flexibility, obligations or security associated with different choices. It should not be a decision made for tax reasons.

Preferential rates of tax are often defended as essential to reward difficult and risky entrepreneurial activity. But it is important to recognise that the difficulty and risk associated with entrepreneurship do not themselves justify favourable tax treatment. If the market rewards for particularly difficult or risky activities are not sufficiently high to compensate for the additional difficulty and risk involved, it suggests that the activities are not worth undertaking: it is not a reason for the government to give them special tax breaks. A justification for government intervention arises only if markets fail to provide the appropriate incentives for entrepreneurship.

It is not clear that legal status per se is a good proxy for the kinds of activities that governments may sensibly want to promote

There may well be several market failures that justify corrective action. And other aspects of the tax system itself may distort the market rewards to different choices. But it is not clear that any of these is best addressed by preferential tax rates based simply on the legal form in which activity takes place. For example, risk-taking is actively discouraged by the tax system because the taxation of profits is not matched by symmetrically generous rebates for losses – but that would be better addressed by making the tax treatment of losses more generous. R&D activity may be worth encouraging if it brings benefits to wider society beyond those experienced by the entrepreneur – but policies such as R&D tax credits provide more targeted support. Limited information about growth prospects of small firms, combined with high risk of failure, may make it prohibitively expensive for some small firms in particular to raise money to finance expansion – but responses such as enhanced investment allowances, loan guarantees or direct funding for particular activities may

allow government support to be targeted more efficiently than through blanket tax reductions.

Not all of the innovative activities that bring wider social benefits can be pinpointed and subsidised by R&D tax credits and the like. It may be difficult to find precisely targeted measures that will encourage the kind of socially beneficial ‘entrepreneurship’ which is hard to define but nevertheless real. Yet most small businesses are not particularly innovative and do not generate significant spillover benefits to wider society. From newsagents to IT contractors, they consist of people quietly going about the (perfectly honourable) business of making a living by providing valuable goods and services to others – much as most ordinary employees do. There is little evidence that the gains from those socially beneficial activities which cannot be targeted more directly are big enough to justify scattering benefits so widely. It is not clear that legal status per se is a good proxy for the kinds of activities that governments may sensibly want to promote.

But imposing differential tax rates is not merely an inefficient way to target support. It imposes significant costs, as some people choose the nature and legal form of their activities to minimise their tax payments – again at the expense of other taxpayers – rather than choosing what would be best for underlying personal or commercial reasons. It complicates the tax system, creating a need for the government to try to define and police a legislative distinction-without-a-difference between what constitutes ‘genuine’ business activity and what is disguised employment. And it imposes costs for ‘genuine’ businesses that have to show they comply with the rules.

One of the key messages of the Mirrlees Review is that the tax system should be considered as a whole. Not every part of the tax system need address every objective. Rather, the government should choose the best instrument to address each objective – to target well-defined objectives precisely and to minimise undesirable distortions to behaviour. However well-intentioned, it is hard to find a coherent question to which reduced tax rates for the self-employed and small companies are the best answer. **F**

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The entrepreneurial economy

Britain needs to use a more clear definition of freelancers in line with their economic purpose in the modern entrepreneurial economy says *Andrew Burke*



Professor Andrew Burke is the founding Director of the Bettany Centre for Entrepreneurship at Cranfield School of Management

FREELANCERS PLAY A pivotal, yet largely unheralded role in the modern British entrepreneurial economy. In the older economy where innovation was sporadic – manifested in the fixed technology models that dominate economics courses and textbooks – freelancers played a largely peripheral and often negative role: they appeared as exploited workers or underperforming business owners, whose businesses were not of a sufficient size to warrant employees. But while the perception of the entrepreneur has moved from the exploiter of the 1970s to the innovator of the 21st century, that of the freelancer appears to have not moved with the times.

If Britain, or indeed any innovative economy, wants to optimise its performance then nurturing the supply and competitiveness of its freelance talent base is key. Public policy will need to factor in the distinct role of freelancers; particularly to enterprise, industrial and labour market policies. This requires freelancers to be recognised in their own right as a unique economic agent (see Figure 1). While freelancers are self-employed, their unique function is not as a business owner: they are primarily serving an ‘own account’ worker function. They offer their services on a project by project basis. The validity of their contract with a business is contingent on the project going ahead. Remuneration is usually based on output (paid for the completion of a specified

project) rather than input (paid in return for labour time), and there is no legal obligation for the business to continue to hire the freelancer once the project is complete.

It is clear in this depiction that while freelancers may have some areas of commonality with – and indeed often are – business owners, their unique function is independent of owning a business. The essence of freelancing simply involves workers taking on risk and supplying their services on a contingent project basis. Yet despite this, existing taxation rules which determine their eligibility to be classed as self-employed usually require freelancers to mimic the features of self-employed business owners. This emphasis creates a risk for freelancers and businesses alike as it raises the probability that the genuine use of freelancers will be categorised as false self-employment with both negative financial and reputational consequences. This results in a simultaneous fall in the supply and demand for freelancers.

Of course any solution to this issue should also seek to avoid the problem of false self-employment, where in an attempt to avoid taxation businesses can lay off employees only to re-hire them as ‘freelancers’ but tacitly on more or less the same effective terms. We need to capture the defining and unique features of freelancers which differentiate them from other economic agents. From a fiscal perspective, the existing eligi-

bility rules relating to business owners are valid as they define a legitimate category of self-employment. The remaining challenge therefore is to separate freelancers from employees. One option is to use a definition based on some of their unique characteristics in the entrepreneurial economy such as the following:

Freelancers are workers who hire their services on a contingent project basis where remuneration is usually output based. The cost and risk of their own labour downtime within the project and economic inactivity between projects are borne entirely by the freelancer.

The dividing lines between freelancers and employees which are implied by this definition are depicted in Figure 2. It is true that elements of existing fiscal guidelines pick up some of these distinguishing features. However, the lack of a freelance ‘entrepreneurial worker’ category will inevitably leave many short of meeting the ‘business owner’ requirements. Correspondingly, the lack of a clear freelancer definition can incentivise false self-employment as employee contracts can be changed to mimic business owners in order to avoid tax. Employees who transfer from employment to a continuous sequence of self-employment contracts which are not contingent on specific projects should not qualify as genuine self-employment. They do not serve a different economic function to employees in the entrepreneurial economy.

So an improvement would be to create a new specifically freelance self-employment category, which is identified by the definition above and the distinguishing features in Figure 2. In practice the dividing line between employee and freelancer will often be blurred and require the scrutiny and discretion of the authorities. However, this is already the norm as HMRC engage extensively in this activity to provide advice on legitimate and false self-employment. Furthermore, the greater accuracy that this new freelancer category will provide ought to make this job easier and more efficient. To this end, the type of business scenarios which this definition seeks to support can also be used as illustrations where valid freelance self-employment applies. Not surprisingly, these constitute some of the main areas where freelancers add value in the entrepreneurial economy:

FIGURE 1
Labour market economic agents by function

	Manager	Worker
Employed	Executive	Employee
Self-Employed	Entrepreneur	Freelancer

Source: Burke (2011)

FIGURE 2
Distinctions between freelancers and employees

	Freelancer	Employee
Term of Contract:	Project based	Continuous
Project downtime and inter-project spare capacity costs & risks:	Borne by the worker	Borne by the business
Remuneration:	Usually output based	Usually input based

1. Innovation and strategy

In a diverse and rapidly changing economic environment it is difficult for any business to have all the creative talent it needs in house, and even where it has depth of talent it is often productive to get a fresh and independent external perspective. The ability to tap into freelance talent is a key resource for organisations operating in this type of business environment. It is common for corporations to outsource research and development projects to specialists who can invent and develop new technology. Freelancers are also hired on projects to explore market opportunities and develop strategies for business venturing. Often these freelancers were previously entrepreneurs who have made an exit from their original business. The transformation of their economic status from owner manager to independent freelancer liberates their creative talent from the boundaries of a single firm. They are no longer restricted to innovation which is core to the strategic focus of their own firm and likewise, are not restrained by the ability of a small and medium-sized enterprise to only commercialise a small number of opportunities at a time. As a freelancer they can supply their talent to many different firms and in the process increase the impact of their creative talent on the economy. The contingent project based nature of these freelancers' contracts with businesses distinguishes their creative input from that of employees, executives and owner managers.

2. Commercialising innovation and testing strategy

This stage of the process entails testing an innovation in the market and undertaking any necessary adaptations to the innovation. It can also involve changing strategic direction as a result of learning of an unforeseen profit opportunity. Typically, businesses do not want innovation to distract employees from core 'cash cow' activities. Therefore, they often choose to ringfence the organisation and financial risk of the commercialisation of an innovation until its viability can be determined. Frequently, freelancers take on managerial, technical and professional roles in this process. This then enables the business to terminate the project with limited financial and political cost if unsuccessful or alternatively if successful then bring it to a sufficiently commercially attractive stage that it can

be integrated with the core business. The availability of freelancers who will work on contingent project-based contracts reduces these risks and so increases the incentive for businesses to innovate.

3. Integrating innovation and strategy

This is a stage that requires handover and 'change management'. Here it is common for freelancers to be hired as interim managers to complete a project. Freelancers are also hired to complete the handover process to employees, which can involve training, support and further innovation required for integration. It is also a stage where some freelancers are offered permanent employment as the entrepreneurial risk involved in the innovation has been realised and worker contracts move to resemble the more continuous non-contingent employee-type depicted in Figure 2. This ability for businesses to ringfence the cost and risk of the innovation process by using freelancers enables the creation of employment. Without this prior freelance state job creation would be diminished. Therefore, it is important to facilitate this process with a clear definition of freelancing which recognises and supports the validity of their self-employed status.

4. Efficiency improvements and best practice adoption

This is similar to the integration of innovation except that it is more about imitation of innovation. Here the organisation is changing to accommodate best practices and/or products from the market. Examples include introducing new information systems, adopting new managerial techniques or adapting the business to new technologies, regulation or consumer preferences. In this realm, freelancers are often used to supply specific outputs on a project basis. Interim managers are often used to undertake 'change management', especially when unique expertise is required. The use of freelancers for these functions manifest the contingent project-based nature of freelancer engagement with business. They play a key role in enabling efficiency improvements in business by minimising distraction of employees from the core business while allowing short-term access to specialist expertise as well as general worker capacity that would become superfluous if hired on longer term employee contracts.

5. Managing demand uncertainty and business growth

Freelancers enable businesses to reduce the risk of uncertain demand and hence to maximise their sales potential. It can often be too risky for a business to take on employees to meet an upsurge in demand as the risk of downtime costs may be too great if this rise in demand proves to be short-term. Freelancers provide a solution to this problem by offering to work on a contingent project basis which eliminates the risk of costly downtime. If the rise in demand proves to be permanent then the contingent nature of the contract disappears and the business can then evolve to hiring employees instead of freelancers. Therefore, we again observe freelancers being used as a means of creating employment.

The new entrepreneurial economy requires innovative, flexible and agile businesses. Freelancers play a key role in providing and enabling these characteristics in business. They are pivotal in incentivising innovation and growth in businesses and are conduits for the job creation process. They also play a key role in business turnarounds and implementing efficiency improvements. Some freelancers may evolve to create their own businesses, hiring employees, while others may take up employment in the firms that initially hire them as freelancers, but primarily freelancing is a unique economic state of its own with specific rewards associated with the value it creates in the economy. British business needs to be able to draw on a sufficient supply of high quality freelancers and to do so in clear terms and without risk of being tarnished or penalised for wrongly being accused of creating false self-employment. Likewise, businesses who try to falsely reclassify genuine employment as self-employment need to be restrained. In order to meet these challenges we need to use a more clear definition of freelancers in line with their economic purpose in the modern entrepreneurial economy. ■

The research underpinning this analysis is mainly drawn from the forthcoming report by the author entitled The Contribution of Freelancers to the British Economy due to be published in November 2012.

1. Burke, A.E. (2011), The Entrepreneurship Role of Freelancers – Theory with Evidence from the Construction Industry, International Review of Entrepreneurship, 9: Issue 3, 2011



Shaping our success

Labour market flexibility, if harnessed properly, can be a force for individual and collective good, says *Gillian Econopouly*

THE ECONOMIC TUMULT of the last several years has profoundly shaken the UK and its workforce. The public has witnessed bailouts of major banks, the disappearance of much-loved brands from the British high street and what feels like an unending string of financial collapses and high-level resignations in major organisations, from the media to professional services to public sector bodies like the police.

Headlines aside, on an individual level, thousands of UK workers have faced redundancy, seen household incomes squeezed by several years of pay freezes or even cuts, or simply held onto jobs they would prefer to move on from but are too nervous to leave, given the economic climate.

It is no wonder that parties on all sides of the debate are desperately seeking growth wherever it can be found. But however grim the latest GDP figures, this troubling state of affairs does create an opportunity – and an imperative – to look closely at what we are already good at, and develop this further to the benefit of the entire country.

And something we should recognise more explicitly as a strength is our flexibility.

Although as a country we feel pretty battered and bruised in economic terms, the UK's labour market has actually fared much better than most of our European counterparts in recent years. One reason is because we have a wider variety of ways for people to access work and remain active in the labour market, rather than becoming inactive and losing their skills and confidence in the process.

There are also more options for employers to take people on and maintain

those jobs. According to the CBI, some 83 per cent of employers believe the UK's labour market flexibility helped stem job losses in the recession, and more than a third of employers used flexible options to keep their firms going. In fact, the OECD employment outlook also showed that UK employment fell much less than expected given the drop in GDP.

So there are advantages to flexibility, but the left has often been hesitant to discuss the subject candidly due to fears of creating a race to the bottom or the erosion of hard-won workers' rights. These are important concerns and require careful consideration. But we must engage productively with the flexibility debate so it can be properly managed to yield benefits at both the individual and macro level.

Something we should recognise more explicitly as a strength is our flexibility

The left's vision of a successful labour market has traditionally focused around employment – permanent jobs and a fixed workforce. And unless it occurs inside of an employment relationship, we have shied away from talking too much about flexibility, as it has sometimes become almost synonymous with insecurity or worse, the exploitation of vulnerable workers. There is a similar habit when it comes to people working for themselves. Often we associate the words 'false' or 'forced' with the term 'self-employment', thus casting the entire concept into a negative light.

What has been missing from the debate until now is a willingness to take apart the wider concept of flexibility: to consider its component parts and understand which of those offers the best combination of benefits for the individual and wider economic growth. We need a more nuanced understanding of what labour market flexibility can and does mean.

There is clearly a world of difference between the types of flexibility at different ends of the labour market. On the lower or less-skilled end, flexibility is typically driven by the hirer, often focused on cost

concerns, and largely beyond the control of workers, who may in fact prefer the security of full-time, permanent employment. At the other end of the spectrum, highly-skilled individuals drive flexibility on their own terms: often after successfully working as employees, they move to freelancing as they enjoy choosing their own projects and can command good pay rates, moving confidently around the labour market in the knowledge that their skills are in demand. They offer skills that organisations need, often at short notice, for set periods, and which are not available in the permanent workforce.

In fact, there are now over a million people working as freelancers in the UK. Some of the biggest growth in this way of working has come from women, parents and older workers who wish to remain in the jobs market and use their skills, but find that choosing to work freelance suits their lifestyles much better.

These examples show that it makes little sense to compartmentalise highly-skilled freelancers who actively choose self-employment with low-skilled workers who are, for example, instructed to set up as 'self-employed' yet do the same job as their full-time, employed and unionised colleagues. The two share only the same label – not the same labour market profile or characteristics.

There is no room for exploitation of individuals in a modern, well-functioning UK labour market, through forced self-employment or any other means. And whilst there will unfortunately always be some companies who attempt to take advantage of the system, the answer to this is robust enforcement, not doing away with other types of flexibility.

Labour market flexibility, if harnessed properly, can be a force for individual and collective good. We must use it to help those who want a permanent job to secure one; and understand that particularly among higher-skilled workers, self-employment can be a positive choice which helps businesses to grow.

And we must recognise that whilst many do, it's no longer every worker that wants a full-time, permanent job: the labour market has moved on, and so must we. ■

Gillian Econopouly was Head of Policy for the Recruitment & Employment Confederation until August 2012. She is currently on a year-long sabbatical in New York

