Funding the Future

The rise in self employment may be linked to falling pr...

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It is not very hard to find commentary on the UK's failing productivity: they are commonplace because, as a matter of fact, our national productivity is falling.

This issue is the subject of some of my research at present. Working through the Corporate Accountability Network and in partnership with the University of Sheffield I have been looking at whether there are systemic signs of neglect of productivity within UK quoted companies. Two explanations are being explored. One is that the returns to financial engineering are better than they are from investing in labour productivity. The second is whether financial reporting - which gives no priority at all to any issue relating to productivity - is to blame in any way.

I'll hold back our findings for now, largely because they are not settled. Instead I'll note another possible cause for the UK's productivity crisis. That is the rise of self-employment. As Politics Home has reported, very clearly based on a press release:

HMRC stated that a record 11.1 million taxpayers have filled in a tax self-assessment this year, 10.4 million of whom did so online.

A record number of people have filed tax self-assessments because of the ever-growing number of self-employed people. There are now over 5 million self-employed in the UK.

It is my suggestion that this is another potential reason for the decline in our national productivity.

Firstly, given how hard it is to define a self-employment I suspect that the number of supposed employments in total (including the self-employed) is over-stated, even allowing for moonlighters.

Second, many of these self employments are very marginal and genuinely generate little in the way of income.

Third, given that many self-employments might be additional employments i.e. activity undertaken in addition to a paid employment, I would not be at all surprised if there is an element of cross-subsidisation going on here: time in the main employment is being used to support the self-employment and productivity declines as a result.

And, fourthly, the absence of almost any meaningful data on self-employment bar the self-declarations on tax returns, which even HMRC believe are understated in more than 40% of cases, means that any productivity data on this sector is exceptionally hard to appraise.

My suspicion is that many self-employments are exceptionally marginal. In particular, capital engaged will be very small. Productivity ratios will look poor on any conventional measure.

The fact that this sector has risen significantly in importance as productivity has stagnated may just be a coincidence. But I doubt it.