

The fast disappearing income of the UK's self-employed

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A couple of weeks ago I started to prepare what I thought would be a quick blog on the differences between HMRC and ONS data on the number of self employed people. However, the more I looked at the data I more I realised that the figures on the self employed had a story to tell, and so I investigated further with the outcome that [I have published a report on the subject of the declining income of the UK's growing army of self-employed people this morning](#).

One of the big surprises in the UK economy over the last few years has been that unemployment has not risen to 4 million, which many, me included, were expecting. What's often said is that this is because many people are working part time, for low pay, and so are being kept off the unemployment statistics. What this research shows that this is, at least in part, because of the growing number of self employed people who make very little from that activity. The research covers the number of self employed people and their earnings from 1999 to 2011, the last year for which HM Revenue & Customs data is available and the picture is harsh. Excluding the less than 2% of self employed people who earned more than £100,000 a year throughout this period the picture is summarised in one graph

Using HMRC data on the number of self employed people the average, inflation adjusted, earnings of those who are self employed fell from just under £15,000 a year at the turn of the century to £10,400 in 2011, a real decline of just over 31%.

The picture is different using Office for National Statistics data on the number of self employed — which eliminates those who might have a part time self-employment as a well as a job, but comparing that data both unadjusted and allowing for inflation with the data on those who have income from employment makes very clear just how stark the change in fortunes has been for the full time self-employed since 2008 (and this data includes those earning more than £100,000 a year):

Right across all income scales the full time self employed saw their fortunes rise until 2008 — although the vast majority of that increase went to the top 1% or more who

had average earnings of £303,000 in that year — after which the income of the self-employed crashed. Allowing for inflation average earnings of those who declare that they have self-employment as their main economic activity fell from £25,400 in 2008 to £18,500 in 2011, a decline of 27%.

Despite this the number of self-employed people is rising. According to HMRC the number has increased from 4.17 million in 1999 to 5.11 million in 2011 — an increase of 22.5%. The ONS, which only records those who have self employment as their main economic activity, think the increase more modest, from 3.21 to 3.92 million over this period, but the percentage rise is almost identical. Despite that national statistics show that the share of national income they have been enjoying has been falling.

As I said in a press release issued yesterday:

These figures are quite shocking. For some time economists have been looking for the missing explanation of what is happening in the UK economy. This data helps explain how we've reached a point where incomes are falling, the economy is sluggish and yet unemployment is apparently not rising. The fact is we now have maybe millions of people working in very marginal self-employments for what are poverty wages because they have no other choice available to them. This is not entrepreneurial Britain and the march of the makers as some would like to represent, this is desperation Britain where people left with no choice scratch any living they can out of the limelight and, until now, out of the sight of economic statistics.

In a culture where only the best are rewarded, where cut-price is everything, and where low pay is officially applauded as a sign of productivity life for many self-employed people is very tough. These people are the hidden unemployed and the hidden low paid. They're self-employed because the safety net has been pulled from underneath them. These are the statistics of desperation UK — the part of the economy that the top 1% or so of self employed people will never know exists.

George Osborne should take note.