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Solo Self-Employment in Comparative Perspective. Growth Trends and Characteristics in Relation to Labour Market Regulation in Germany and the UK

Daniela Kroos

1. Introduction: Solo Self-Employment in the Spotlight

One of the most prominent developments within the context of labour market change is the increasing significance of self-employment in many European countries.[1] In Germany and the UK, self-employment rates, albeit less distinctive than those of some southern European labour markets with a traditionally more important role of self-employment, have risen substantively during the eighties and nineties. A main feature of new self-employment is the rapidly increasing incidence of solo self-employment or freelancing.[2] Both in the UK, where self-employed workers without employees are traditionally predominating, and in Germany it was the growth of this type of work, which led to the strong rise in overall self-employment (cf. Kim/Kurz 2001; OECD 2000). But solo self-employment, which is the center of attention of this contribution, is not only the most rapidly growing form of self-employment. It fuels a most controversial debate, too.

In fact, solo self-employment growth raises significant questions concerning the quality of this type of employment. The intense discussion on these issues is based on two different, seemingly conflicting ways of assessment: According to an optimistic version the rise in solo self-employment announces a change in work attitudes within the labour force, *id est* a trend towards a new spirit of entrepreneurism and more autonomous concepts of work. This is considered to entail a new job-creation potential and an increase in more qualified and knowledge-based forms of work. Furthermore, new self-employment seems to enable the development of more flexible arrangements between life and work (cf. Leicht 2000). Representatives of a pessimistic version, however, claim that higher self-employment rates should not be considered as a harbinger of job-growth, but rather result from rationalisation processes. They fear a downgrading of job quality and the expansion of social

1 We solely refer to self-employment outside the agricultural sector.

2 For the purpose of this contribution the terms solo self-employed and freelancers are defined as workers on own-account and without employees. Whereas solo self-employed is more generally used, freelancer applies predominantly to workers in the cultural sector.

risks as well as inequalities in comparison to workers in standard employment relationships, inequalities that take mainly the form of an individualization of risks for the self-employed. According to this view a substantial part of self-employment does not involve the advantages of free entrepreneurism but in contrast is to be understood as *labour-only-contracting* or *false self-employment* (cf. Smeaton 2003; Gill 2002; Breen 1997).

In analogy to this debate, gender-specific research on solo self-employment indicates a lessening of traditional forms of gender segregation and a shift from the male breadwinner model to an adult worker concept: Women make up for a rising share (about a quarter) of the fulltime self-employed, particularly in the group of the solo-self-employed in the service-sector. On the one hand this development seems to indicate that gender barriers in this traditionally male form of work have been overcome. In addition to this, female entrepreneurs are probably much less exposed to hierarchies and discrimination than dependant employees. On the other hand self-employment is not in the least free of gender-specific segregation concerning industrial sectors, working hours, income and motivation (cf. Hughes 2003; McManus 2001; Burchell/Earnshaw/Rubery 1993).

Actually, not only the consequences but also the causes of the influx into self-employment have been the subject of controversial discussion: Critical observers see a cyclical *push* effect of unemployment, as well as the effects of outsourcing, whereby large public and private companies contract out work. This argumentation emphasises the deregulation of many European labour markets and the creation of new forms of work it partly involved, often at the boundary between dependant and independent employment. More positive views, especially pushed by politicians, claim the historical revival or new *pull* effects of entrepreneurial ambitions. Serious research however argues that the reasons for becoming self-employed might be more complex than the push and pull arguments suggest. Especially for women, there is evidence that barriers to progression in corporate hierarchies (the glass-ceiling effect) as well as difficulties in combining work and family enhance the transition or entry into self-employment (Hakim 1998; Granger et al. 1995). A further reason for the growing significance of self-employment can be identified in the employment shift from the industrial to the service-sector. To a large extent this sector is characterized by personnel-intensive or technologically innovative fields of work requiring flexible organisational arrangements – therefore it seems to be particularly suitable for self-employed activities (cf. Meager/Bates 2001; Leicht/Luber 2000; Luber 1999).[3]

3 Despite the wide-spread interest in self-employment growth, the discussion reveals several deficiencies in conceptualizing »new self-employment«. First of all the terms self-employment and solo self-employment in particular turn out to be hard to define, as they subsume the different employment

Last but not least, the debate outlined above is based on highly generalising ideas of solo self-employment. Although the influence of globalisation processes on national labour market developments and the more or less pronounced growth of the service sector in all Western industrialised countries seem to justify such a general discussion, country-specific as well as branch-specific differences in scale and structure of solo self-employment must not be neglected. For this reason, only empirical research can throw light on the actual implications of solo self-employment. In the following we will therefore have a closer look on solo self-employment development and labour market regulation, adding a gender perspective. Our underlying approach in explaining the structure of self-employment, working conditions and social risks is a regulatory one, as it has to be examined to what extent national labour market regulation and welfare state provisions do affect the dynamics and qualitative features of solo self-employment. In order to highlight positive and negative aspects of solo self-employment and to see whether this type of work has a uniform character, a country comparison will be carried out between Germany and the UK.

In regard to labour market regulation and distinctness of the male breadwinner model, Germany and the UK are divergent cases and can thus serve to make clear the influence of the labour market and welfare regime on self-employment: The UK can be considered as an uncoordinated market society, which implicates a liberalised labour market. Thus, weak labour law and a low-level insurance system allow for the development of flexible forms of work less corresponding to the standard employment relationship, implying both dynamic and hazardous working conditions for a large share of the workforce. The collective bargaining system is an example of an uncoordinated system of industrial relations, too, and the power of the collective actors has been continually weekend since the eighties. Moreover, the pluralisation of employment forms and the individualisation of risk on the labour market have given an end to the understanding of wages as family incomes (cf. Bosch 2002; Rubery/Smith/Fagan 1999). In contrast to this, the German labour market is still highly oriented to the – traditionally male – standard employment relationship. Embedded in a coordinated market society and marked by a corporatist structure of industrial relations, the German labour market is more stable and exposes of a highly protective individual labour law and a well-developed social insurance system (cf. Hassel 2001). In addition to the significant growth of self-employment in both

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categories of, e.g., farmers, craftsmen, tradesmen, freelancers in academic professions or the cultural sector, and so on. This can bring about different numbers and shares of self-employed workers, especially if attention is focused on occupations between dependant and independent employment. Definitions vary as well between different countries, especially concerning solo self-employment, although it has become a major field of interest of labour market research since the beginning of the eighties.

countries and these divergent labour market structures, it is a favourable concentration of data due to which Germany and the UK are suitable subjects of comparison.[4]

The following sections now describe the development of solo self-employment in the chosen countries. It presents both data on volume and structure of self-employment growth and empirical findings on working hours, income and social risks of this group of workers. For this purpose it refers mainly to mass data – whereas data on Germany are mainly based on the German Census Study, the UK data are derived from the British Labour Force Survey and from smaller work-related surveys.[5]

2. Volume and Structure of Solo Self-Employment

As already indicated above, Germany and the UK have been the countries with the most pronounced rise in self-employment within Europe during the last two decades. Indeed, the UK's self-employment rate increased from 6.6 percent in 1979 to 12.4 percent in 1990 and stabilised, after some fluctuations, at 11.4 percent in 1998. Similarly, in Germany numbers of self-employed workers have risen since the mid-eighties, even if at first at a much slower pace. Between 1990 and 1998 the German self-employment rate has grown from 7.7 percent to 9.4 percent and is still increasing (OECD 2000: 158). In the course of this development the role of women in self-employment has become more and more important; they make up for at least a quarter of all self-employed in both countries (cf. Leicht/Lauxen-Ulbrich 2003; OECD 2000). Women are in fact at the forefront of the increase in solo self-employment, to which the main part of self-employment growth in both Germany and the UK has to be attributed. In the UK, 74.2 percent of the self-employed had no employees in 1997, compared to 47.0 percent in Germany, where this form of self-employment was less typical until the nineties (OECD 2000: 162).

Apart from these similarities there are substantial differences in the composition of solo self-employment in both countries, especially regarding sectoral distribution and education. In the UK, shares of self-employed workers are about similar in the industrial and the service sector, in spite of the fact that it is the latter which shows

4 Both quantitative data on self-employment growth and structure and case studies on working and income conditions are available.

5 In spite of the strong interest in self-employment, detailed data concerning the group of the solo-self-employed is not always available. This holds especially true for Germany, where self-employment growth started at a later point of time than in the UK. In the second section we therefore rely partly on data for the self-employed in general.

much higher growth rates since the beginning of the nineties – key sectors of self-employment are both the construction industry, real estate and financial services and personal services. British self-employment growth is thus only partly due to service-sector growth but has to be understood as an element of pluralisation in a flexible labour market. In Germany, however, the growth of the service-sector is considered to be the main factor having contributed to the last decade's rise in self-employment. Business services, personal/social services and professional services in the fields of education, health, culture and entertainment have had the most important influxes of self-employed here (cf. Bögenhold/Leicht 2000; Leicht/Luber 2000; Robinson 1999). These sectors have as well particularly attracted newly self-employed women, a substantial share of whom have moved up to previously male-dominated sectors. All in all the service-sector has been the driving force of German self-employment growth, whose main part has taken place in the field of highly qualified occupations. This has an effect on the qualification structure of self-employment, too: Although solo self-employment workers are on average less qualified than self-employed workers with employees in both countries, highly-qualified self-employment in highly-qualified sectors makes up for a larger share of overall self-employment in Germany (cf. Kim/Kurz 2001; Leicht 2000). Again, German self-employed women contribute to this development in an outstanding way, as the share of young university graduates is as high as among male self-employed (cf. Lauxen-Ulbrich/Leicht 2003). Similarly to the impression we gained in comparing the qualification background of the self-employed, differences occur as well when we now turn to working time, income and social security of the self-employed.

3. Working Conditions and Social Risks of Solo Self-Employment

Flexible working hours are a main feature of self-employment. However, working time does not only account for one of the most distinct differences between employees and the self-employed. It reveals highly gendered working patterns within self-employment, too. In contrast to only 5.8 percent of British self-employed men working on a part-time basis, this is the case for 47.4 percent of self-employed women in the UK. Self-employed men even work much longer hours than employees, as 47.1 percent of them work more than 45 hours a week (compared to 20.0 percent of self-employed women). These figures refer to self-employment in general, but they suggest that a very large share of especially solo-self-employed women work on a part-time basis, whereas solo-self-employed men probably rather tend to work long hours (Lohmann 2001: 10). In Germany, working hours of the solo-self-employed are similar. Whereas generally spoken both self-employed men and

women work much longer hours than in the UK and correspond to a larger extent to entrepreneurial images, part-time shares of the solo self-employed are high, too. Again, part-time work is more significant for women, 30 percent and 32 percent of whom work for up to 20 hours and between 21 and 40 hours a week respectively. In contrast to this, 46 percent of men work from 41 up to 60 hours a week (up to 20 hours: 5%, 21 to 40 hours: 27%; Lauxen-Ulbrich/Leicht 2003: 22).

Varying work density and the dependence on the cyclical demand for services also finds expression in the self-employed's incomes. Those can be heavily fluctuating, especially during the first phase of independent employment. In addition to this the income distribution of the self-employed is highly polarised in both countries, *id est* the self-employed are strongly represented in both the lower and the upper end of the income distribution. Despite this similarity, two issues in regard to the solo-self-employed's income distribution stand out: Firstly, the polarisation of incomes tends to be slightly stronger in the UK than in Germany. Secondly, for women this polarisation turns out to be more pronounced than for men, even if the calculation is based on hourly wages (taking account of women's high share in part-time work), and in the UK this difference between men's and women's wages is higher than in Germany. However, generally the attributes *female, young, working on a part-time basis* and *working in the service sector*, which characterise the inflow in both British and German solo self-employment during the nineties, are linked to a high probability of low incomes in both countries. So it is not surprising that income heterogeneity among the solo-self-employed is even stronger than among the self-employed in general, and that they are more often subject to income risks (cf. Lauxen-Ulbrich/Leicht 2003; Bates/Meager 2001; Knight/McKay 2000; Jungbauer-Gans 1999).

Furthermore, the insecure income conditions of many solo-self-employed can be intensified by a lack in social security provision. Whereas the British National Health Service provides for health care services for all inhabitants, and virtually all German self-employed pay either obligatory or voluntary contributions to a health insurance (cf. Fachinger 2002; Fachinger et al. 2001), the solo-self-employed's ability to make provisions for times of low work intensity or for old age is alarming. Although the British self-employed are obligatorily integrated in the National Insurance and are entitled to a modest basic old age pension, Meager and Bates (2001) fear that the growth of *new self-employment* since the eighthies may lead to a growing number of self-employed workers who have to face insecurity and relative poverty in later life. This is due to the exclusion of the self-employed of the supplementary State Earnings Related Pension Scheme, and to the low and instable incomes in the labour market sector, preventing the self-employed from saving. In Germany the situation might be even worse, as large parts of the self-employed are not integrated into the Pension Insurance including dependent workers. Only for the self-em-

ployed in the cultural professions a specific Pension Insurance was introduced in the eighties, however benefits are at such a low level that additional private saving is unavoidable (cf. Betzelt/Schnell 2003). All in all at least one third of the self-employed in Germany do not have the income necessary to make sufficient old age provisions (Fachinger 2002).

In addition to the insecurities in terms of work density, incomes and social security, the solo self-employed are also subject to occupational instability. Especially in the British labour market, which is generally marked by high rates of job rotation, the newly self-employed workers of the nineties bear high risks of abandonment due to insolvency rather than a job offer. In Germany however, solo self-employment does not seem to be a more instable form of work than self-employment with employees and involves a higher probability of entrepreneurial success (cf. OECD 2000; Taylor 1999).

4. Conclusion

Self-employment growth in Germany and the UK brought about both similarities and differences in structure and conditions of solo self-employment in these countries. Whereas in the UK self-employment already started to grow substantively during the eighties, this development did not start before the beginning of the nineties in Germany. This can be attributed to a strong dependence of German self-employment on the growth of new service sector industries. Although the rise in self-employment in the UK during the nineties was linked to the service sector, too, it was the industrial sector which fuelled British self-employment in the eighties and which still hosts half of the self-employed in the UK. This difference can be explained by the countries' labour market regulation: The German coordinated labour market, based on a strong protection of the standard employment relationship, on the prevention of flexible business practices and on a highly regulated access to self-employment in the industrial sector, did not allow for a strong increase in self-employment before the growth of the service sector, which is less marked by the standard employment relationship. The British uncoordinated labour market, however, did not obstruct the spread of self-employment in the industrial sector. This difference in the sectoral structure of German and British self-employment might as well be the reason for the distinction in gender differences in solo self-employment, which are stronger in the UK, as female solo self-employment in Germany is based to a larger extent on service sector occupations requiring high qualifications. Income polarization among the solo self-employed might as well be stronger in the UK than in Germany, whereas this group of workers is subject to greater social

risks than employees in both countries. However, social risk structures of the solo self-employed are diverse. Although in both countries solo-self-employed workers are not sufficiently safeguarded against financial constraints during phases of joblessness and run risk of relative poverty in later life, this seems to be due to different reasons. In the UK, such social risks are generally given for a large part of the workforce and can be seen as inherent to the British social security system. In Germany, however, the self-employed bear higher social risks than employees, as their occupation drops out of the standard employment relationship and thus involves no or no sufficient protection by the social insurance system. The social risks of German self-employed workers are therefore mainly linked to the polarised income distribution and the non-ability of saving (cf. Gottschall 2002). Summing up, solo self-employment in Germany and the UK is marked by different growth dynamics and does not show the same sector distribution. Additionally, solo self-employment in the UK is to a stronger extent marked by income polarisation and gendered working conditions than in Germany.

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