

DIRECTORATE GENERAL FOR RESEARCH

WORKING PAPER

**Growth and Patterns of Self-Employment
in the EU Member States**

Social Affairs Series

SOCI 101 EN

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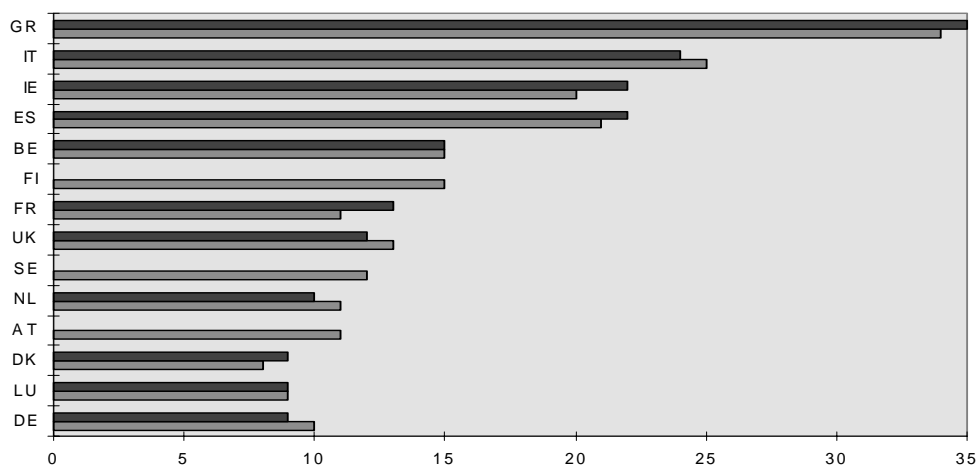
EXECUTIVE SUMMARY

The report 'Growth and patterns of self-employment in the EU Member States' is written at the commission of the European Parliament by a consortium of four institutes: The University of Utrecht (NL), the Free University of Brussels (B), Ruskin College, Oxford (UK), and B&A Group Policy Research and Consultancy, The Hague (NL), the latter of which acted as the co-ordinating partner. On the basis of literature study, analysis of Eurostat statistics and three essays on the situation of self-employment in respectively the Netherlands, Belgium and the United Kingdom, the report provides a broad overview of developments around self-employment and draws conclusions and implications with relevance for policy makers and researchers. This executive summary summarises the highlights of the report.

Patterns of self-employment

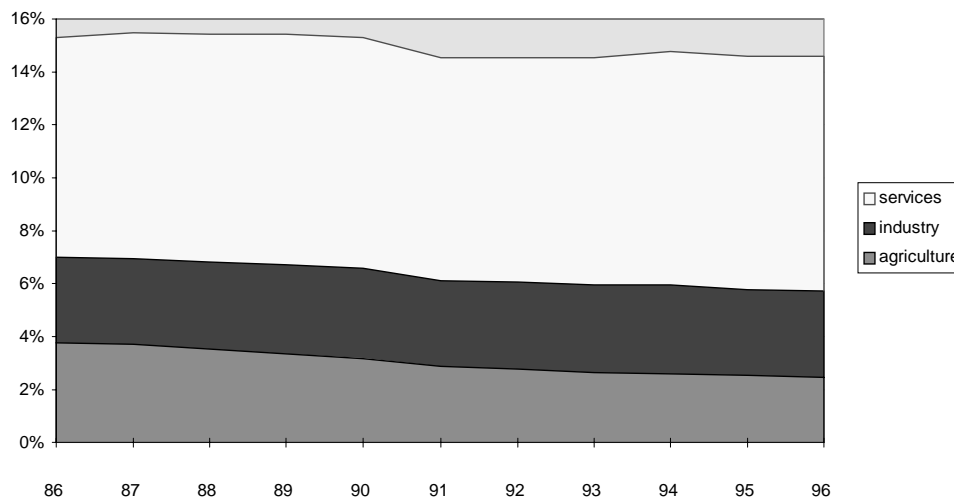
1. Self-employment is at the same time one of the oldest forms of labour and a very modern one. Its existence is connected to well-established sectors like agriculture, as well as to newly developing high-tech sectors involving information and communication technologies and telework. It includes established occupational forms like the sole trader and the independent professional, as well as new occupations that arise from the use of new technologies and the growing flexibilisation of labour forms and contracts. The Self-employed can view themselves as entrepreneurs, as workers bearing a heavy load of economical and social risks, or as something in-between. The self-employed are an increasingly diverse and heterogeneous group, who cannot easily be brought under one definition.
2. The number of self-employed in the EU has, in absolute terms, risen in the last ten years, from 17.6 million in 1986 to 21.2 million in 1996. Because of the increase of total employment within the EU in that same period, the self-employment rate decreased, from 15.3% in 1986 to 14.6% in 1996. The level of self-employment differs strongly between the different EU Member States. In some countries the level of self-employment is very high (over 30% in Greece), in others it is low (below 10% in Denmark, Germany and Luxembourg), in some it is rising (Italy, United Kingdom and the Netherlands), in others it is going down (Ireland, Spain and France). This is shown in Figure 1.

Figure 1: self-employment rates of EU Member States; 1986-1996 (source: Eurostat)

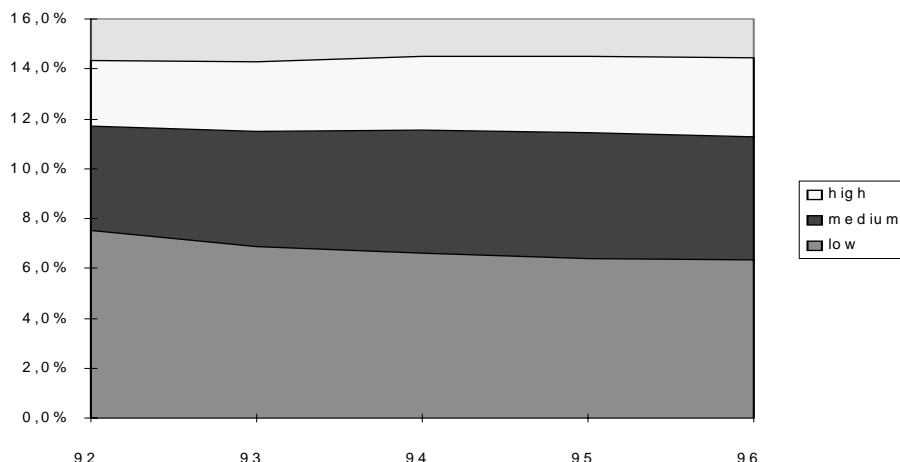
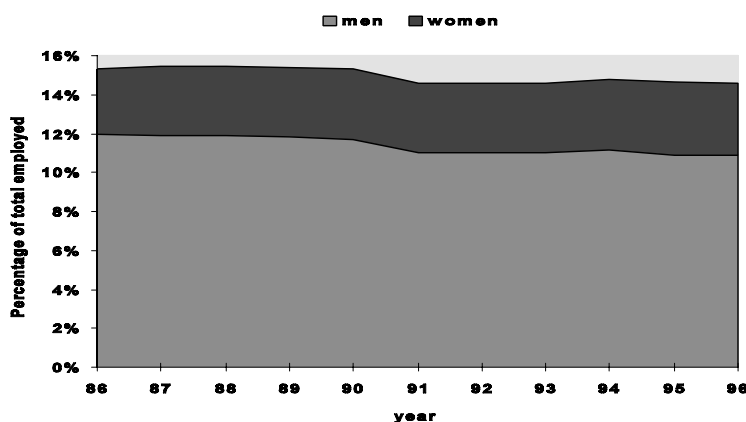


3. In the decade the dynamics of self employment have been subject to a continuous process of change. Compositional change as the level of self employment rose or fell in different sectors of the economy and demographic change in the self employed themselves (i.e. their level of education and sex. In the EU as a whole, the contribution of the agricultural sector to the level of self-employment is steadily declining (from 3.8% to 2.5%), the share of self-employed who work in industry has remained largely constant, whereas the share of the services sector (which is the largest source of self-employment anyway) has increased (see Figure 2).

Figure 2: sectors of the economy



Educationally, it is apparent that there has been a gradual decrease in the proportion of the self-employed with only the lowest level of educational achievement (though they still are the largest group), whereas the proportion with medium and higher levels of education has slightly increased (see Figure 3). As to the division between the sexes, it still holds that the propensity of men to become self-employed is far higher than that of women. Compared with women, men are around 4.5 times as likely to be self-employed. But while the rate of male self-employment is decreasing (from 12.1% in 1986 to 10.5% in 1996), the rate of female self-employment is slowly gaining ground (from 3.4% to 3.8% in that same period) (see Figure 4).

Figure 3: level of education**Figure 4: male/female self-employment**

4. Within these broad trends a wide variety of different patterns exist in different EU member states:

- * In some countries self-employment is most common in the service sector (75% of self-employment in Belgium and Luxembourg), in other countries agriculture is the more important sector (over 40% in Ireland and Austria), whereas in the UK over 30% of self-employment is situated in industry.
- * In some countries the majority of the self-employed population have only the lowest level of educational attainment (over 70% in Portugal, Spain and Greece), in other countries they are a minority (below 30% in Germany, the Netherlands and Austria),
- * In some countries the male/female ratio in self-employment is more than 4 or 5 to 1 (Ireland, Denmark, Greece), in some other countries it is below 3 to 1 (the Netherlands and Portugal).

5. There are some general economic and demographic developments, and explanations connected to them, that account to a certain extent for these overall changes, international parallels and differences. There is for instance the development of the EU Member States'

economies (in gross GNP) bringing along with it change to patterns of economic activity that are less favourable to self-employment. Other factors include the changing sector composition of these economies, in which the role for agriculture (in which self-employment is traditionally strong) is decreasing and the service sector is becoming more and more important (bringing along new chances for new forms of self-employment); and the growing participation of women on the labour market (whose propensity to become self-employed is traditionally much lower than it is for men).

6. However, the development of self-employment in the Member States and the differences between these, cannot be accounted for sufficiently nor satisfactorily by any of these or other explanatory factors. It is assumed that this is the case because on the one hand it is not clear enough what and who we mean exactly when we refer to the self-employed, and because on the other hand we lack the required in-depth insight into the subject matter to understand the social, economical and cultural processes that are at work. Two fundamental problems are assumed to lie at the root of this:
 - * the institutional distinction between labour and entrepreneurship - a distinction which in real life is becoming more and more blurred in modern Europe;
 - * the growing diversity of the group - and the various subgroups - of the self-employed, which allows less and less for simple generalisation (think of the many different occupational forms and positions in the service sector vis-à-vis the relative uniformity in agriculture).
7. If one wants to enable policy makers and scientists to know more about the development and conditions among the self-employed, and to identify proper target groups to focus their scientific or policy attention upon, it follows from the previously presented findings that:
 - * a further typology of sub-groups of self-employed should be developed, which display more homogeneity in their interests, problems and need for support;
 - * highly practicable definitions and criteria should be developed to apply policies that are meant to offer protection to dependent workers; whereas policies that are meant to stimulate and support the (potentially) self-employed would best be applied by using the self-definition of the target group as a starting point;
 - * one should be aware of the existence of definitional, measurement-methodological and cultural biases in data on self-employment, and account for them in the interpretation of information on self-employment.

The position of the self-employed

8. Self-employment can contribute a good deal to the quality of (working) life. It offers individuals a chance to participate on the labour market and to exploit their talents in a less restricted way than in a situation of (un-)employment, thus also gaining more job satisfaction than they would have acquired otherwise. Moreover, self-employment can offer a good deal of societal benefit, as it contributes to more dynamic economy and a fuller mobilisation and utilisation of human resources to generate new economic activity and technological innovation. For some forms of benefits it appears as if they haven't been fully recognised nor realised. These concern for instance the improvement of urban centres and problem areas, or the integration of different ethnic groups in society. For these benefits to be fully exploited, a broader view on and approach towards self-employment is necessary.
9. There are also, however, several aspects of self-employment that make it a less attractive position to be in. Examples are the sometimes problematic health and safety conditions of

self-employed work. These may be the consequence of the kind of work and of the circumstances under which self-employed occupations typically take place, but they may also follow from the lack of systematic attention these aspects typically get in small and medium sized enterprises.

The same holds for lacking entrepreneurial abilities, and for insufficient opportunities for ongoing training in entrepreneurial and professional skills. These shortcomings may cause the high-potential self-employed to perform systematically below standard, or may even cause serious damage to any market position (see the following point).

Both where health and safety and training conditions are concerned, a proper monitoring of the situation with the self-employed within the EU is still lacking.

10. The major threats of self-employment are, however, most of all connected to social security. In general, social security systems within EU Member States are not adjusted to deal with mixed forms of labour and entrepreneurship. Savings or private insurance offer insufficient alternative cover for some self-employed. This group runs a serious risk of marginalisation and social exclusion, especially in the case of bankruptcy. For these unwanted side-effects, as well because of the fact that the present circumstances fail to foster a climate in which the individual and societal opportunities of self-employment are fully exploited, serious reflection on the European social protection systems is deemed advisable.

Policies on self-employment

11. The importance of self-employment and of the stimulation of entrepreneurship is gradually being recognised. The experience of individual member states of massive structural unemployment, trends towards individualisation in society, and Europeanisation and globalisation, have all aided this process. Besides the relevant authorities (and sometimes also instigated by the relevant authorities), different actors are active with regards to the position of the self-employed. In the Dutch essay reference is made, for instance, to the Chambers of Commerce, special institutes for the support of small- and medium enterprises, innovation support institutes, municipalities, local and regional foundations, and more. The British essay pays particular attention to trade associations and professional bodies, noting that the higher the level of professionalisation of the self-employed, the more the associations effectively operate as a barrier to entry to the market, thus protecting the market for those already in the profession.
12. Policies on self-employment arise from different policy fields. Examples are given in the national essays of typical labour market policies, industrial policies, technology policies, welfare policies, social protection and insurance policies and fiscal policies. Taken together they provide a patchwork of measures that influence the position of the self-employed, or, more specifically, have differential impact on the self-employed in different positions. About the extent and nature of this impact little is known. Some evaluations have been carried out, but only with respect to separate policies. Integral evaluations of more policy measures on their combined impact, looked at from the perspective of the self-employed themselves are largely lacking.
Broadly speaking, it appears that information and advice seem to stimulate people's desire to start their own business and to have a positive effect on the quality of their enterprise. Specific financial measures have a direct effect on the relative number of entrepreneurs who start their own business.

13. On the basis of an analysis of the policies and measures now operative, it is concluded that to the extent that self-employment can be promoted through labour market policies, integral schemes are required. A further conclusion is that there is a simultaneous need for tailor-made policies. The diversity of self-employment requires a differentiated approach, which offers tailor-made (integral) schemes for various categories of self-employed people, taking into account their individual attitudes towards self-employment and their background, aspirations and visions. In order to develop such policies, a further typology of the self-employed should be developed, possibly in terms of different 'self-employment careers'.

With an eye to effective policy-making more research is needed, especially from a more integral perspective, overarching the separate policy measures. Moreover, given the fact that the policy focus on self-employment is relatively new for all individual Member States and also clearly affects the European economy and labour market, it seems particularly important to perform international comparative studies, to engage in benchmarking activities, and to organise for a collective learning experience throughout the EU.

1. INTRODUCTION

1.1 Scope and focus of this report

Self-employment is at the same time one of the oldest forms of labour and a very modern one. Its existence is as closely connected to well established sectors such as agriculture, as it is to newly developing high-tech sectors involving information and communication technologies and telework.

In recent years self-employment has attracted growing attention from different perspectives, ranging from policy makers to social scientists and economists, and for different reasons. On the one hand, self-employment is seen as an expression of entrepreneurial *esprit* and as a possible panacea to societal threats like economic and technological stagnation, unemployment and social exclusion. On the other, self-employment is seen as a possible *expression* of social exclusion, as the ultimate form of flexible labour relations, in which all economic and social risks are rolled down on the shoulders of the weakest party - the individual worker. Self-employment is like the *Janus*-head that reflects both the positive and the negative aspects of the increasing individualisation and flexibilisation of the labour market and the economy.

Whilst in recent years researchers have been active, and to a considerable extent successful, in seeking a clearer understanding of the phenomenon, policy makers have had to deal with these two faces of self-employment simultaneously. On the one hand self-employment has been actively encouraged by most EU Member States as a part of their industrial, labour market, social and welfare policy. On the other hand, measures have been taken, mostly as a matter of labour market or social policy, to prevent out-sourced or flexible labour from becoming economically exploited and socially excluded. Social actors like employers associations and trade unions have also been active in this field, to protect their respective memberships from unfair competition and in the case of the latter to stem the relentless drive towards flexible labour relations. Consequently the development and the role of self-employment in the EU is potentially influenced by, contrary structural developments in the European economy and labour market, different concepts and notions of self-employment, as well as distinct economic, political and social forces.

In order to gain a clearer understanding of the development and role of self-employment, and to reflect upon the role EU institutions can and should play in this respect, the European Parliament asked for a report on *growth and patterns of self-employment in the EU*. It commissioned a consortium of four institutes to produce this report: the University of Utrecht (NL), the Free University of Brussels (BE), Ruskin College, Oxford (UK), and B&A Group, The Hague (NL), the latter of which acted as the co-ordinating partner.

As an initial consideration the European Parliament required that the report should be independent, scientific in its methodology and relevant to overall policy. Within this framework the goals to be met and the precise questions to be addressed by the Authors were left relatively open. Moreover, the scientists participating in the conception of this report delivered their contribution - in scientific, in research and in financial terms - as part of the working programmes in their own home institutes. Consequently, the report reflects the specific merits of this approach. The emphasis in the contributions varies somewhat, according

to the different research programmes and interests of the participants. The available funds and time did not allow for a more in-depth study or for wider international exploration - apart from, of course, a review of existing international comparative literature. The conclusions that are drawn, therefore, hold first and foremost for the three home countries of the participating institutes.

The focus of this report is on self-employment, and on the development and role of this phenomenon within the European context. Within these parameters the report provides a broad overview, with a more detailed exploration of relevant aspects of the issue in the three home countries of the participating institutes (NL, BE, UK). It includes an up-to-date statistical overview of developments within the EU, a general impression of the factors that are relevant to the issue and the actors involved, and a first exploration of questions and hypotheses that require further scientific study and/or consideration by policy makers.

1.2 Leading questions and issues

Within the qualifications described above, the report has as its central orientation the exploration of recent developments in and around self-employment (1986-1996). In particular its potential to increase participation in the labour market, to improve the quality of work and working life, and to facilitate the mobilisation of human resources and potentials for generating innovation and new economic activity.

Central issues to this exploration are:

- what do the statistics tell us about self-employment and its development in recent years?;
- what can be said about the extent to which self-employment can be seen as a (lasting) contribution to participation in the labour market?;
- what can be said about the extent to which self-employment leads to acceptable standards in quality of working life?; and
- what can be said about the way in which national policies and institutional settings favour or hinder self-employment?

These issues are characterised by an inherent duality. On the one hand, they concern the matter of *availability of knowledge*. One type of question we want to address is the extent to which additional information and research is needed. On the other hand they concern the exploration of different *fields* of information as they relate to individual EU Member States. Accordingly, whilst the issues outlined above have remained the guiding search topics in the individual national explorations, the selection of the specific fields of information which were most relevant has been left up to the judgement of the individual contributors.

To summarise we looked for the following information (i.e. for answers to the following questions):

- clarifications, concepts and definitions of self-employment, as compared to other forms of employment and entrepreneurship in the EU (which definitions of self-employment are used, to what extent do they account for phenomena like informal employment, self-employment in combination with part-time jobs, employment in family enterprises?);
- statistical material, overviews of trends and figures concerning self-employment in the EU Member States (what is the role and share of self-employment in the different Member

States and over time, who are the self-employed, what is their economic activity, what explains variations over sectors and over time?);

- more in-depth exploration, analysis and discussion of these figures, trends and developments from a Dutch, Belgian and British perspective, particularly with respect to:
 - a. the working conditions and perspectives of the self-employed
 - b. the efforts and effects of national policies in this field;
- additional material from other Member states and of a European comparative character related to the above mentioned topics.

Finally, the different findings and insights thus generated were brought together, in order to generate some tentative conclusions, hypotheses and recommendations for further policy and research activity in this field.

1.3 Methods and framework of analysis

As the basis for the statistical comparison we have selected one main source of information, namely the Eurostat (European Labour Force Survey) data. These data are of a highly comparable nature, and have been available for at least the last 10 years for most countries. With respect to the 'new' Member States (Austria, Finland, Sweden) data respect to the 'new' Member States (Austria, Finland, Sweden) data sets were incomplete only being available for the duration of their EU membership (i.e. since 1995).

Additional statistical data has either been used in the national essays for more refined observations, or is presented in the report in the form of quotes and conclusions from other studies.

Literature study and desk-research techniques have been applied to generate a further insight into relevant material and available knowledge. The material thus generated was either of a more in-depth national character (e.g. De Wit, 1991; Freire, 1995; EIM, 1997), or of an internationally comparative character. With regard to the latter, a number of reports have been particularly helpful in directing our research and serving as a framework for analysis (Vilrocx, 1987; Acs and Evans, 1992; Meager, 1993; European Commission, 1995; Pennings, 1997). In particular the 1993 Meager report has helped to direct our attention to the analysis of national programmes to stimulate self-employment (albeit only with respect to labour market policy). We have therefore used Meager's analytical framework of self-employment schemes as a guide for our own analysis - hence the frequent reference to 'the Meager report' in the national essays.

The precise form, structure and content of the national essays was left to the authors to decide although their attention was drawn to the issues mentioned in the previous section. In drafting their essays, the authors have followed different approaches. The Dutch partners based their analysis mainly on desk and literature research. The Belgian partners performed statistical (re-) analysis and two additional expert interviews. The British partners combined desk and literature research with interviews.

As a consequence of the divergent structure and content of the national essays, some overlap occurs between the different chapters. Some parts of the statistical analysis in the Belgian essay (chapter 4) are also used in the chapter on general trends and patterns (chapter 2).

Whereas some of the findings on working conditions and on self-employment schemes¹ from the national essays (chapters 3, 4 and 5) are also included in the discussion of self-employment in the section on comparative and European perspectives (chapter 6). On which note we come finally to the last section of this introductory chapter, about the composition of the report.

1.4 Composition of the report

For ease of dissemination and for those readers whose interest concerns only the outline of the analysis, the report opens with a synopsis and an executive summary.

Following this introductory chapter, the report continues with a first analysis and presentation of the statistical developments of self-employment in the EU (chapter 2). The main question 'what do the statistics tell us?' is answered by first identifying definitions of self-employment, then examining the Eurostat statistics and their breakdown to specific factors, and finally analysing the explanatory factors for these developments.

This chapter is followed by three chapters in which issues around self-employment are analysed from respectively the Dutch (chapter 3), the Belgian (chapter 4) and the British perspective (chapter 5).

Chapter 6 wraps up this report with a resumé of the most important findings, a discussion of the main issues that have come to the fore in the previous chapters and in other literature on the topic, and with recommendations for future research and policy action. A list of references finalises the report.

¹ Focusing on name and date of introduction of schemes, eligibility criteria, form of support, rate of payment, duration of payments, conditions for receipt of payments, support mechanisms, number of participants and survival rates (Meager, 1993, ci).

2. GENERAL TRENDS AND PATTERNS

2.1 What is self-employment?

To understand what the statistics tell us about general trends and patterns of self-employment, we must first understand what is meant by the term self-employment, how it is defined, and how the level of self-employment is measured.

A commonly accepted general definition of self-employment from a labour market perspective is the following: *The self-employed are those who work on their own account (or "for themselves") rather than for an employer in a conventional (dependent) employment relationship* (compare Meager, 1993).

Self-employment covers a wide range of people and activities, for example:

- the proprietors of traditional small and medium sized businesses;
- farmers;
- independent and highly skilled professional workers (lawyers, doctors, artists);
- manual craft workers;
- some categories of homeworkers or 'outworkers';
- a wide range of 'own account workers' of varying degrees of skill.

Self-employment can also imply quite different sorts of dependencies, for example (European Commission, 1995, 118):

- people whose principal earnings come from self-employment;
- the part-time self-employed who work mainly as an employee;
- unpaid family workers.

In order to establish some boundaries to the self employed group, it is necessary to further reflect on the definition of self-employment. As McKenzie and Gregory rightly point out (this report, chapter 5), there are basically two ways of looking at self-employment, that is, either as a form of entrepreneurship or as a labour market phenomenon. From the former viewpoint, self-employed people are seen as business men and women, who are owners and proprietors of firms. In the latter view, the self-employed are looked on as own-account workers, who are basically occupying an alternative position to a regular job. Both aspects are, of course, to some extent a reality for the self-employed, as their income from self-employment does not derive solely from labour input but generally includes a return from capital as well.

The number of self-employed individuals in a country can therefore also be measured in two ways: as the number of employees who work for their own account (or as 'own account workers', as for instance the ILO calls this group); or as the number of companies in which only one person is active. Both ways of defining - and of measuring - the group prove problematic when faced with the complexity of everyday economic activity. These problems are either related to: the exact demarcation of the definition, the self-definition of the subjects to whom the measurement relates, or cultural biases in relation to these definitions.

When it comes to measuring the self-employed a number of problems arise. A good example

of a problem that is one of definition concerns the distinction between incorporated and unincorporated businesses. As Hakim (1988, 422) notes with regards to measurements among proprietors of 'zero-class businesses', "working proprietors or managers of incorporated businesses are classified as employees, because that is their status in law and for tax and social insurance purposes."

A similar problem is the difference in formal official or legislative definitions. According to Casey and Creigh (1988) these differences result in a wide variation of estimates of the level of self-employment. Other authors have concluded, however, that such definitions are broadly consistent with each other within a particular country (see Hakim, 1988, Meager, 1993). Pennings (1997)² and other authors have pointed at differences *between* countries, that *may* be responsible for a variation in statistical measurements. For example:

- In Finland there is a *self-employment act*, within which people are defined as self-employed when they "are engaged in gainful employment without working in the civil service or in an employment relationship".
- In Italy three categories of self-employment are distinguished. The first is the independent worker ("who operates without subordination to an employer, who is in charge of the results of his work himself"). The second category is made up of entrepreneurs ("persons who carry on an economical and organised activity to produce goods or services"). The third category is an intermediate category between employees and independent workers.
- In the United Kingdom and in the Netherlands a distinction is made in social security legislation between the 'genuine' self-employed and the persons who earn more than 50% of their income from a single source. The latter are treated as normal employees.

Mainly in relation to the latter issue, some authors have suggested a distinction between traditional self-employment, new self-employment (which concerns the electronic handling of data and information), and organisational or firm-linked self-employment (which can be seen mostly as the result of a new trend for companies to contract labour) (compare Vilrocx, 1987). It is assumed that the traditional statistical sources account only for the first type, traditional self-employment.

A separate problem, of a combined methodological and cultural nature, concerns the problem of self-definition. This problem basically concerns the difference in answers one gets when asking the same question about self-employment in different legal or cultural contexts. This may be dependent on for instance the tax and social security effects of an occupational position, or on the social status of an entrepreneurial vis-à-vis an employee position. Respondents may be expected to give different answers, according to their own perspective, even when their circumstances are similar.

A final consideration concerns the ever-increasing heterogeneity, flexibilisation and dynamics in the economy and on the labour market. The consequence of which is that the demarcation of specific domains and sub-domains is getting harder and more futile. We agree, therefore, with Meager (1993) and Pennings (1997), that there is little point in striving towards one unifying definition of self-employment. Accordingly, we will develop the thesis in this report that above all it makes sense to further differentiate the self-employed into a number of well-defined typologies. In dealing with data about the aggregated group of self-employed, it

² Compare for instance MacKenzie and Gregory in this report (chapter 4), where they conclude that not definitions but measurement methods lie at the root of statistical differences.

is important that we are aware of the definitional, methodological and cultural problems behind the statistics, and to remain alert for possible misinterpretation of the information thus generated.

2.2 Trends of self-employment in the EU

We will start the quantitative analysis of the status quo, trends and patterns of self-employment³ with an examination of Eurostat statistical data on self-employment in the EU for the last ten years. We will use only one data source for this comparative overview for precisely the reasons described in the last section. In the following chapters other sources for overviews, analysis and interpretation will also be put forward.

We will focus on four aspects:

- the general quantitative development of self-employment, both in absolute terms and as a share of the total working population;
- the sectors of the economy in which the self-employed are active;
- the level of education of the self-employed; and
- the division of self-employment among the sexes

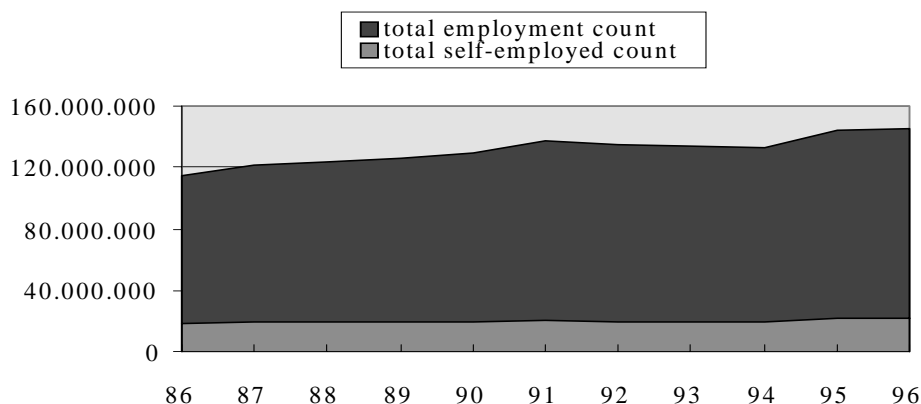
We will start each section with an overview of aggregated figures for the whole of the European Union. Then we will go on to discuss the developments in the separate Member States.

2.2.1 The general development

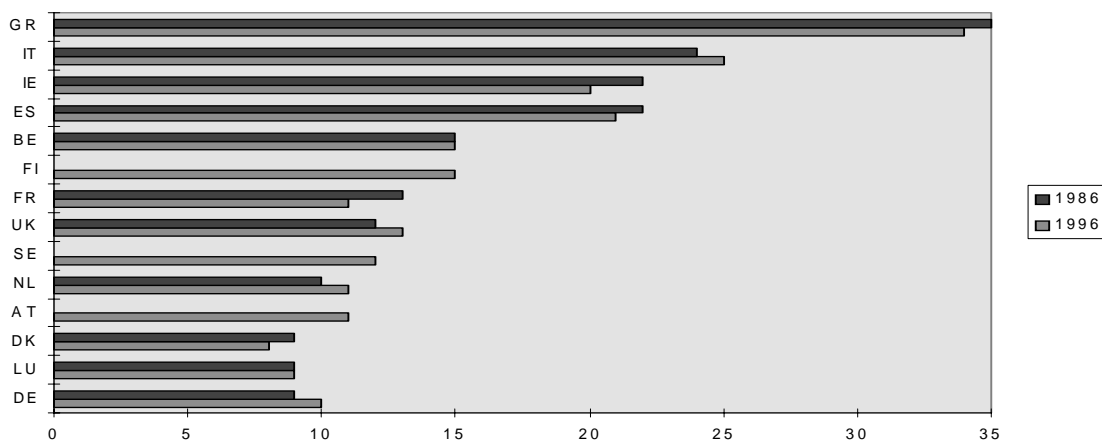
Figure 5 shows the general development of self-employment within the EU. The graph shows both the level of self-employment and the level of total employment (including self-employment).

The graph shows a gradual increase in the level of self-employment in the last ten years, from 17.6 million in 1986 to 21.2 million in 1996 (with a sudden increase of about 1.5 million with the entrance of new EU Member States in 1995). However, the total level of employment increased during the same period, from 115 million in 1986 to 145 million in 1996 (with an equally sudden increase of about 10 million in 1995, for the same reasons). This increase outweighs the increase in the level of self-employment. As a consequence, the *self-employment rate* in the EU overall decreased, from 15.3% in 1986 to 14.6% in 1996.

³ Defined as ‘self-employed with employees’ (‘persons who work in their own business, professional practice or farm for the purpose of earning a profit, and who employ at least one other person’) and ‘self-employed without employees’ (‘persons who work in their own business, professional practice or farm for the purpose of earning a profit, and who do not employ any other person’).

Figure 5: self-employment in the EU; 1986 - 1996 (source: Eurostat)

Behind this seemingly linear development a broad proliferation of percentages and trends exists throughout the EU Member States. Figure 2 provides an overview of the self-employment rates in the EU Member States in 1986 and in 1996. A strong disparity exists between the different Member States. In particular the more traditional economies (Greece, Ireland, Italy, Spain) show high self-employment rates (all above 20%).

Figure 6: self-employment rates of EU Member States; 1986 - 1996 (source: Eurostat)

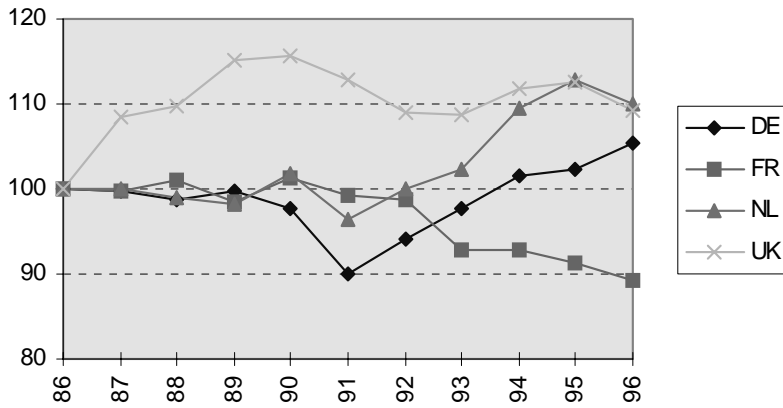
We can also note the differences in the developmental trends in different Member States. As well as the differences in general trends (an increase in Italy and the Netherlands vis-à-vis a decrease in Denmark and France; also visible in Figure 6), the development *paths* are also quite different. The disparity between the developments in the different countries in the last ten years suggests classification in five groups:

- one group of countries in which the graph is mountain-like (first up, than down): BE, UK;
- one group in which the graph is V-shaped (first down, than up): DE, ES;
- one group of countries in which the general (albeit meandering) trend is upwards: FI, IT, LUX, NL;
- one group in which the general (albeit meandering) trend is downwards: DK, FR, GR, IE;

- one group in which the rate of self-employment is stable (that is: in the two years in which they are Member to the EU): AT, SE.

To illustrate the different developments in Member States, Figure 3 shows the relative development of self employment in four countries, each representing one of the first four groups distinguished above.

Figure 7: relative development of self-employment rate 1986-1996 in four Member States (1986 = 100) (Source: Eurostat)

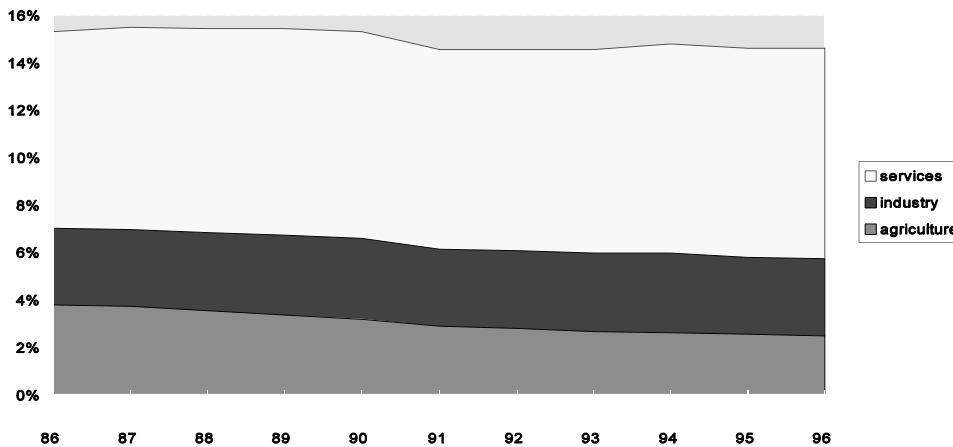


Several authors have given explanations for this divergence in the development of self-employment within the EU (we will discuss these explanations in the following paragraph). Some are concerned with differences in the structure of the economies and/or in the composition of the labour market in general and of the self-employment labour market in particular. We will now turn to a description of these characteristics of self-employment and the self-employed in the EU.

2.2.2 Sectors of the economy

Figure 4 shows the development of self-employment in different sectors of the economy within the EU.

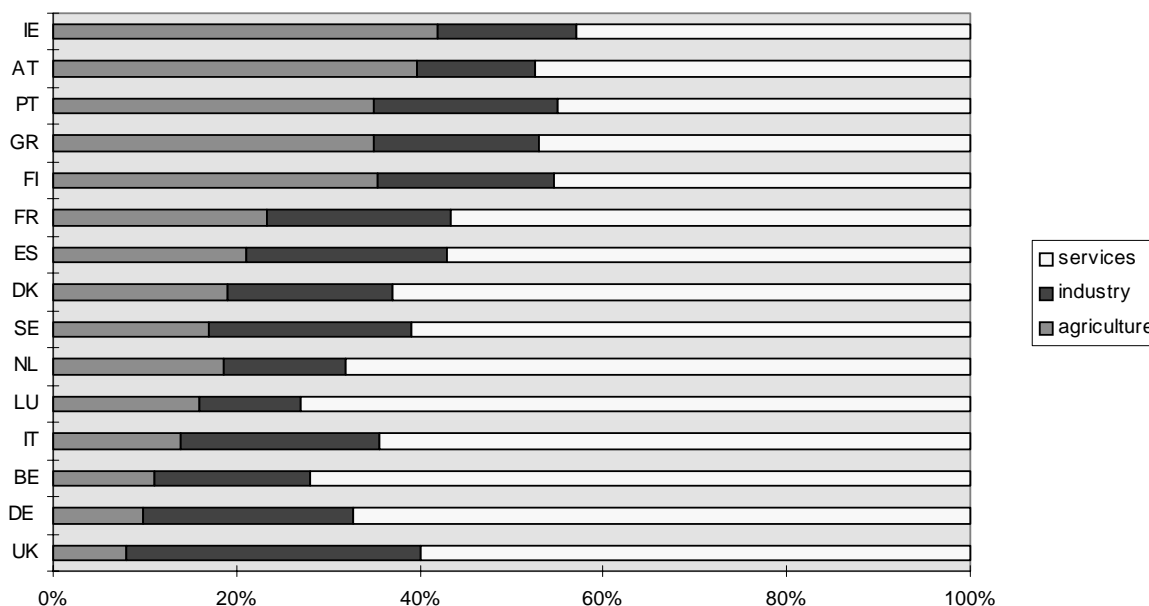
Figure 8: self-employment in different sectors of the economy (source: Eurostat)



The graph clearly shows a pan-European decline in the contribution of the agricultural sector to the level of self-employment. (from 3.8 to 2.5%). This pattern is consistent with developments in all Member States, except for Belgium (a constant 2%) and the United Kingdom (a constant 1%). The share of the self-employed who work in industry remains roughly constant (around 3.3%). in all EU Member States. Finally, the share of the services sector in the level of self-employment increases somewhat, from 8.3% to 8.9%. Again, all Member States show a similar development, except for Belgium (a constant 11%) and the United Kingdom (a constant 7,5%).

When it comes to the proportion of the self-employed found in different sectors of the economy in the different Member States, a number of clear differences come to the fore, which also reflect the structure of the national economies. Figure 5 shows these differences for the different Member States in 1996.

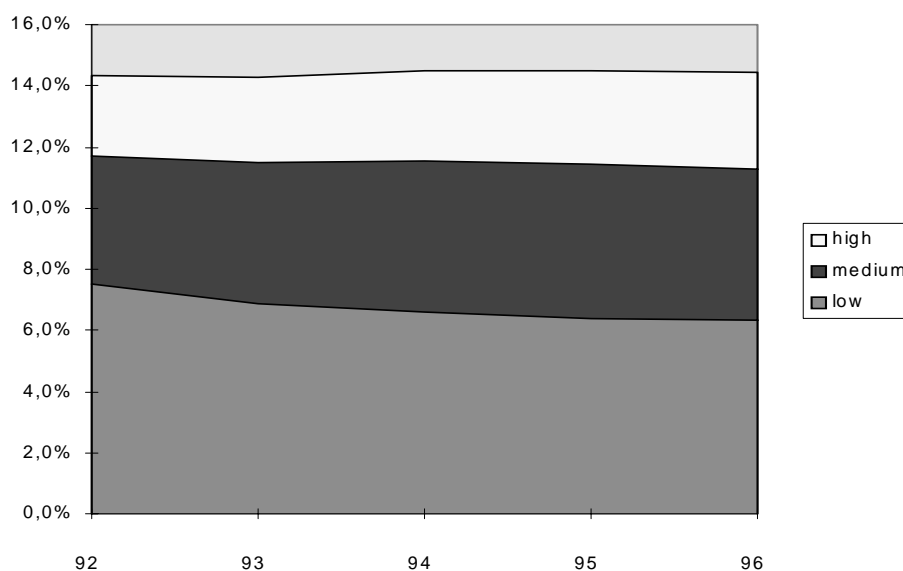
Figure 9: division of self-employment over different sectors in the EU Member States, 1996 (source: Eurostat)



The figure clearly shows that in a number of countries self-employment is strongest in the service sector (notably the Netherlands, Luxembourg, Sweden and Germany). However Ireland, Austria, Portugal, Greece and Finland have high rates of agricultural self-employment. The United Kingdom distinguishes itself with an exceptionally high proportion of self-employment in industry.

2.2.3 Level of education

Figure 10: self-employment and level of education (source: Eurostat)



Eurostat data is rather incomplete when it comes to the level of education attained by the self-employed. For most Member States data is only available from 1992 onwards. Figure 6 uses this data, to demonstrate the general trend in the level of education of the self-employed within the EU. Firstly the graph shows that the largest proportion of the self-employed have only attained the lowest level of education. Over time, we see a gradual decrease in this proportion (from 6.9% to 6.3%) whilst an increase is apparent in the proportion of the self-employed with medium and higher levels of education (respectively from 4.6% to 5.0% and from 2.8% to 3.1%).

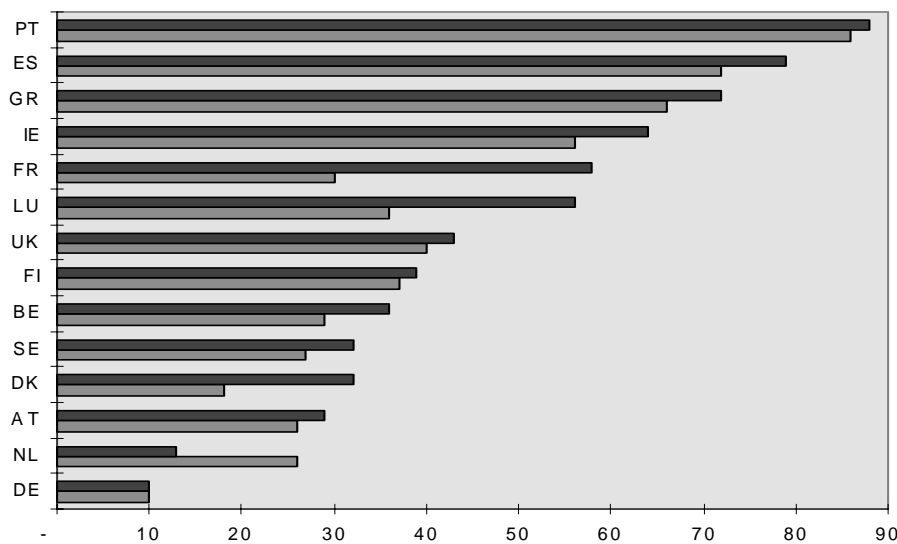
In two respects this general picture is not identical in each Member State. First of all, the average level of education of the self-employed differs widely between different Member States. Roughly speaking a great divide is visible between the southern and rural economies on the one hand, and the northern and (post-) industrial economies on the other (reflecting both the general level of education and the structure of the economy described in the last section). In countries like Greece, Spain and Portugal 70% to 80% of the self-employed have only lower levels of education. Whereas in countries like Austria, Germany and the Netherlands this proportion is only 10% to 30%.

Secondly, in some Member States exceptions can be found to the rule that the proportion of the self-employed with lower levels of education is decreasing. In the Netherlands a sudden rise in this rate occurred in 1995-1996 (from a steady 1% to a sudden 3%). In Germany there is a slow increase (from 0.8 to 1.0). Different patterns can be found in Denmark, France and Luxembourg, where the proportion of the self-employed with lower levels of education suddenly drops (around 1993) and then stabilises.

As far as the self-employed with medium and high levels of educational achievement are concerned, developments in different Member States are roughly similar.

Figure 11 shows the ratio of self-employed people with lower levels of education to the total number of self-employed people, as well as the trend over the last ten years.

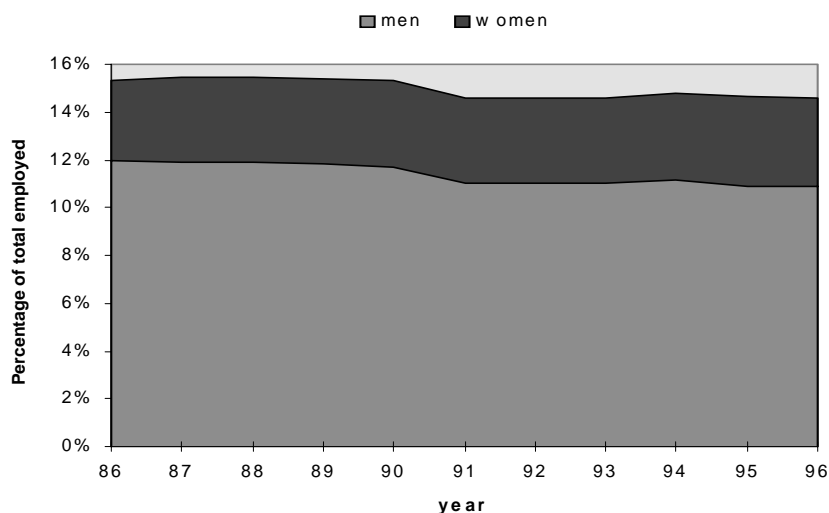
Figure 11: lower educated as a percentage of total self-employed (source: Eurostat)



2.2.4 Division among the sexes

The general trend within the EU of the sexual division of self-employment is shown in Figure 8. The graph clearly shows that the rate of male self-employment as a percentage of the total working population is higher than the female rate. At the same time, it can clearly be seen that women are gaining ground. The rate of male self-employment as a percentage of the total working population is gradually decreasing, from 12.1% to 10.5%. In contrast to that, the rate of female self-employment as a percentage of the total working population slowly increases from 3.4% to 3.8%.

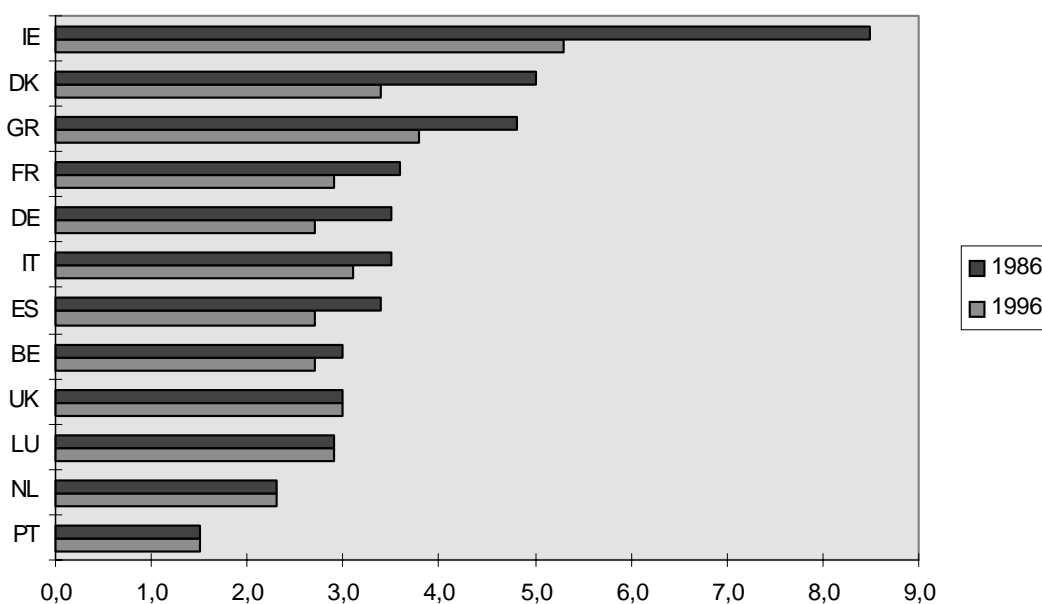
Figure 12: self-employment rates and sex in the EU, 1986-1996 (source: Eurostat)



This trend is broadly similar in most countries. There are exceptions to the general trend of decreasing male rates of self-employment; Italy (remains a constant 18.5%), the Netherlands (increases from 7% to 7.8%) and the UK (from 8.7% to 10%, and then down again to 9.4%). In Spain the female position remains stable at around 5.5%. In Luxembourg both the rate of male (6.7%) and female self-employment (2.5%) as a percentage of total working population remains stable (the same holds for Portugal; although no figures available).

There is a clear difference between the Member States with regards to the difference between male and female self-employment. For example, in Ireland in 1986 8.5 times more men than women were self-employed (5.3 times in 1996). Whereas in Portugal men only outnumber women 1.5 times. Figure 9 shows this male/female ratio for all Member States, both for 1986 and 1996.

Figure 13: male/female ratio in self-employment, 1986 - 1996



2.3 General patterns and explanations

A wide variety of factors have been put forward to explain the differences in the trends in self-employment levels and rates in different national situations. Most of these factors can be, and have been, put to the statistical test. We will describe these factors and their expected influence below. We will discuss the results of the statistical tests and we will give a number of alternative explanations, which cannot easily be tested statistically.

2.3.1 Suggested explanatory factors

The following factors are mentioned in the literature:

1. *The wealth or the level of development of the economy* (in terms of per-capita GNP) is expected to be a determining factor of self-employment. As economies become more capital intensive optimal firm size increases and the returns to entrepreneurship versus wage work decreases (Kuznets, 1966; Lucas, 1978, Acs and Evans, 1992).

2. *Technological change* with a bias towards industries in which self-employment is important, is also supposed to favour self-employment (Blau, 1987; Acs and Evans, 1992).
3. *The structure of the economy* can be supposed to be a factor of influence (Syrquin, 1988; Acs and Evans, 1992; Meager, 1993). The self-employment rate tends to be much higher in agriculture than in manufacturing, whereas the service sector again provides more opportunities for self-employment than manufacturing. Therefore international differences between, or a national shift in the roles of the three sectors would also imply a change in self-employment rates.
4. *Variation in demographic characteristics* over time and across nations may explain variations in the level of self-employment (Acs and Evans, 1992; Meager, 1993). Different population groups, like women, ethnic or religious minorities, age-groups, have different propensities to become self-employed. Differences (in time, across nations) in the labour force participation rate of these groups thus have consequences for the self-employment rates.
5. *The level of unemployment* is expected to affect self-employment in two different but related ways. First, unemployment reduces the average alternative opportunity cost of entering self-employment. Put otherwise: the unemployed have less to lose in becoming self-employed (Evans and Leighton, 1989a, 1990; Acs and Evans, 1992; Meager, 1993).
6. Second, *the level of unemployment* may be inversely related to the level of macro-economic growth. Consequently, a higher unemployment rate implies economic conditions that are less in favour of new economic activities (Storey, 1991; Acs and Evans, 1992; Meager, 1993).
7. *Changes in the organisation and behaviour of employers* may promote or hinder self-employment. The shift to 'contracting out' of service functions, the growth of franchising and similar developments, contribute to increasing self-employment in some countries (Meager, 1993). Vilroks (1987) refers to these changes as 'SME-sation of big companies, the growing importance of services to industries and the extended use since 1980 of self-employed in these restructurings.
8. *Cultural or sociological factors* may play a role. Acs and Evans (1992) take Hofstede's cultural indicator's for uncertainty avoidance (rules orientation, employment stability and stress) and reason that a higher level of uncertainty avoidance would mean that people would avoid the risks associated with self-employment (compare Hofstede, 1984). Similarly, they expect Hofstede's individualism index to correlate with entrepreneurship. In a survey in a Dutch region De Wit (1991) found that the psychological disposition due to family background (the employment status of the father),⁴ intelligence (in terms of IQ) and personal ambition all increased the likelihood for people to become self-employed. Structural differences in these variables over time and across countries may explain differences in self-employment rates.

⁴ It is interesting to compare this finding with a completely contradictory in another UK-based example (see footnote 10).

Also, popular attitudes towards self-employment may change over times and across countries. An often cited example is the post-1979 Thatcher government's policies, oriented towards creating an 'enterprise culture', which is believed to have led to attitudinal change (compare Blanchflower and Oswald, 1990).

2.3.2 *The validity of these explanations*

We will now briefly discuss the results of statistical tests that have been carried out to validate the explanations listed above.

Acs and Evans (1992) have tested most of the given explanations (1, 2, 3, 4, 5, 6, 8), albeit only for the development of self-employment rates in industry and services (agriculture is excluded from their analysis). They found that self-employment varies systematically with economic development (measured by per-capita GNP)⁵, the relative importance of manufacturing and services, and female labour participation. Also, positive correlation was found with the uncertainty avoidance index, and negative correlation with the individualism index. Relations with R&D-expenditure as a percentage of GNP was highly insignificant. Also, it was found that the level of long-run unemployment was highly insignificant. Having reached these conclusions about which factors were relevant and which irrelevant, their observation that countries experienced different developments than would be expected on the basis of these explanations remained unanswered. "We suspect the explanations are idiosyncratic. But further research is required here" (Acs and Evans, 1992, 7).

Meager (1993) summarises different statistical tests⁶ in combination with his own research (in particular concerning hypotheses 3, 4, 5, 6, 7, 8). He concludes that inter-country differences in these factors are insufficient to explain the divergent self-employment trends.

Vilrocx (1987) tested both the effects caused by the growing participation of women on the labour market and by sectoral changes (hypotheses 3 and 4). His analysis includes the agricultural sector. He concluded that the growing participation of women could certainly not be regarded as a major explanatory factor in self-employment trends. Sectoral changes, however, could. In particular in France, Belgium and Ireland, and to a more modest degree in Germany, the changes in self-employment between 1975 and 1985 are the consequences of the fact that the weight of the three sectors (having different self-employment ratios) has altered. However Vilrocx also concludes that the real explanation remains to be given. "In general, we see that the sector and gender variables have a negative effect on the evolution of self-employment but are never predominant in the overall decline of self-employment" (p.15). In Vilrocx view (1987, 18-23), hypothesis 7 offers the most plausible explanation for the unexplained residue. "More subcontracting by larger firms", "a competition-induced redistribution between enterprises" and, what he calls, "work in the outside lane" are the causes which account for most of the 'unexplained'(by gender and sector) part.

⁵ In particular with reference to this variable, however, it should be noted that the self-employment *rate* is a quite problematic dependent variable. As Meager (1993) points out, both the numerator and the denominator of the self-employment rate in relation to economic development may drive more from structural relationships between employment and self-employment than from the influence of the economic cycle on self-employment itself.

⁶ In particular Acs, Audretsch and Evans, 1992; Meager, Kaiser and Dietrich, 1992; Meager, 1992a, 1992b, OECD, 1992.

In this report (chapter 4), Surkyn and Vilrocx test the same hypotheses (3 and 4) for the development of self-employment rates in Belgium, the Netherlands and the United Kingdom, based on same data that has been presented in this chapter. They conclude that the developments in the UK have no relation to the macro-economic evolution in terms of sector composition and female labour participation. In Belgium and the Netherlands these developments do offer part of the explanation - in Belgium a little more than in the Netherlands.

2.3.3 Other possible explanations

According to Meager (1993, iii), there is a range of other factors, mostly in the institutional environment in a country, that influences the development of self-employment. The starting point of his analysis is that some of the explanations discussed above, like sectoral developments and female labour participation, are, though valid, insufficient to fully account for the dynamics of self-employment. "Their combined effects are mediated by a range of influences concerned with the legal and institutional environment, which can help explain differences between countries which might otherwise have rather similar self-employment trends." Two of these influences are: *the regulatory framework governing business start-up and occupational entry* and *the structure and regulation of the market for finance facing the self-employed*.

Testing this explanatory hypothesis requires a more in-depth comparison of different national and regional legal and institutional settings. Meager carried out such a comparison for Germany and the UK, the result of which supported this line of reasoning. It showed that the financial barriers to becoming self-employed are higher in Germany than in the UK, but that the newly self-employed were better placed to survive in self-employment in Germany than in the UK, because a) more of them have relevant qualifications; b) more have their business scrutinised by a lending institution; and c) those entering regulated sectors (like *Handwerk*) enjoy relatively protected markets as well as a wide array of central and local government-funded small business support and advice.

Additional support for this hypothesis can be found in the three national essays that are included in this report⁷. In the Belgian essay a graph is presented (Figure 14) which shows the increase in the rate of self employment in the Netherlands occurring after 1992. This is particularly interesting in the light of the comments in the Dutch essay on deregulation (see section 0). In the UK the Federation of Small Businesses (FSB) clearly sees further deregulation as in the interest of its members (see paragraph 0). As is suggested in the same essay, there is a divergence of interest in this respect between the 'entrepreneur' and the 'own account worker', for example, the entrepreneur will view social protection expenditure as a cost rather than a benefit.

In addition we want to add the growing segmentation of self-employed as a group as an explanatory factor. This development results of from several recent trends; like the decreasing share of agriculture, traditional industries and crafts in self-employment vis-à-vis the high-tech and services sectors; the growing professionalism in post-industrial labour markets; and the growing stimulation of self-employment through national industrial, labour market, social and welfare policies. The consequence of this growing segmentation is the ever-growing divergence of responses of different groups of the self-employed to specific policies and differences in economical and institutional opportunities and constraints. Consequently, to

⁷

As was kindly pointed out to us by Kevin MacKenzie

explain national trends and inter-country differences in self-employment, one needs to distinguish between these different groups and refine the analysis to the level of these segments (see also the following chapters).

2.4 Conclusion

Self-employment is not a very singular phenomenon. The self-employed are a quite diverse group of professionals, artisans, traders, farmers, service providers and people with other forms of occupations, whose self-employed status sometimes is combined with other occupations, who sometimes employ or work together with family members or other persons, who either see themselves as an entrepreneur, as a worker or as something in-between. They are active in different sectors of the economy, have different educational backgrounds and are of different sexes. As such, the group of self-employed isn't really *a group* at all.

Nevertheless, some general tendencies have been found with regards to the characteristics of the self-employed. Within the EU their numbers have risen in the last ten years, although relative to the total level of employment the rate of self-employment has decreased from 15.3% to 14.6%. Self-employment in agriculture is decreasing, whereas the service sector can be seen as the engine for potential growth in self-employment. Relatively more individuals with medium and higher levels of education have become self-employed, and female self-employment is slowly gaining ground on male self-employment (although self-employed men still outnumber self-employed women by a factor four).

Behind these general European figures and trends there is a wide variety of national statistics and developments.

- In some countries the level of self-employment is very high (over 30% in Greece), in others it is low (below 10% in Denmark, Germany and Luxembourg), in some it is rising (Italy, United Kingdom and the Netherlands), in others it is going down (Ireland, Spain and France).
- In some countries self-employment in services is the most important (75% of self-employment in Belgium and Luxembourg), in other countries agriculture is the more important sector (over 40% in Ireland and Austria), whereas in the UK over 30% of self-employment is situated in industry.
- In some countries the less educated form the largest part of the self-employed population (over 70% in Portugal, Spain and Greece), in other countries they are a minority (below 30% in Germany, the Netherlands and Austria),
- In some countries the male/female ratio in self-employment is more than 4 or 5 to 1 (Ireland, Denmark, Greece), in others it is below 3 to 1 (the Netherlands and Portugal).

Some trends are similar in most countries and thus have a similar effect on the level of self-employment in these countries. For instance, in all countries there is an increasing *participation of women on the labour market*, which, due to a lower propensity of women to become self-employed, results in a downward push on the level of self-employment. However, most trends are more or less divergent between the different Member States, and no single factor or combination of factors can help to fully explain these developments. An overview of the different potential explanatory factors and their proven explanatory force is given below.

Table 2.1: Explanatory force of different relevant factors for diverging national self-employment rates

Relevant factors	(statistically) proven
1. The wealth or the level of development of the economy	++
2. Technological change	-
3. The structure of the economy	++
4. Variation in demographic characteristics	+
5. The level of unemployment (positively correlated)	-
6. The level of unemployment (negatively correlated)	-
7. Changes in the organisation and behaviour of employers	
8. Cultural or sociological factors	+/-
9. Regulatory framework governing business start-up	++?
10. Structure and regulation of the market for finance	++?
11. Segmentation of the group of self-employed	?

As this overview shows, statistically, the strongest explanations come from the level of *development of a Member State's economy* (measured in GNP), which affects the economies of scale that can be attained in production functions, and from *the sector composition of the Member State's economy*, in which a declining importance of agriculture results in lower levels, and an increasing importance of the service sector results in higher levels of self-employment.

However, none of these or any other explanations can sufficiently and satisfactorily account for the development of self-employment within the EU Member States. In our view, this is because on the one hand it is not clear enough what and who we mean exactly when we refer to the self-employed, and because on the other hand we lack the required in-depth insight into the subject matter to understand the social, economical and cultural processes that are at work. The three latter relevant factors (regulatory framework governing business start-up, structure and regulation of the market for finance and segmentation of the self-employed) are therefore indicated with a question mark, as the test of their explanatory force requires far more extensive research.

In the following chapters we will take a closer look at the trends in self-employment in three Member States. In the final chapter we will recapitulate the findings of this chapter, connect them to the other chapters' contents and draw some conclusions and implications.

3. NATIONAL PERSPECTIVES I: THE NETHERLANDS

3.1 Introduction

In the self-employment league table of EU Member States the Netherlands can be found at the bottom end. The number of the self-employed accounts for only 11 percent of total employment. In this respect the Netherlands' is similar to Austria and France. Of the other EU Member States only Germany, Luxembourg and Denmark score lower than the Netherlands. Since 1987 the absolute number of self-employed has grown more or less steadily but, over the same period, self-employment as a proportion of total employment remained constant at ten percent until 1995 when it peaked at 11 percent. As in many other advanced economies self-employment is highest in the service sector.

Over the past decade successive Dutch governments have given priority to increasing labour participation. Today, stimulating entrepreneurship is higher on the political agenda than ever before. However, state employment policies have rarely been targeted at raising self-employment through integral schemes. Their implementation has been left to agencies at regional and local level, which have had some degree of discretion, and considerable autonomy in determining policy objectives. In fact, a fair number of town councils and local/regional agencies have been active in promoting and supporting self-employment, for instance by assisting in the preparation of business plans and by providing training and housing facilities. Local schemes sometimes target particular categories of starters, such as the long term unemployed, women and ethnic minorities. Because these schemes vary in many respects it is difficult to make comparative assessments of their effectiveness. Therefore, and because of the cross-national perspective of this study, our attention will be directed towards national policies.

Like Meager (1993) we will concentrate on policies, which have a labour market, emphasis and which are national in coverage and scope. Following Meager (1993, pp. 94-95) we must observe, however, that it is difficult to separate those policies which are primarily labour market based and which attempt directly to influence the level and/or nature of self-employment, from those which form part of a wider range of policy initiatives aimed at the small business sector in general.

This chapter will first present and analyse such data as is available concerning self-employment. Then the national policy schemes which have been initiated since the mid 1980s and which were geared more or less directly at enhancing self-employment will be surveyed. We will attempt to evaluate their effectiveness by reviewing some qualitative aspects of the employment conditions of the self-employed. Finally the prospects for the development of self-employment will be discussed.

3.2 Self-employment in the Netherlands

The total number of self-employed people in the Netherlands has increased more or less steadily from 593.082 in 1987 to 773.062 in 1996. Since the total number of persons employed also increased, self-employment as a proportion of total employment remained constant at ten percent until 1995 when it peaked at eleven percent.

During the same period women's participation in employment grew substantially from 40.1 percent in 1985 to 57.3 percent in 1994⁸. However, the proportion of women in self-employment did not grow. During the entire period about 70 percent of the self-employed were men and 30 percent were women. The percentage of self-employed women as a proportion of total employment remained at a constant three percent.

As in many other EU Member States the service sector accounts for most the self-employed. Table 3.1 gives the data for the self-employed in each sector since 1987.

Table 3.1 The self-employed in the Netherlands per sector since 1987 (source: Eurostat)

	agriculture		industry		services	
	count	%	count	%	count	%
87	138.290	2	53.873	1	392.657	7
88	139.062	2	69.778	1	381.922	6
89	135.361	2	67.154	1	392.821	7
90	135.942	2	68.444	1	435.280	7
91	129.445	2	65.838	1	424.024	7
92	127.641	2	77.389	1	407.946	6
93	133.876	2	84.103	1	434.382	7
94	135.850	2	89.299	1	482.911	7
95	135.711	2	105.796	2	499.805	7
96	132.014	2	92.811	1	478.850	7

⁸ The activity rate of women in the Netherlands is now slightly higher than the EU average of 56 percent; the activity rate of men in the Netherlands remained almost stable at 68 percent (European Commission 1995).

Table 3.2 Self-employment in industry and services as a percentage of total employment
(Source: our calculations based on Eurostat data)

Year	Self-employment in industry and services (% of total)
1987	7.77
1988	7.67
1989	7.71
1990	8.15
1991	7.77
1992	8.22
1993	8.35
1994	9.09
1995	9.45
1996	9.25

The table shows that while the overall level of self-employment has increased the number of people in self-employment in agriculture has slightly declined in absolute numbers. In fact, if we do not take into account agriculture, self-employment as a proportion of total employment appears to have risen since 1991. In this respect the development of self-employment in the Netherlands conforms to the situation in most EU Member States (European Commission 1995b, pp. 52-54). Table 3.2 shows the development of self-employment in industry and services.

Of course, the term 'services' indicates a rather broad and diverse field of economic activities. A more detailed overview of segments of the service sector in which self-employment can be found, can be drawn from the databank of the Chambers of Commerce.

As of March 1995 the Chambers of Commerce listed 860422 firms, of which 209921 (24.5 percent) had no employees⁹ (NV Databank Kamers van Koophandel en Fabrieken, 1995). We will restrict ourselves to the four service sectors shown in table 3.3 that appear to have large numbers of firms without employees.

⁹ This chapter will not go into the various problems of definition regarding owners of unincorporated businesses who are classified as self-employed and working proprietors or managers of incorporated businesses who are classified as employees (cf. Meager 1993, pp. 9-13). For pragmatic reasons the category 'firms without employees' in the Chambers of Commerce's classification will be taken as approximation of self-employed.

Table 3.3 Service sectors with a large number of firms without employees

Sector	Total number of firms	Number of firms without workers	Column 3 as a percentage of column 2
Financial services	121927	74145	60.8
Rental/trade of real estate and business services	196745	67277	34.2
Repair of consumer goods and trade	254235	28407	11.2
Environmental services, culture, leisure, and other services	55749	13076	23.5

Together these four service sectors include 182905 firms without employees. This accounts for 87 percent of all firms without employees. Effectively the self-employed without employees are almost completely concentrated in these service sectors. We will take a closer look at each of these sectors.

A large number of the firms without employees in the financial service sector appear to be financial holdings (34479) and investment trusts with a restricted participation (17469). Together these account for more than two thirds of all firms without employees in this sector. If we leave these from consideration, the following types of financial services account for most of the remaining 22197 firms without employees.

Table 3.4 Financial services firms without employees

Management and administration of shares and bonds	9728
Investment funds in financial assets	3787
Insurance agents	2000
Investment funds in immovable assets	1918

Another sector, which includes many firms without employees, is the 'rental and trade of real estates, trade of moveable properties and other business services' sector. Some segments of the rental and trade of real estates sector account for large numbers of firms without employees.

Table 3.5 Rental and trade of real estate firms without employees

Trade in real estates	6170
Rental of real estates	6031
Management of real estates	2434
Property development	1751
rental of other accommodation	1010

Large numbers of firms without employees can also be found in the field of professional business services.

Table 3.6 Professional business services firms without employees

Organisation consultancy agencies	3049
Accounting agencies	2073
Software/IT consultancy agencies	1419
System development, analysis and programming services	1236
Advertising/marketing, design + consultancy agencies	1230

The 'repair of consumer goods and trade' sector has a highly detailed subdivision of about 350 specialised services. Accordingly, segments with thousands of firms without employees will not be found. The following list gives an idea of the segments where the number of firms without employees is above average for the sector.

Table 3.7 Repair of consumer goods and trade firms without employees

Repair of private motor vehicles	456
Wholesale trade of flowers and plants	479
Wholesale of outer clothes	607
Wholesale of non-food consumer products	797
Wholesale of computer and hardware equipment	777
Wholesale of electrotechnical instruments etc.	677
Wholesale of other equipments for industry and trade	441
Non-specialised wholesale of consumer articles	858
Market trade of clothes	527
Market trade of second-hand goods	470
Other forms of retail trade of non-food articles	1713

Finally, the 'culture, sports, recreation and other personal services' sector also includes a relatively large number of firms without employees but these are not strongly concentrated. This becomes apparent when we list the segments, which include the most firms without

employees. Only two segments have numbers of firms that come close to the level we saw in the sectors that we analysed earlier.

Table 3.8 Culture, sports, recreation and other personal services firms without employees

Pedicure	3573
Beauty care and manicure	2217
Hairdressers	814
Producers of (video)films (excluding tv-producers)	494
Arts' support service/organisation of cultural events	471
Creative artists	316

The data from these is informative in the sense that it enables us to localise those areas of economic activity in which self-employment is common. Of course, this is a static picture (of the year 1995). Information about the dynamics of self-employment can also be found in another report by the Chambers of Commerce (Vereniging van Kamers van Koophandel, 1997). The data deals with newly starting firms. Other research (Van Uxem & Bais 1996) shows that most of these starters - 86 percent - are firms without employees.

Since 1987 the number of newly starting firms has generally increased every year, particularly in the early 1990s. In 1996 however the trend reversed, the number of newly starting firms was almost 50000, 3000 less than the year before. Particularly in the wholesale and retail trade the number of new starters declined substantially (respectively 8 and 13 percent less than in 1995), while business services still grew as a result of new starters. Table 3.9 gives data for the service sectors. The data covers the number of newly started firms and gives their proportion as a percentage of the total number of such establishments in the sector.

Table 3.9 New starters in the service sectors, 1996 (Source: own calculations on the basis of Vereniging Kamers van Koophandel, 1997)

Sector	New starters	New starters as a
Trade + repair motor	1328	4.8
Wholesale trade	6728	7.0
Retail trade	5934	4.3
Financial services	50	0.1
Rental/trade real estates	574	1.6
Computer services/IT	2117	13.4
Other business services	11130	7.3
Culture, sports, recreation	2527	10.8
Other personal services	2662	8.1

The sectors included in table 3.9 are those that were shown earlier to have had the largest numbers of firms without employees. It appears, however, that some of these, notably 'financial services' and 'rental and trade of real estates', mainly consist of established firms since the number of new starters is very low in both absolute terms and as a percentage of all establishments in the sector. On the other hand, other sectors, notably 'computer services', 'IT agencies' and 'culture, sport and recreation', have high proportions of new starters, which can be interpreted as a sign of expanding business and employment.

The other notable aspect of the dynamics of new starters is that not all of them are successful. After two years a quarter of new starters are no longer in business, after six years half have ceased trading and after nine years 60 percent are out of business. This overall pattern varies considerably between sectors. In the wholesale and retail trade the survival rate of new starters is lower than average whilst new starters in the 'business services' sector have a better chance of remaining in business (Vereniging Kamers van Koophandel, 1997, p. 9).

3.3 National policies geared at promoting self-employment

Specific policy-schemes to stimulate self-employment are scarce in the Netherlands. Since the mid-eighties the promotion of entrepreneurship has steadily gained popularity with national policy makers. Small and Medium-sized Enterprises (SMEs) are increasingly viewed as the driving force behind the Dutch economy, helping to create jobs, economic growth and healthy competition. Furthermore SMEs play a substantial role in bringing about technological change and other kinds of innovation. The present government feels very strongly about promoting SMEs. Self-employment is now considered a possible way of boosting job creation and giving people scope to develop their talents. A number of trends in Dutch society have led to the renewed interest in self-employment that emerged in the mid-eighties.

The first factor is massive structural unemployment. The wave of unemployment that hit the Netherlands in the first half of the eighties gave rise to various government measures to stimulate job creation. As well as general measures designed to make it more attractive for companies and organisations to employ people, many job creation programmes were launched. Over the years the promotion of "jobs in self-employment" has become an increasingly important option for national politicians and policy-makers.

The second development is the trend towards individualism in society. The Netherlands has been transformed in the last few decades from a society based on denominational and political segregation to one based on individualism. Whereas the emphasis used to be on the social environment, now the individual occupies centre stage. This has meant a shift in focus from group development to self-development, with implications for the way people manage their careers. Mobility of labour has increased sharply, together with the desire to earn one's living through self-employment.

The third factor is Europeanisation and globalisation. One widely held view that has taken root in the last ten years is that the way the Dutch welfare state was organised in the mid eighties had become impossibly expensive and stood in the way of healthy international competitiveness. The increasing globalisation of our already fairly open economy, together with ongoing European integration, has led politicians to slim down the existing welfare services (in order to reduce the budget deficit) and reorganise the welfare state. In particular

the system of social security benefits has been cut back and responsibility has been shifted to individual employers and employees over the last few years. All this has helped to make the private sector of the labour market more dynamic.

Against this background, the social status of self-employment has risen steadily in the last fifteen years, along with people's interest in becoming self-employed. At the same time central government has introduced various measures to promote self-employment.

Before discussing the measures in more depth, we would like to make some general points regarding policies designed to promote self-employment and their implementation in the Netherlands:

- There is no specific policy in the Netherlands focusing on self-employment as such, although there are policies designed to promote entrepreneurship, in some cases concentrating on specific groups. And certain policy measures can be identified that, although not directed specifically at self-employment, do in practice influence this.
- The governmental policy concerned is hardly ever implemented at national level in this country. Regional and local executive bodies (such as Chambers of Commerce and Industry) were created years ago for this purpose. Other specific tasks are assigned to existing administrative agencies (e.g. the municipal social services). This is not only true with regard to the implementation of policy; it is also the case that a great deal of policy is actually determined at local or regional level. This has far-reaching implications for our study, where the decision has been made to adopt a national perspective and the focus is on a comparison between countries. For the sake of international comparison, we only discuss the national perspective, whilst realising that we are not presenting a full picture of the situation in the Netherlands.
- Banks, accountants, legal and financial advisers, management consultants and other commercial organisations play an important role in providing support to the self-employed. The Netherlands has a consultancy ethos par excellence. The Dutch approach, particularly in the field of entrepreneurship, is to gear government policy as closely as possible to private sector initiatives. In this respect too, the decision to focus on national government policy prevents us from doing justice to the actual situation.

All the same there are certain schemes and initiatives developed in the Netherlands, which are having an impact on self-employment. The main policy measures are clustered in terms of four lines of approach: information and advice, fiscal measures, financing and lending, and deregulation.

3.3.1 Information and advice for businesses (including start-ups)

The quality of entrepreneurial skills is one factor that decides the success of start-ups. In the Netherlands there has always been considerable emphasis on proper preparation and support for new businesses in order to boost their chances of success (and opportunities for growth). The provision of information and advice to new businesses and, conversely, the positive discouragement of new businesses with no prospects of success are central to the first level of support for new businesses. The provision of information and advice for new businesses has been the main instrument for influencing potential entrepreneurs in the Netherlands for the last fifteen years. Hence we can say that support for new businesses in the Netherlands is well established by international standards.

Providing information and advice for new businesses are typical of the kind of activities carried out regionally and locally. The Chambers of Commerce and Industry, organised regionally, play a central role in the support of new businesses. They are independent administrative bodies that implement the Chambers of Commerce Act. Their responsibilities include promoting the interests of businesses in the region, providing information for new businesses and general commercial information, and recording businesses in the trade register. A new Chambers of Commerce Act came into effect on 1 January 1998. Compared with the old act, there is more emphasis on customised services for new businesses and the co-ordinating role of the Chambers of Commerce in the network of regional and local support organisations. It also introduces the principle of consumer-paid services. At present the Chambers of Commerce are still funded by a statutory contribution from businesses in the region. In the future they will have to acquire a third of their income themselves. This means charging for part of the cost of services to new and existing businesses. To carry out their role as a provider of information, Chambers of Commerce will generally have a newssheet, one or more consultants for new businesses and information material.

One of the few organisations that provides information and advice to new businesses on behalf of the Government is the Institute for Small and Medium-sized Enterprises (IMK). This organisation, which has a national co-ordinating body also, has regional administrative agencies. The IMK's work involves giving courses for new businesses and advice to established businesses. In addition the Institute is sometimes asked by the relevant municipal authorities to review the business plans of start-up companies and entrepreneurs wishing to take advantage of the Social Security Assistance (Self-employed Persons) Decree (see below). The IMK receives several million guilders a year from the Ministry for Economic Affairs to give the course "Eigen Bedrijf" (Your Own Business).

Another example of an organisation funded and managed directly by central government are the Innovation Centres (ICs). These are designed to provide help in setting up new businesses in the technology sector, by providing specific information, advice and courses. The ICs and the IMK are currently in the process of merging. The ICs are less relevant to our target group, as new businesses in the technology sector are not usually categorised as self-employment.

One national organisation with a definite presence in the field of information and advice is the Tax Department. This has regional offices, which all come under the Directorate-General for Taxes in the Ministry of Finance. The Tax Department was reorganised in the early nineties. A customer-oriented approach has become general practice since the reorganisation, with services geared to inquiries from specific target groups, such as new businesses and traders. In this connection the regional tax offices have had an adviser for new businesses since 1992, information meetings are held for people setting up in business and there is an information line (Taxline for Businesses). The Tax Department now has a help-desk for new businesses in four regions.

The municipal authorities play an important role in providing information to businesses. For example the social services administer the Social Security Assistance (Self-employed Persons) Decree (see below). The municipal authorities are also central when it comes to licensing businesses, and finding premises and accommodation. The first steps are being taken towards setting up "one-stop-shops for business ", to provide information to new businesses and traders at local level in a more customer-oriented way. We can expect that early in the next century, one-stop shopping for businesses will have been implemented throughout the Netherlands. Good examples of local initiatives for job-seekers interested in self-employment can be found in Amsterdam (Stew), Leiden (SWL) and Assen (O2).

One development that is catching on in the Netherlands is the creation of foundations to provide local and regional information and advice to job-seekers considering self-employment. These are usually subsidised by the municipal authorities and serve various categories of new businesses that would not survive without an extensive support programme (information, advice, courses). Women, ethnic minorities, the long-term unemployed and refugees form the core of this target group. Many of the resulting new businesses remain small-scale and we can count the owners as self-employed. These local initiatives are found mainly in the larger municipalities in the Netherlands, those where the target group is present in considerable numbers.

As mentioned above, advice to new and established businesses is provided at regional and local level by many commercial organisations (banks, accountants, legal advisers, tax consultants, etc.). These organisations are also constantly working to streamline their services to new and established businesses.

Specific national initiatives in the field of information and advice

Various initiatives have been developed by central government, particularly in the last five years, to ensure that information and advice is more closely geared to the needs of applicants. One new development encouraged by the Ministry for Economic Affairs involves the establishment of Enterprise Centres. After a pilot period (in 1994/1995), this idea was promoted to the level of general policy. Enterprise Centres bring together all the advisory and information services available in a region. They enable new and established business owners to ask specific questions and be referred to the right place in an efficient manner. Enterprise Centres are usually found in the same premises as the Chambers of Commerce.

Another initiative involves pilot projects to promote collaboration between intermediary organisations for women business owners. The projects aim at groups such as women, who have been identified as a target of Government policy since the early nineties when it was found that they only made up a quarter of business owners. These projects operated in a number of regions in the mid-nineties and were designed to encourage collaboration between intermediary organisations in order to improve their services to women business owners. We should also mention the temporary expertise centre for ethnic minority businesses (Motorproject) subsidised by the Ministry for Economic Affairs in 1997. Promoting ethnic minority businesses has been a top policy priority for many years. Small business ownership among ethnic minorities has soared (from 20,000 in the mid-eighties to 60,000 now), while ethnic minorities are heavily over-represented among the self-employed.

3.3.2 Fiscal measures

All business owners need a good general economic climate as a precondition for doing business successfully. The government's main contribution to this is the creation of a favourable tax regime. This must firstly provide sufficient incentives for business owners and suitable net rewards for entrepreneurship. Secondly the level of taxation on company profits must not adversely effect the availability of financial resources.

Various policy initiatives have taken place in recent years to boost self-employment. The growing emphasis on entrepreneurship has been translated into specific measures to promote small-scale self-employment as well as entrepreneurship. The most important measures are:

- *Reduction of the lowest rate band for corporation tax*
Until 1994, businesses in the Netherlands paid 40 percent tax on the first NLG 100,000 of profit they made. Higher amounts were and still are taxed at 35 percent. In order to encourage capital growth among small and medium-sized businesses, the taxation rate on the first NLG 100,000 was reduced to 36 percent in 1997 and will be further lowered to 35 percent in 1998.
- *Raising the investment tax credit*
In the Netherlands, a certain proportion of business investment up to a maximum of NLG 515,000 is tax-deductible. The percentage that is deductible with regard to small-scale investment was raised in 1996. In 1997 the investment tax credit was a maximum of 24 percent in the lowest rate band for investments up to NLG 3600. This drops to 3 percent in the top (or tenth) rate band ranging from 475,000 to 515,000 guilders. The tax credit applies to investment in business equipment.
- *Small-business rule*
The small-business rule applies to businesses that on balance have hardly any VAT liability. The application of this rule may result in businesses paying less VAT or none at all. Three conditions applied to these rules in 1997. The amount of VAT due must be less than 4150 guilders, the business must involve a sole trader, partnership or general partnership, and the appropriate administrative obligations (collection of invoices) must be fulfilled.
- *Increase in tax relief for new companies*
Tax relief for new companies takes the form of an increase in the self-employed persons' allowance. This allows the newly self-employed to deduct a standard amount from their income tax. This amount is linked to profit and has five bands. The highest allowance (NLG 9825) applies where the profit is less than NLG 90,800; the lowest allowance (NLG 5705) where the profit exceeds NLG 102,440. This amount was increased by NLG 3628 for new businesses in 1997 and the allowance applies to all new businesses. Tax relief for new companies has also been raised.
- *Wider scope for depreciation in new businesses*
In 1996 it was possible (for the first time) for new businesses to deduct the full amount of their investment. In other words, the regular depreciation periods usually adopted by the inspector of taxes do not apply (e.g. three years for computers and 10-15 years for furniture).

3.3.3 Financing and lending

A number of schemes for the self-employed in the field of financing and lending are worth mentioning. These are:

- *The "Aunt Agatha scheme"*
There are additional tax incentives to encourage the provision of capital (including risk capital) by private individuals. One such incentive is the "Aunt Agatha scheme". Entrepreneurs (and prospective business owners) are often dependent on loans from family or friends when they need risk capital, particularly where smaller sums are involved. Private individuals can take advantage of this tax incentive, which is designed to encourage risk-bearing investment. Under this scheme new businesses, companies wanting to expand and new owners of existing businesses can borrow a maximum of 500,000 guilders for a

term of up to eight years. This is seen as a subordinated loan and has a redemption-free period of up to three years.

- *Social Security Assistance (Self-employed Persons) Decree*

The Social Security Assistance (Self-employed Persons) Decree (Bbz) came into force simultaneously with the introduction of the new National Social Security Assistance Act on 1 January 1996. The new regulations replaced the National Assistance (Self-employed Persons) Decree (Bz), which since 1987 had provided scope for assistance to self-employed people, whether they were just starting out or already established. Like the Bz, the Bbz has two objectives. The first is to prevent established and newly self-employed people from requiring social security assistance; owners of businesses that are in difficulties can take advantage of the scheme to inject new capital into the company. Or there may be cases where a self-employed person's income falls dramatically as a result of temporary circumstances (e.g. a disastrous period in farming), in which case it is possible to draw benefits for a limited time. Secondly the scheme is designed to provide people already drawing benefits with prospects of earning their own living by becoming self-employed. Anyone starting a business while entitled to benefits can take advantage of the scheme by obtaining a loan for business capital or as temporary income support; a combination of the two is also possible. In principle the money received is paid as a loan. The business capital is interest-bearing, whilst the income support is interest-free. The maximum business credit is currently 40,000 guilders and the maximum duration of benefits is 18 months. The levels for established businesses are different: 300,000 guilders and 12 months respectively.

The Bz scheme was evaluated recently (Social security and self-employment, January 1998, B&A Groep, The Hague). According to the evaluation, take-up of the scheme has increased from 1400 credit applications in 1990 to 2800 in 1996. The scheme also appears to be very effective. For example it seems that the businesses of applicants whose requests were approved were just as likely to survive as "regular" new and established businesses. At the end of a four-year period, two-thirds of the new businesses and three-quarters of the established businesses were still operating. Statistically, in most cases, these businesses employ just over one paid member of staff. The applicants are mainly in trade, the catering industry, repair work, and commercial and personal services. The scheme will be modified this year to make it more widely applicable, more efficient in its implementation and even more effective.

- *Melkert-3 Experiments"*

To promote employment growth, the current Minister for Social Affairs, Mr Melkert has introduced a number of additional employment measures. One of these is the Melkert-3 Scheme, which is actually an extension of the Bbz. This year municipal authorities were able to submit applications to the Ministry to take advantage of the scheme. The initial applications have already been approved. Broadly speaking the scheme consists of raising the credit limit to 60,000 guilders and releasing people from their obligation to apply for jobs during the period they are preparing to setting up in business. Applications are considered by the municipal authority and may be approved on an individual basis; the nature of the award may differ from one municipality to another.

3.3.4 Deregulation

The Netherlands is a heavily regulated country. There is an urge to regulate everything that happens in society. Over the years we have reached a situation where hardly any individual, business or institution can see the wood for the trees. The adverse effects of this current excess of rules are felt mainly by businesses, in the form of "hidden policy costs". This term refers to a whole range of costs which roughly speaking can be divided into two categories: compliance costs and the costs of restrictive trade practices.

Compliance costs are costs that businesses are forced to incur in order to fulfil obligations arising from the rules. These include administrative charges, expenditure in connection with extra investment, costs arising from necessary modifications to the production process, and spending on external advice. Studies have shown that the administrative financial burden is far heavier in relative terms for small businesses than larger companies; in 1992 the average cost per employee was NLG 7600 for small businesses. The costs of restrictive trade practices arise out of the fact that the regulations prevent the development of effective competition. Regulations of this kind interfere with the start-up and growth of businesses and hence job creation.

In 1994 the Government launched a major operation focusing on market efficiency and deregulation. This has involved examining the regulations with a view to reducing their damaging effects as far as possible, abolishing unnecessary restrictive trade measures and generally improving quality. New regulations are also assessed in advance for such effects. Furthermore in connection with the Large Cities Policy launched in 1995 (aimed at developing an integrated policy approach to issues specific to the cities), a programme was started in consultation with the cities in the Netherlands to explore the possibilities and limitations of specific deregulation efforts for the cities. This programme is mainly concerned with rules that restrict small and new businesses.

Three initiatives that are already under way are worth mentioning in this respect:

- *Shop Hours Act*
Shop opening hours used to be strictly regulated in the Netherlands, the number of hours shops could open and their closing times were controlled. A new act in 1996 changed all this. The basic principle behind the new regulations is that shop opening hours are a matter for traders. The rules limiting business hours by setting a maximum number of opening hours have been abolished and shops closing hours have been set at between 22.00 and 06.00 hours on weekdays. Municipal authorities are allowed to vary this by issuing exemptions and discretionary permits. In large cities particularly this happens fairly regularly (late-night and convenience stores). Furthermore the Act states that municipalities have the freedom to allow shops to open on 12 Sundays a year. Different rules may apply in recreation areas and large cities.
- *New Establishment of Businesses Act*
A new Establishment of Businesses Act came into effect in 1995. This repealed a whole range of specific rules, which used to regulate the establishment of new businesses in certain sectors, including hairdressers, building firms, travel agencies, laundries, furniture businesses and opticians. The regulations in question had been introduced over the years at the request of trade associations and applied to 84 different forms of commercial activities.

The fundamental principle behind the new system is what is known as the "basic business". In order to operate a basic business one needs to have reached a certain standard in general business skills (AOV diploma). Additional requirements apply to a number of commercial activities (industries involving building, installation work, means of transport and foods). Job-specific requirements may also be imposed in particular cases. The changes have made it easier to start a business in many sectors; above all there is now scope to expand outside the sometimes-narrow limits of one's own sector.

- *Empowerment zones*

Empowerment zones are currently being set up in disadvantaged areas in large cities. Businesses are being attracted to these zones with incentives such as the waiving of certain regulations and the availability of tax advantages. Specific facilities are also being established in these areas, often with the help of European grants (ADAPT, ESF), to promote the start of new, small-scale business activity (special help for new businesses and small-scale business accommodation).

3.3.5 *Specific national initiatives*

Mid 1997 saw the launch of a project called "Pilot projects for job-seekers interested in self-employment", which was commissioned by the Ministry for Economic Affairs, the Ministry of the Interior and the Ministry for Social Affairs. The creation of the pilot projects has provided scope for experiments with services to jobseekers interested in self-employment. During the projects' two-year term, ongoing changes can be made to the range of services they provide to clients and the way they work with partners in the field. . The projects' success rates will be closely monitored to gather information on the best types of services for job seekers interested in self-employment and how best to organise such services regionally and nationally (in terms of legislation and regulations). In preparation for the pilot projects, a survey to gauge the effects of known problem areas in the national regulations was conducted and the range of services available in relation to the support required by the target group was identified. The projects' results will be incorporated into the regular policy of the ministries concerned in two years' time.

3.4 **Qualitative aspects of self-employment**

The previous section has given an overview of state policies in various areas that are of relevance to self-employment. It has also shown, however, that many of these policies are of a recent date, that their implementation depends on regional and local authorities and that an integral scheme does not exist. Therefore data concerning the effects of these diverse policies that could be interpreted within the analytical framework that was elaborated by Meager (1993) is not available. Nevertheless, we will attempt to evaluate some qualitative aspects of self-employment, starting with the employment effects.

Treating the ensemble of policies as if they constituted a self-employment 'programme', what can we say about its employment effect?

Before attempting to find an answer to this question it is appropriate to point out that the flows into and out of self-employment differ in relation to the overall economic context. In the period 1986 - 1990 the inflows into self-employment averaged 10 percent a year in the European Union and outflows averaged 7.5 percent, while during the subsequent years of economic recession inflows averaged 13 percent and outflows 14 percent. The scale of flows

both into and out of self-employment varies markedly between the EU Member States. While most states conform to the kind of pattern just mentioned, the Netherlands are an exception. The rate of entry into self-employment over the years 1987-1990 was over 20 percent a year but did not increase during the recession years 1991-1994 as it did in all other Member States (European Commission 1995b, pp. 166-169).

Meager (1993) discusses the differences between EU Member States as regards the rate of inflow into self-employment. He shows that in all countries waged employment is the largest source of the self-employed, although its relative importance varies considerably, ranging from 31 percent of the inflow in Spain to 75 percent in Germany. The position in the Netherlands appears to be quite similar to Germany, as research by the Economic Institute for Small and Medium-Size Enterprises (EIM) shows (Van Uxem & Bais 1996).

EIM conducted panel research with two thousand people who started an enterprise in 1994. Two thirds of them were in waged employment when they started their firm, 8 percent were managing another firm and 3 percent were doing freelance work. 11 percent were living on social security benefit when they started whilst 7 percent were the head of a household (Van Uxem & Bais, 1996, p. 49). It follows that there is a direct effect of self-employment on the reduction of unemployment; but that the effect should not be overestimated. The relative number of social security clients has, as we noted before, risen in recent years due to policy measures.

Of course, indirect effects should be taken into account. First, new starters may leave a job behind which could be filled from the ranks of the unemployed, and second, new starters can create jobs through the businesses which they start. However the panel evidence points to these compensating factors having a minimal effect. The former indirect employment effect is weakened because a third of all new starters combine their self-employment with the job they were already doing. Initially this job takes more time than the enterprise and only gradually over the months does the number of working hours spent on the enterprise grow at the expense of the job. Two years after their start only half of new starters who initially combine self-employment and waged employment have left waged employment (Volkskrant, 22 January 1998). The other indirect employment effect of self-employment, job creation through new businesses is limited. During the first year: almost nine out of ten starters do not employ anyone (Van Uxem & Bais, 1996, p. 48). However, other casestudies show that in later years the growth of companies led by former social security clients can create a considerable employment effect (Evaluation of employment effects, SWL Leiden, 1993)

Apart from the potentially positive employment effects there are negative effects which should be taken into account. Meager (1993) discusses the issue of displacement, where new businesses started by the self-employed may affect existing businesses, by taking market share or driving them out of business. Assessing the employment effect of displacement is difficult because it depends on the fate of the displaced. Meager observes that displacement varies with the sector entered by the new self-employed, noting that it tends to be higher in crowded markets with low entry barriers. Thus, in one detailed study of displacement in a local labour market estimates of close to 100 percent displacement were obtained in the hairdressing sector. A final aspect of the employment effects of self-employment which should be taken into account are the number of self-employed people that have to cease trading and return to dependence on social security benefits. Of the panel of two thousand self-employed people between three to nine percent had ceased trading a year after their start. Almost half of them re-entered waged employment while the other half lived on social security benefit. The Chambers of Commerce estimate that the net employment effect of self-employment is between 10000 and 25000 jobs per year (Vereniging van Kamers van Koophandel 1997, p. 9).

To put this figure in perspective, it is informative to know that since 1993 the increase of total employment amounts to about 115000 jobs per year. One of the reasons for the relatively marginal inflow of the unemployed into self-employment could well be that the Netherlands do not have a scheme to help the unemployed find work in the form of self-employment by continuing to supply unemployment benefits while they start up their own business (European Commission 1995b, p. 18).

Another qualitative aspect of self-employment concerns the extent to which self-employment generates satisfactory income prospects for the self-employed or at least does not become a route to low income and marginalisation. .

Table 3.10 Extra annual gross income of new self-employed (Source: Van Uxem & Bais, 1996, p.79).

Less than 3400 ECU	4%
3400-6800 ECU	7%
6800 - 13600 ECU	12%
13600 - 22700 ECU	21%
More than 22700 ECU	<u>27%</u>
Total	72%

Another important factor that must be considered is that not all new starters depend on the profit, which their business generates for their living. As mentioned before, one third of all new starters also have a (part-time) job. In total, 72 percent of all new starters have an income from a source other than their business. Usually this additional income comes from the waged employment of the starter or his/her partner. Annual gross extra income ranges considerably, as Table 3.10 shows.

Of course, the extent to which their household income can be supplemented is a crucial factor for the self employed when it comes to preventing the risk of marginalisation. Of all new starters 43 percent indicate that their living is fully or largely dependent on the profit which their business generates. 37% of these have an income from their business which is sufficient to live on, a third have an income which is barely sufficient and one third have an income which is insufficient to live on (Van Uxem & Bais, 1996, p. 81). Fortunately the Dutch social security system offers the possibility of financial help to supplement their income from business where it falls below social security levels. The Dutch system gives the self-employed a real chance to build up their own business.

Whether the position of the individual self-employed person develops into one of actual marginalisation is dependent on the subsequent development of the business (follow-up data from the panel study is not yet available). One group, for whom a marginal position may be a very real threat, consists of those who cease trading and incur major debts in the process. As we mentioned earlier, three to nine percent of all new starters in the panel study had one year later. Of these three out of ten had incurred debts, for which they were privately liable. Half of these had debts amounting to less than 4500 ECU, 15 percent had debts between 4500 and 9000 ECU and 30 percent had debts between 9000 and 22700 ECU (Van Buxem & Bais, 1996, p. 126). Assuming that the last category would be most likely to face long term negative income effects from their failed business and extrapolating the findings from the panel study

to the whole population of new starters (50000 per year), we estimate that the number of (former) self-employed who are seriously threatened by marginalisation increases every year by at least 450 to 1350 persons. To this figure we should add those self-employed people who remain in business but whose business continues to generate an income which is insufficient to live on and who have no other source of income.

Comparing the position of the self-employed new starter with that of freelance employee, it seems that the self-employed are better off than at least some categories of freelancers. While 14 percent of all new starters are fully or largely dependent on their business and earn an income which is not sufficient to live on, no less than one third of freelance photojournalists earn less than the minimum wage (about 850 ECU net). This same survey learnt that one out of five photojournalists do not earn enough to pay for sickness, disability and pension schemes (Kohnen 1997).

The audiovisual industry traditionally employs many freelancer workers. Employment in the Dutch audiovisual industry, which includes among other segments broadcasting and the production of commercials and films, amounted to some 10000 jobs and an estimated 20000 freelancers in 1990 (NMB Bank/VAP 1990). Many employees and freelancers are attracted to this industry because of its glamour rather than the income it provides. In a survey of employees in various categories of jobs (light and sound technicians, production assistants, musicians, writers, actors, etc.) almost half of them indicated that they had some kind of flexible contract, which was mostly commonly a freelance contract. An average one in five earned a net annual income of less than 13600 ECU in 1991 (Van Klaveren & Posthuma 1992). A survey of actors showed that their average gross annual income varied between 7700 and 11360 ECU in 1991 (Attema 1992). Whilst a survey of freelance/self-employed graphical, interior and industrial designers showed that 40 percent of them generated less than 22700 ECU gross annual income, from which business costs had not yet been deducted (Van Puffelen & Schumacher 1991).

These examples show that in various job categories that traditionally employ a considerable number of freelance workers, significant proportions are in a marginal income position.

In spite of their income position in the first few years, the majority of freelancers exhibit high levels of job satisfaction. This is a feature which self-employed starters share: no less than 80 percent of all new starters indicated that they had more satisfaction in their work than they had expected (Van Uxem & Bais 1996, p. 83). However, this similarity between freelancers and self-employed does not extend to their views regarding the employment position they would prefer, were they given a free choice.

The great majority of freelancers would prefer permanent waged employment. Several research publications (Beukema 1995; Timmer & Doorman-Vreugdenhil 1992; Trommel 1987) have proposed a typology of flexible workers. Broadly it is argued they consist of: flexworkers who were forced into a flexible contract through redundancies and similar sorts of company strategies; flexworkers who accepted a flexible contract as next best to a permanent position because a permanent position with a sufficient degree of flexibility was not available; and flexworkers who chose flexible work voluntary. While the first two types would prefer a permanent waged employment position, only the third type would prefer to remain in their flexible contract. A similar typology was found in a British survey of freelance proof-readers, copy-editors and indexers, and this survey also showed that no more than ten percent of all freelancers would prefer to stay that way (Stanworth & Stanworth 1995). So, it appears that flexworkers and freelancers regard their own employment status predominantly as one of a waged worker in a comparatively deprived position.

On the other hand, self-employed starters regard themselves as entrepreneurs. The motive to be one's own boss drives nine out of ten new starters, and after half a year of running their own business only 8 percent do not know whether they would want to be an entrepreneur if they were to choose again (Van Uxem & Bais 1996, pp. 55, 83). Even of those starters who have had to cease trading 35 percent would opt for self-employment again, 48 percent did not know for certain whether they would want to become an entrepreneur again and only 17 percent did not intend to start a new business (Van Uxem & Bais 1996, p. 126). However, there are also indications that in some sectors of industry self-employment seems to grow as result of company strategies which attempt to externalise company risks by forcing employees into self-employment. For instance, there is a growth of self-employed truck-drivers who have bought - or have been forced to buy, as some truck-drivers, who wanted to join a trade union, say - their trucks from their former employer and whose income is basically dependent on orders from one company.¹⁰ There is a similar growth of self-employed without employees in the construction industry (FNV Bulletin, July/August 1997).

Given this clear difference in attitude between freelancers and the self-employed as regards their employment position, it is unlikely that a policy which targeted freelancers (and other flexworkers) because they fell into the grey area between waged employment and self-employment, would be successful in stimulating entrepreneurship. It seems that this attitude, which is common among the self-employed, could be a more critical factor to the success of policies aimed at stimulating self-employment than has been recognised. We will come back to this point in the final chapter of this report.

3.5 Conclusions

In the self-employed league table of EU Member States the Netherlands can be found close to the bottom. Since 1987 the absolute number of self-employed has grown more or less steadily but self-employment as a proportion of total employment has remained constant at ten percent until 1995 when it reached 11 percent. As in many other advanced economies self-employment is highest in the service sector. The analysis shows that while the total level of self-employment has increased, the level of self-employment in agriculture has slightly declined in absolute terms.

Over the past decade successive Dutch governments have given priority to increasing labour participation. Specific schemes for stimulating self-employment are scarce in the Netherlands however stimulating entrepreneurship is being taken increasingly seriously as a possible solution. The main policy measures can be clustered in terms of four lines of approach: information and advice, fiscal measures, financial and lending, and deregulation. Only some of the policy effects of these measures are evaluated. Information and advice seem to have a positive effect on stimulating people to start their own business and on the quality of their enterprise. Specific financial measures have a direct effect on the relative number of entrepreneurs who start and succeed.

Dutch panel research indicates that the employment effect of self-employment should not be

¹⁰ The panel research of new starters does not give information on this issue. As regards the dependency of self-employed on a major client, only information concerning the dependency on the *three* major clients is reported. 13 percent of the new starters depend for 50 to 80 percent of their monthly sales on their three major clients, and more than a quarter of the new starters are for more than 80 percent of their monthly sales dependent on their three major clients (Van Buxem & Bais 1996, p.79).

overestimated. Furthermore the self-employed face the risk of marginalisation, due to bankruptcy and insufficient income to live on.

The consequences of these findings with regards to relevant state policies for the future development of self-employment will be discussed in the final chapter of this report.

4. NATIONAL PERSPECTIVES II: BELGIUM

4.1 Introduction

Despite the fact that some 16% of the working population in Belgium are self-employed, the study of self-employment as such has received relatively little attention. This is largely because the category of the self-employed is a very broad one. Although lawyers and bakers have certain features in common - they are not bound by a contract of employment, nor are they civil servants, which means they are self-employed - the differences between their respective economic and sociological circumstances prevent them from being easily compared with each other. But even as separate sub-categories, the different occupational groups have been studied comparatively seldom.

In 1995 (according to the Annual Report of the RSVZ, the National Institute for Social Insurance for the Self-Employed), there were 771,385 self-employed people registered with the 17 social insurance funds in Belgium: 60% in the Flemish region, 30% in the Walloon region and the remaining 10% in the Brussels region. As the relative share of the total population in the three districts is 58%, 33% and 9% respectively, this means that people registered as self-employed are slightly over-represented in Flanders and Brussels.

The number of self-employed people registered with the social insurance funds has increased steadily every year since 1985, resulting in a rise of around 17% for the period 1985-1995. Of those registered, 72% are men, while 28% are women. For 72% of the total, their self-employed activities are their main occupation, 15% are self-employed in addition to other work, while 9% are still working for themselves after reaching retirement age. The following sectors are represented: services 8%, farming almost 12%, professions 17%, industry 22%, commerce 40%, fishing and miscellaneous occupations 1%. A total of 56,464 people started working for themselves in 1995, while 29,770 stopped work.

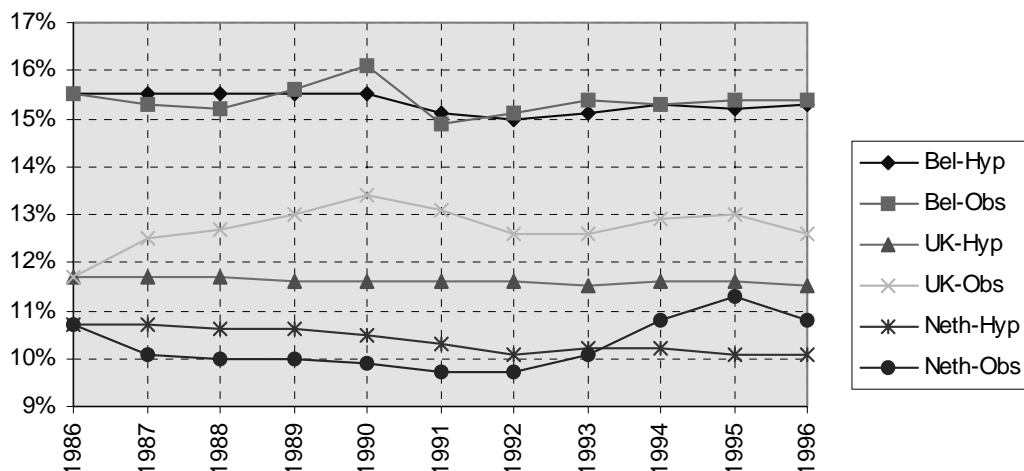
4.2 Trends in the level of self-employment from a macro-economic perspective

Upward or downward trends in self-employment between 1986 and 1996 do not necessarily mean that self-employment has become more or less attractive. It is equally possible that such trends can be explained by changes in the way the labour market is broken down into sectors or by the entry of women into the labour market, as the latter traditionally have a lower percentage of self-employed.

As regards the breakdown of the labour market into sectors, two opposing forces can be distinguished: on the one hand the decline in primary industry is leading to a decline in the percentage of self-employed people, while on the other hand the increase in the service sector is gradually starting to have a positive effect. Because of the relative decline in primary industry, the trend in this sector will have less and less impact on the labour market as a whole. The service sector is clearly the engine for potential growth.

In order to clarify the observed percentage of self-employed for these macro-economic changes, the graph below compares these observed values with the hypothetical level of self-employment. The latter is calculated simply by assuming a constant likelihood of self-employment in each sector, as well as for both sexes within these sectors, at the level measured in 1986. In this way the hypothetical self-employment percentage only reflects the impact of sectoral changes in the breakdown according to sex and the comparative importance of the sectors.

Figure 14: Hypothetical and observed self-employment rates, 1986-1996



The trends in Belgium, the Netherlands and the UK do not run parallel. The simplest case is that of the UK. The British labour market is characterised among other things by a relatively small farming sector with a low level of self-employment. This factor, combined with the sex ratio, means that a steady slow decline in self-employment was to be expected. In reality self-employment rose rapidly until 1990, then fell for several years and has since largely recovered. Hence the rise in the UK is completely separate from the macro-economic trends referred to above; in fact it runs counter to these.

The Dutch and Belgian situations are related to some extent, although the extent and precise timing of events differ slightly. Macro-economic effects provide part of the explanation for the changes in the levels of self-employment in both countries, although in Belgium more so than in the Netherlands. In Belgium a slight decline was to be expected and did in fact occur on the whole. The percentage remains more or less unchanged throughout the period, but with the changes in the sector this nevertheless means a slight net increase.

Theoretically the Netherlands should have been the most susceptible to macro-economic shifts, leading one to expect a decline of around 0.75% in the already low Dutch self-employment level. This expectation was mainly based on the relatively large farming sector and the fact that it has shrunk quite rapidly in the last ten years. In 1986, 30% of self-employed people in the Netherlands were working in farming, compared with only about 10% in the other two countries. And initially the level of self-employment dropped quite sharply, only to be followed by a sudden sharp rise starting in 1992, totally unconnected with the effects of the composition of the labour market.

It is also striking to see the very high levels of self-employment initially in Belgian and British industry (in Belgium possibly due to the building industry) and the very low Dutch figures in this sector.

Looking at the breakdown of self-employment into sectors, the UK has seen the fewest changes, with the British situation still characterised by a high level of self-employment in industry. In Belgium the level of self-employment in industry declined in favour of the service sector.

The Netherlands and Belgium now have a fairly similar distribution of self-employment, but the rise in the proportion of self-employed in the Dutch service sector is taking place at the expense of farming, while in Belgium it is industry that is experiencing a decline in self-employment.

4.3 The available sources and their analysis potential

The two most interesting sources are the Labour Force Sample Survey (LFSS) and the Panel Study on Belgian Households (PSBH).

4.3.1 The Panel Study on Belgian Households

The Meager Report stresses the need for flow data for the evaluation of policy measures designed to encourage self-employment among various target groups, including the unemployed. In their ideal form, such data are only to be found in what is known as a Panel Study.

Where Belgium is concerned, there is a Panel Study that has been taking place annually since the end of 1991. The sample for this study in principle includes enough self-employed people for our purposes. In the first wave 621 self-employed people and 86 assistants were interviewed, approx. 85% of them working full-time. In addition we have information on people who were self-employed in the past. A total of 4439 households were interviewed in the first round, amounting to 11,000 family members in all.

There have now been six rounds of interviews, five of which are already available in full to research centres, while the sixth is currently in the final stages of cleaning up the data. This study, the PSBH (Panel Study on Belgian Households) was set up essentially for the longitudinal study of households, but also aims to be representative at the level of individuals. Moreover it was carried out in collaboration with the European Community Household Panel (ECHP), which has a similar purpose. The PSBH has formed the Belgian segment of this European Community Household Panel since 1994. The PSBH is well documented and has its own Website providing all possible information about methodology and content. It remains to be seen what data are available in other European countries and for which periods.

Aspects covered by the PSBH include demography, household composition, education, professional activity, employment, income, allowances, expenditure, standard of living, health, social participation, how people spend their time, values, relationships, role patterns, housing, migration and mobility.

Questions specific to the study of self-employment include: category of self-employed (small business, farming, profession, head of company, wholesaler, etc.), number of hours per working week, hours worked on top of normal working hours, net income, any other

occupation in addition to self-employment and its status, income and working hours of that job, benefits. The assistants were asked a comparable set of questions. From the first round of interviews we also know the job category and education of the parents, educational level of the interviewee (qualifications and age on completing studies), start of first job, start of self-employment, status prior to becoming self-employed, etc. As these variables are updated annually, it is possible to follow the person's entire career in self-employment, relating this to all kinds of background characteristics.

Some examples of questions that can theoretically be answered with this data:

- What factors determine whether a person becomes self-employed? Parents' occupation, level of education, choice of studies.
- How do careers in self-employment begin, what was the previous status of self-employed people? Apprenticeship, courses, unemployment, part-time self-employment, a secondary job working for oneself.
- What factors determine how long people remain officially self-employed, how do careers in self-employment come to an end? Category of self-employed, background variables.
- How do certain job characteristics vary with the type and duration of self-employment? Pressure of work, income, etc.
- Analysis of people with more than one job, including work in self-employment: which people combine jobs, for how long, income, hours of work.

A wide variety of other issues can of course be discussed in connection with the available variables, and other areas may also be included: self-employment and family life, health, housing, values, regional patterns, etc. In fact the only limitations lie in the number of self-employed people and the period covered: very detailed cross-correlations and analyses usually present a problem when specific groups are targeted in sample studies. As regards the observation period, we do have information about a number of basic variables prior to the initial survey (e.g. previous job), but we do not usually know the movements between the initial situation and the present job. This means that we do not know who has gone through more than one transition to a different type of employment after a period of self-employment. And if the start of self-employment lies outside the observation period, obviously we will also not know the income, working hours, etc. at the start of self-employment.

4.3.2 *The labour force sample survey*

The LFSS also provides a number of opportunities for further study of the inflow into and outflow from self-employment, despite the fact that we do not have genuine longitudinal data. This means that it is impossible really to follow individuals over time or reconstruct an authentic events history. In response to this problem, the LFSS includes fairly comprehensive retrospective questions: information is available about the situation (occupation + status) exactly a year before the survey (for people in work) and the former job situation (for unemployed people), provided this was not more than eight years previously, together with some vital data concerning the timing of the main transitions. Compared with the detailed questions about work, unemployment and education, the background information is very sparse (the themes of demography, family, etc. are scarcely represented, if at all).

Nevertheless this should at least allow us to estimate the annual inflow and outflow of the self-employed (at the time), differentiated according to the situation on leaving. By taking the fairly long series of such data that are available (assuming that no crucial changes have been made in the questionnaire) and correlating them with national programmes promoting self-employment, it should be possible to partially replicate the Meager analysis (although it will not immediately be clear whether displacement and deadweight have been covered in depth).

Comparing the two sources of data, the LFSS has the advantage of its longer history, a larger sample and a good European distribution, as well as the disadvantage that each individual is only surveyed at one point in time. Apparently the latter is about to change: the question about earlier participation in the survey (1997 questionnaire) suggests that attempts are being made to make at least part of the sample into a regular panel.

The PSBH combines the panel aspect with a far more detailed interview. Furthermore the accessibility of the national LFSS data sets probably presents additional problems; how far similar problems apply to the European Household Panel remains to be seen.

4.4 Some policy aspects

In view of the findings that SMEs account for more than half the self-employment in Belgium, the government (as in most other European countries) has taken measures since the eighties to encourage self-employment as one way of combatting unemployment. In addition to this characteristic of the employment situation, the fact that there are differences between SMEs and large enterprises in terms of employment dynamics has influenced the government's policy options. Thus there is evidence that SMEs created more than 175,000 jobs in the period 1980-1992, while 90,000 jobs were lost in large enterprises in the same period (NCMV (National Christian Association for the Self-Employed) :8). Business start-up grants, inexpensive loans (het Participatiefonds (Investment Fund)), formulas for reducing social security contributions, opportunities for career breaks to start one's own business while retaining the right to unemployment benefits in the event of failure, are all part of the arsenal of incentive measures.

The officials whom we interviewed at the NCMV and the SVMB (Social Insurance Fund for Self-Employed and Professional People) see both positive and negative aspects to these measures. It is of course positive that the barriers to self-employment are being removed. An increase in self-employment fits in with the widespread wish for great independence, while the SMEs with their smaller-scale, more interdependent position in the economic fabric provide a counterbalance to excessive concentration of power with large enterprises and, finally, SMEs create the potential for flexibility in a labour market that tends to be rigid in its functioning.

However, a negative aspect was also mentioned. Because the start-ups are not always of a high quality, there are a large number of failures. Many people entering self-employment are not properly prepared for their future tasks. In fact this is one of the main concerns of organisations for the self-employed in general. Our contacts defined two gaps in particular which need attention in the future. The first is the lack of external know-how among self-employed people (including new entrants), many of whom have no knowledge of management techniques, environmental regulations, etc. And secondly there is the need for training (including further

and ongoing training) among the self-employed.

We have the impression that organisations for the self-employed have identified these two gaps as priorities for future action where their policy options are concerned, rather than aiming at unbridled expansion of self-employment in terms of quantity or asking the government to stimulate such uncontrolled growth via all kinds of measures. This conclusion is reinforced by the emphasis that our contacts placed on other qualitative aspects of the social status of the self-employed. Two dimensions were stressed in this connection: the specific nature of this status and certain limitations to it.

The specific nature of the social status of the self-employed comes out mainly in the fact that, unlike an employee, the income of a self-employed person is not only for consumption and building up a certain reserve but also for investment. This additional obligation implies a trade-off: whatever is spent on investment cannot be spent on social insurance contributions. This is why the social status of the self-employed has certain limitations, based on the need to operate with fewer financial resources.

This means a difference of emphasis in defining the proper social status of someone who is self-employed compared with an employee or civil servant. The "voluntary supplementary pension" and the "guaranteed income" in the case of sickness and disability, which is the subject of discussion at present, are examples of responses to the specific nature of and limitations to the social status of the self-employed.

However, in the context of current issues in the project "Growth and patterns of self-employment", a number of other aspects may be of greater importance. Two crucial components were emphasised by our contacts, namely the quality of the work and the issue of the necessary typological refinement with respect to self-employed people.

As regards the first, they stressed an issue clearly connected with the specific nature of the social status of the self-employed: the importance of child care and expanding its availability. Another problem is the relatively high level of on-the-job injuries in SMEs compared with larger companies. The higher level of risk in SMEs (to a considerable extent due to the fact that large companies "farm out" their risks to smaller companies and/or temporary employees) requires a higher degree of vigilance as regards safety and health aspects (which naturally increases the costs) and also tends to give SMEs rather a negative image.

In the second place there is the problem of the various categories of self-employment. The current categories (self-employed, assistant, self-employed over retirement age, main occupation, secondary occupation) used in the statistics are hardly analytical and are in sharp contrast with the increasing diversity of work done by the self-employed. It is particularly difficult to study the dynamics of the organisational and other new forms of self-employment based on the available data (i.e. the data processed up to now).

4.5 Conclusion

Based on the household panel study and the labour force survey, we can perform fairly sophisticated quantitative analyses for Belgium. Representative flow data on the self-employed are available via the panel study, allowing us to study the inflow and outflow dynamics in some detail. Furthermore the nature and structure of the data provide enough leads for further thought about more precise typologies (and hence better measuring instruments).

If it were possible to carry out an actor-oriented study of the quality of the work and conditions of employment in addition to a comprehensive analysis of the available survey material, it would be possible to produce a meaningful scientific and policy-oriented contribution, at any rate for Belgium.

5. NATIONAL PERSPECTIVES III: THE UNITED KINGDOM

5.1 Introduction

The purpose of this essay is to provide a snapshot of the climate for self-employment in the UK. There is a tendency in the UK, popularised by the Conservative Government of the 1980s, to regard the self-employed primarily as entrepreneurs or businessmen. According to this view, the self-employed are owners and proprietors of firms. However, there is another approach that sees self-employment as an alternative to employment and therefore primarily a labour market phenomenon. Neither approach is entirely satisfactory; it is clear that income from self-employment is not derived solely from labour input, but generally includes a return from capital as well. However, the assumption that all self-employed individuals are business-oriented rather than simply working on their own account is difficult to support, particularly in the light of the preponderance of 'zero class' businesses in the UK.¹¹

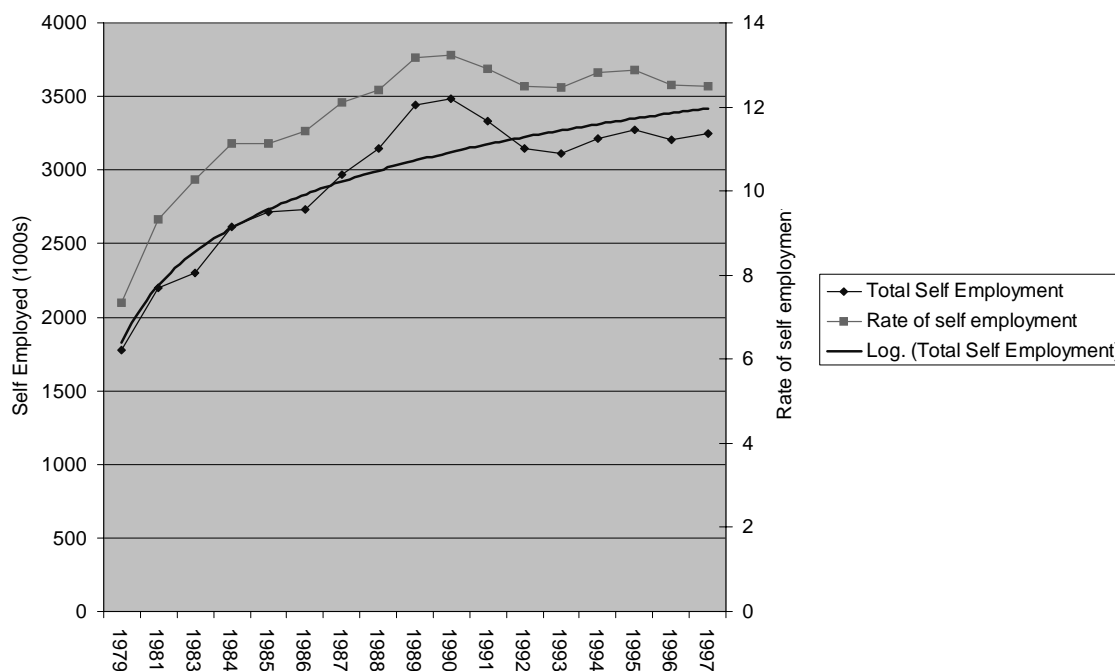
Meager (1995) draws on both traditions to establish what he terms a 'schema' of interrelated external influences that may account for changes in the levels and rates of self-employment and the impact of self-employment policies on these changes. He argues that differences in the legal and institutional environments are crucial to understanding the effects of these influences.

In order to achieve its purpose, this essay must focus on the relationships between the self-employed and the various institutions with which they interact, and on how those relationships are regulated. To achieve a full picture, it will be necessary to consider the self-employed both as individuals in the labour market and as small business proprietors. The first step is to find out what statistical information is available on the self-employed and small businesses, and what the quality and content of this information says about the self-employed. Two categories of institutions must then be considered. The first category consists of bodies that represent the self-employed and small firms, either as individuals or as small business owners, and here we must consider what the nature of these organisations tells us about their members. The second comprises the specialised government agencies that assist and regulate the industry, and here we must look at the kinds of schemes they operate on behalf of the self-employed. In each case, we will need to consider what contribution is made to the legal and institutional framework for the self-employed. Finally, we will focus on the quality of self-employment and the issue of teleworking.

¹¹ 'Zero class' is the term used by the DTI for businesses with no employees.

5.2 UK Self-Employment Statistics

Table 5.1: Number and rate of self-employment in the United Kingdom, 1979 - 1997 (source: Labour Force Survey / Eurostat)



The graph plots the number of self-employed people and the rate of secure employment as a percentage of the total employment count¹². It shows strong growth in both the rate of self-employment and in absolute numbers for the period from 1979 (7.34%) to 1990 (13.23%). From 1990 to 1997 the rate stabilises at 12-13%, whilst absolute numbers fall from 3.4 million in 1990 to 3.1 million in 1993, and then recover again to 3.2 million by 1997. The statistics used in the graph are drawn from the Labour Force Survey, which is one of a number of potential sources of information about the self-employed in the UK.

5.3 What statistics are available in the UK?

5.3.1 Labour Force Survey

The labour force survey (LFS) is a sample survey of households in the United Kingdom that provides an articulated view of the labour market on the basis of internationally agreed ILO concepts and definitions. The LFS includes a wealth of demographic information, enabling people's economic status to be cross-referenced with other details such as their age, occupation, ethnic origin or qualifications. The main limitations of the LFS are, firstly, that

¹² These figures are taken from the LFS survey conducted in the spring of each year. The figures are for GB only (i.e. they exclude Northern Ireland).

as a sample survey it is subject to sampling error, and, secondly, that respondents are required to define their own occupational groups. Given the difficulty in establishing a precise definition of 'self-employment', this second aspect may be particularly cogent.

5.3.2 *Income Tax Data*

The Inland Revenue is responsible for collecting income tax payable by UK taxpayers. The liability of the self-employed to pay UK tax is assessed under Schedule 'D' of the Tax Management Act. Schedule 'D' is divided into six cases, of which only the first two are of direct relevance: Case I concerns 'profits of trade', whilst Case II concerns 'profits of a profession or vocation not dealt with under any other schedule'. The annual statistical guide to the activities of the Inland Revenue provides a summary of self-employment income liable to tax, broken down in the following ways: by range of self-employment income and industry group; by liability to different rates of taxation; and by income group. In each case, the number of individuals and the mean amount of tax paid is recorded. However, the data includes all those who have a self-employed income which is liable to income tax. This may lead to considerable double counting, as self-employment may not be the main source of income for many of these people.

5.3.3 *Social Security Records*

The UK operates separate arrangements for self-employed people's social security contributions. Employees are liable for class I contributions, which are actually paid in part by their employer. The self-employed pay a flat rate contribution (Class II) and may also be assessed for class VI contributions, which are assessed on profitability and are collected along with the individual's tax liability. The annual abstract of official statistics publishes the total numbers contributing to each class. In theory all self-employed people must pay these contributions. However, the figures that are published are extremely low compared to other sources, so it may be that this rule is ineffectively enforced.

5.3.4 *VAT registrations*

Statistics are published annually by the Department of Trade and Industry on the number of firms registering and deregistering for VAT. The figures published are for the initial numbers, registrations and deregistrations, and the net changes in numbers from year to year. Unfortunately, only businesses with a turnover exceeding £48,000 within any 12 month period are required to register: below this level registration is voluntary. Furthermore, several significant changes have been made to the system since 1994, making direct comparisons with data for earlier years unreliable.

5.3.5 *The Interdepartmental Business Register (IDBR)*

The IDBR is a new register maintained by the Central Statistical Office. Like the VAT statistics on which it is partly based, it measures the number of firms rather than the numbers of self-employed individuals. By combining VAT information with PAYE records it is able to build up a fairly comprehensive picture, including even the smallest business. However, it still relies to some extent on estimates from the LFS to complete the details on small businesses that have low turnovers or that operate in VAT-exempt industries.

5.4 What definitions of self-employment underlie these statistics?

There are two different types of statistical data. The LFS, income tax records and social security contribution records are based on individuals, whilst VAT and IDBR statistics apply to businesses, and as such are not based on an underlying definition of self-employment. Of the first three, the LFS relies on the respondents' self-definitions. Liability for income tax and social security contributions is based on a common underlying definition of self-employment derived from the legal definition applied by the courts. People must pay Class 2 contributions in respect of each week of self-employment, including holiday periods, if they: are normally self-employed *and* are aged 16 or over *and* are under pensionable age *and* have not been exempted from liability to pay these contributions on the grounds of small earnings. The definition used for self-employment is: 'people who are in business on their own account'. Specific examples are given:

- shopkeepers, members of professions in independent practices such as solicitors, barristers, architects;
- doctors and dentists, whether on NHS Family Practitioner Committee lists or in private practice;
- authors and artists;
- farmers, crofters, smallholders.

However, the root of the definition is the view taken by the courts. In practice, a whole body of employment law has built up around this issue, often as a result of cases brought against employers claiming exemption from employers' social security contributions on the grounds that their employees were actually self-employed. A full explanation of the case law involved would require an essay in its own right, but the following extract from an Inland Revenue leaflet gives some pointers and is interesting to compare with the definition of employment given later.

- *If a worker supplies any expensive/heavy equipment which is necessary to do the work, this suggests self-employment.*
- *The greater the degree of financial risk for the worker, the more likely it is that he or she will be self-employed.*
- *If a worker has the freedom to hire and pay someone else to do the work, that suggests self-employment.*
- *None of the indicators listed above is conclusive."*

The last line is indicative of the frequent changes in the law with respect to the definition of employment.

5.5 What do the statistics tell us about levels of self-employment?

Figure 15: Employment and self-employment in the UK (source: LFS / Eurostat)

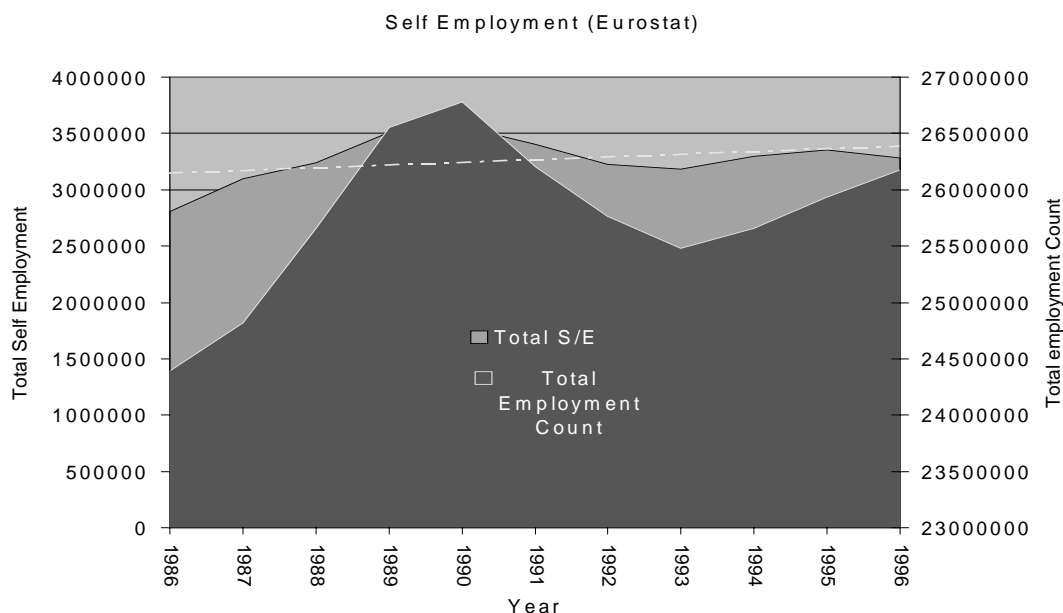


Table 5.2 Employment and self-employment in the UK, 1986-1996 (Source: Eurostat)

	Total		Total
	Self employment	perct.	Employment
1986	2805775	12	24389620
1987	3097591	12	24816290
1988	3239034	13	25659510
1989	3512383	13	26555600
1990	3559894	13	26782560
1991	3401913	13	26206890
1992	3226164	13	25765520
1993	3183772	12	25477910
1994	3299486	13	25656750
1995	3354682	13	25936230
1996	3284772	13	26176790

Table 5.2 shows the relationship between the total numbers of self-employed people recorded by Eurostat¹³ for the years from 1986 to 1996. The graph (Figure 15) shows that the maximum

¹³ Taken directly from the UK LFS survey.

and minimum totals in each series occur simultaneously, demonstrating a clear relationship between the two series. The dotted trend line is a linear regression showing steady growth in the total number of self-employed people over the period as a whole. The implication is that the total number of self-employed people is only growing at the same rate as the total number of people in employment. This conclusion is borne out in the table; the number of self-employed people, expressed as a percentage of total employment, is fairly static at 12-13%. This pattern is repeated in individual sectors; in agriculture it is steady at 1%, in industry it has been stable at 4% since 1990, and in the service sector it hovers between 7% and 8%.

The most recent LFS, conducted in the spring of 1997, yielded a seasonally adjusted total UK employment count of 26,751,¹⁴ 3,349 (13%) of whom were self-employed. The latter category breaks down into 2,493 (10%) males and 856 (3%) females. This represents an increase of 446 (1.8%) in the total number employed and an increase of 54 (1.6%) in the total number of self-employed people over the period from spring '96 to spring '97. Using standard regional classifications, the South West has the highest proportion of self-employed workers at 16.4%, while Northern Ireland has the lowest at 10.2%. There is a noticeable tendency for the more rural areas, such as the South West, South East¹⁵ and Wales, to have high rates of self-employment, whereas these rates are below average in large urban centres such as Northern Ireland, the North West and the Midlands.

Figures from the LFS (spring 1994) published in Social Trends 26 (1996) show that of the ethnic minorities, people from the Pakistani or Bangladeshi ethnic groups are more than three times as likely to be self-employed as those from the Black ethnic group, where less than 7% of those in employment were self-employed.

The DTI regards VAT statistics as a good guide to the patterns of business start-ups and closures. The figures for 1996 reveal that 168 registrations were added to an initial stock of 1,600 and 157 removed from it, representing an 11% inflow and a 10% outflow.¹⁶ The Small and Medium Enterprise (SME) statistics compiled by the DTI from the IDBR give an interesting snapshot of the business community in the UK. There were an estimated 3.7 million businesses in the UK at the start of 1996. Over 99% were small businesses employing fewer than 50 people, including 2.5 million (68%) self-employed workers with no employees. Five out of every six businesses are run by the self-employed (Maratos 1997).

5.5.1 *Homeworking and Teleworking*

The LFS records that in the spring of 1995, 698,000 employees and self-employed people were working from their own homes in their main job, of whom 473,000 were female and 225,000 male. Over a quarter (342,000) of all employees and self-employed people with a second job worked in their own home or used their home as a base in their second job, whilst 112,000 worked for an outside organisation. Among those working from home, either as employees or in self-employment, 72% were found to have managerial, professional, technical, clerical or secretarial occupations, which could be taken as an indication of the extent of teleworking.

¹⁴ Figures are in thousands unless stated otherwise.

¹⁵ Excluding Greater London.

¹⁶ Labour Market Trends Nov. 1997, compiled by the Government Statistical Service.

5.6 Professional bodies and trade organisations

UK professional bodies and trade organisations that represent the self-employed and small businesses occur in three basic types: umbrella organisations, membership of which is open to all regardless of the nature of their business; trade organisations that specialise in particular industries or trades; and professional bodies that are only open to suitably qualified individuals.

5.6.1 *Umbrella Organisations*

The Federation of Small Businesses is one of a number of national organisations aimed at the self-employed, or small business owner/directors. It is a non-profit-making organisation solely supported by subscriptions and donations from its claimed membership of 100,000 small businessmen and women. Subscription costs include a flat rate registration fee and a sliding scale membership fee with six bands ranging from £60 for sole traders with no employees to £500 for firms employing more than 100 people.

The Federation maintains professional staff at its press and parliamentary offices near Westminster and in Glasgow, Wales and Northern Ireland; at its administration office in Lytham St Anne's, Lancashire; and at regional offices in Bristol and Birmingham. These offices are supported by 30 regions and 200 branches run by small businessmen, who donate their time to the Federation.

Services to Members

The FSB offers telephone advice lines 24 hours a day, 365 days a year to provide information, guidance and help on legal matters such as employment law, tax matters including VAT, National Insurance and Department of Social Security regulations.

The FSB runs a member protection scheme which guarantees payment of up to £50,000 in respect of legal fees and fees for other professional services incurred while defending actions brought against its members in respect of: unfair dismissal, infringement of health and safety regulations; statutory sick pay and employee tax liabilities; criminal prosecutions and motoring offences when in connection with the individual member's business and statutory licences. A similar amount is available for members to pursue actions themselves against others for damage to property. The FSB will pay an unlimited amount in respect of Industrial Tribunal awards made against a member, and will even compensate members up to £100 per day in respect of compulsory jury service.

The FSB has negotiated preferential rates on a range of insurance services including private health care, life insurance and breakdown recovery. It also produces two magazines: one appears bi-monthly and is devoted to small business matters, while the other is issued regionally and gives details of regional and branch meetings, names and addresses of local officers, and news of local campaigns.

Representation of the industry

The Federation operates as a non-party political pressure group that campaigns for greater deregulation in the sector and special consideration of the small business community's needs. Federation press and parliamentary officers pursue these objectives through news releases and reports to the local and national press, TV and radio. In addition, Federation Committees (run by voluntary members with specialist knowledge) produce detailed reports and recommendations that they submit directly to the appropriate Government departments. The Federation has taken test cases to the House of Lords and the European Court of Human

Rights.

Recent campaigns in which the FSB has been particularly vociferous include the abolition of the laws on Sunday trading and the problems created for small business by the late payment of bills.

5.6.2 Trade Associations

Trade Associations are found in many industries with large numbers of small firms (often sole traders): estate agents and removal contractors, financial and business services, travel agencies and tour operators, garages, car hire firms, driving schools and even hairdressers. However, they are most ubiquitous in the construction industry.¹⁷

Small and medium sized building firms, by their very definition, spend their time in direct contact with their clients. There are a wide range of trade associations to represent their interests within the construction industry and the industry's interests in wider society. Some restrict membership to particular crafts, such as the Institute of Plumbing or the Electrical Contractors' Association; others are open to individuals or firms in the trade generally. Typical of the second group is the Federation of Master Builders (FMB).

Services to members

Members can obtain advice from regional offices over the telephone on matters such as government legislation, contractual problems, industrial relations, wages and conditions and numerous other matters affecting the building industry, and small and medium sized building firms in particular.

Membership of the FMB gives access to the Research and Information Department at the FMB's head office in London. The Research and Information Department publishes information on a monthly basis in the FMB's journal 'Masterbuilder', which is supplied free to all members. The Research and Information Department also gives legal advice on problems of a contractual nature through a special helpline.

Through insurance brokers, the FMB can help to arrange suitable low-cost insurance cover for specific contingencies such as death, loss or damage. The FMB is actively engaged in establishing a certification scheme based on international standards. Certification is seen as important for tendering purposes and as a way of giving peace of mind to domestic consumers. The FMB also runs a credit control service and a trade debt recovery service. The FMB has produced its own standard forms of contract for use by members: 'Quotation for Building Works', 'The Small Works Contract' and 'Labour Only Sub-Contract Forms'.

Representation of the industry

The regional offices maintain close contact with all the regulatory bodies in their region. This is seen as particularly important in respect of local authorities' requirements, health and safety regulations and the wide range of other local issues affecting small and medium sized builders. The Building and Allied Trades Joint Industrial Council (BATJIC) is based at the FMB's London headquarters. The construction industry encompasses a diverse range of activities, hazards, materials, techniques, employment patterns and contractual relationships; there is a need for knowledge of industrial relations legislation. This is particularly true for small and medium sized builders, which - by the very nature of their activities - cannot afford to carry

¹⁷ No fewer than 42 are listed in the author's local business directory.

industrial relations experts on their payroll.

As well as its role in industrial relations, BATJIC also operates the National Joint Training Scheme for Craft Apprentices and Trainees in building occupations. This scheme provides for the registration of apprentices and trainees, and is recognised for payment of grants under the Construction Industry Training Board's grant scheme. BATJIC also sponsors holiday pay, retirement benefit and death benefit schemes applicable to both directors and employees.

Health and safety matters are firmly on the agenda of the construction industry. From January 1993, new regulations arising from the requirements of European Commission Directives came into force. The FMB has been particularly active in this area, through the European Builders' Confederation to which it is affiliated, to ensure that the 'special circumstances' applicable to the construction industry are specifically addressed, particularly in relation to small and medium sized builders.

A particularly interesting recent development is the Builders' Resource and Information Exchange (BRIX). BRIX is a technological initiative involving private industry, government and construction organisations, including the FMB. It focuses on the business information needs of building firms. The site contains the details needed by builders to run their day to day business, including information from local and central government, product manufacturers, suppliers, industry bodies and legal and accountancy advisors. The goal is to provide builders with the ability to carry out their day to day administrative work electronically. The project incorporates a national campaign to help building firms use the technology. The campaign will include a quarterly magazine, road shows, seminars and training programmes.

5.6.3 Professional Bodies

Most UK professional groups have their own professional body: doctors have the British Medical Association, lawyers the Law Society, and there are similar bodies for dentists, chartered surveyors, chartered accountants and veterinary surgeons.

The Council of the Royal College of Veterinary Surgeons (RCVS) is responsible, through its Registrar, for maintaining the Register of Veterinary Surgeons. With a small number of exceptions, only those whose names appear in this Register may carry out acts of veterinary surgery in the UK. Members of the RCVS may use the letters 'MRCVS' after their name to indicate that they are registered veterinary surgeons.

Services to members

RCVS members are allowed free use of the Wellcome Library, whose purpose is to provide up-to-date information to all members of the College. Most books and journals in the library can be borrowed, with the exception of reference works and journals of abstracts. Members are also entitled to a free copy of the Register (published annually) and a copy of the annual report, a regular newsletter and access to free legal advice concerning veterinary matters.

Representation of the industry

The College has a dual role: representing the profession's interests to external bodies, and regulating membership of the profession.

The RCVS is fully engaged with the government in developing funding policy and in developing educational policy relating to veterinary medicine. It also provides representatives to the European Commission's Advisory Committee on Veterinary Training (ACVT).

The College is responsible for supervising veterinary education. Its main role is to carry out accreditation visits to veterinary schools whose degrees are registered with the RCVS. In the UK, these visits are co-ordinated with visits on behalf of the European Commission. The College is also responsible for administering the annual membership examination and for

organising Certificate and Diploma examinations.

Finally, the RCVS regulates professional standards through a disciplinary system of three committees. The Preliminary Investigation Committee is a statutory committee that is obliged to investigate any complaint against any member within its jurisdiction. The Disciplinary Committee is a statutory tribunal that considers the cases referred to it by the Preliminary Investigation Committee, and its constitution is regulated under the 1966 Veterinary Surgeons Act. Its membership is different from that of the Preliminary Investigation Committee. The Advisory Committee is not a statutory committee, but has the same composition as the Preliminary Investigation Committee. It advises members on matters of professional ethics. The College's ethical guidelines are set out in the RCVS Guide to Professional Conduct, which is revised once every three years.

5.6.4 What does the nature of these organisations tell us about the different types of self-employment?

Taking our three examples as representatives of each category, we can make some comparative observations. One of the more striking sources of divergence is the difference between the criteria for membership eligibility.

The FSB is open to all, from sole traders with no employees to medium sized firms with a hundred or more employees. The defining character of the organisation is its emphasis on enterprise; its members are seen as entrepreneurial businessmen and women. Although it offers a range of member services, it sees representing the industry as its primary role.

The FMB restricts its membership to the construction industry. Its members need not be self-employed, although - by the nature of the industry - they usually are. It has a more dualistic approach than the FSB; in one sense it fulfils the role of an employers' association, in that it actually negotiates industry agreements. However, the services it offers to its members are plainly aimed at the smaller firms and individual traders that are common in the construction industry.

The RCVS is effectively a closed shop; membership is only open to qualified veterinary surgeons who, in turn, are the only people who may legally practice their trade. Member services are largely of a professional nature, rather than taking the form of general advice.

This suggests a kind of bipolar model: at one end of the spectrum the FSB pursues deregulation and promotes fair competition between its members, while at the other the RCVS acts as a barrier to entry into the profession and seeks to enforce common standards. The FMB falls in between the two: it clearly has an agenda that includes the relaxation of industry regulation, but at the same time it also tries to promote higher standards and recognised professional competencies.

The widespread use of certification schemes by all forms of trade associations is particularly interesting in this regard. A quick scan of any local business directory reveals that any given business may subscribe to several of these schemes, which are primarily designed to reassure prospective customers. What may be less obvious is the extent to which these certificates also act as a barrier to entry for firms and individuals that do not possess them, particularly since a common requirement to be met before a certificate can be awarded is recommendation by an existing member.

5.7 What self-employment schemes have been set up recently, and what is known of their effects?

Meager's report (1993) to the European Commission (DGV) identifies two dichotomies in

public policies aimed at the self-employed and small businesses. The first distinguishes between policies aimed at the small business sector generally, termed 'industrial policies', and policies designed to directly influence the level and/or nature of self-employment, termed 'labour market policies'. The second factor to consider is whether the policies have national coverage, or only apply to particular locations or sectors.

In his report, Meager concentrates on policies that have national coverage and a clear labour market emphasis. However, the trend in policy-making in the UK is towards more regionally based provision, and the type of assistance given is increasingly likely to be based on industrial considerations. It is therefore perhaps appropriate to review the various sources of advice and support that are available to self-employed people and small businesses in the UK.

5.7.1 *National Organisations*

At national level, the main providers of support to small businesses and the self-employed are the Department of Trade and Industry (DTI) and the recently formed Department for Education and Employment (DFEE). Broadly speaking, the former is mainly concerned with industrial policy, whilst the latter operates policies aimed at the labour market. There are also several non-governmental sources of advice and assistance that operate at national level.

The Confederation of British Industry (CBI) aims to help create and sustain conditions in which businesses in the UK can compete and prosper. It supplies advice, information and research services to members, covering topics such as company law and employment legislation, training and education, and health and safety.

Many UK high street banks operate business support services, often in co-operation with other agencies. After all, it is in the bank's interest that business customers should remain solvent and financially viable. The services offered to small business people include free in-credit banking during their first year of operation, and free leaflets and booklets that provide advice on a variety of topics associated with establishing and running a business.

The Prince's Youth Business Trust and the Prince's Scottish Youth Business Trust are nationwide charities that offer specialist business counselling and help for young people wanting to start a business. These trusts can provide grants of up to £1,500 and facilitate start-up loans (up to £5,000 per business) to young people (aged from 18 to 29) who would otherwise be unable to raise the money they need to start a business. The Trusts particularly welcome applications from members of disadvantaged groups, such as ex-offenders, ethnic minorities and people with disabilities. They also provide ongoing advice, arrange training and offer marketing opportunities to the businesses they support.

Livewire, an organisation sponsored by Shell UK and over 200 local companies, is aimed at people aged under 25. It provides advice and help with business and marketing, and runs an annual start-up awards scheme to reward the achievements of young people new to business.

5.7.2 *Local Organisations*

There are around 400 Local Enterprise Agencies (LEAs) or Trusts throughout the UK, including 36 LEAs spread across Northern Ireland. The scope of the activities undertaken by each agency is broadly similar. Many provide workshops and office premises, run business advice clinics and help to find capital and other resources. They also run courses on marketing, exporting, book-keeping, tax and employing people and target programmes for minority groups.

Chambers of Commerce aim to represent and serve the interests of local businesses. Their services vary, depending on the size and affluence of the local Chamber. They frequently include opportunities for local business networking; lobbying local government and other organisations; and the provision of information and advice.

Training and Enterprise Councils (TECs) are independent companies formed by local people working for the benefit of their community under performance-related contracts with national government. There are 79 TECs covering England and Wales, a number of which have merged with their local Chambers of Commerce and are known as Chambers of Commerce, Training and Enterprise (CCTEs). TEC counterparts in Scotland are the 22 Local Enterprise Companies. The TECs' primary role is to provide training services to businesses, but some TECs may also provide financial support for business start-ups.

Some local authorities also run schemes aimed at helping the self-employed and small business owners. Cherwell District Council offers £250 to help with the market testing of new products or services, and a workspace conversion grant of £1 per square foot to encourage the conversion of redundant buildings. Oxford City Council offers grants and training for unemployed people to facilitate business start-ups. West Oxfordshire District Council offers a small business grant to assist with the establishment of new manufacturing or warehousing businesses.

5.7.3 *Labour Market Policies*

There are two major governmental labour market policies that may be expected to have an impact on the level of self-employment.

Enterprise Rehearsal

People who have been unemployed for more than 12 months can opt to receive training and financial support to assist their move into self-employment under the Training for Work Scheme. Eligible participants can either take a cash grant of £400, or remain on benefits plus £10 a week for the duration of the programme. An experienced business counsellor provides support on a weekly basis, with a formal discussion at the end of three months to plan for the future. An action plan is produced to provide further help from a flexible programme of tailored training and support during the first 18 months of trading. All those eligible for the Training for Work Scheme are eligible for Enterprise Rehearsal, and new businesses (trading for twelve months or less) may also qualify.

New Deal

The second policy is a labour market policy, which has an industrial policy for small business as a side effect. The New Deal is a Government proposal for tackling youth unemployment, by taking the long-term unemployed off welfare and into meaningful and sustainable employment. It is designed to be friendly to small businesses, which are seen as having growth potential for employment but as sometimes lacking the confidence and resources to take on extra staff to increase their potential market share. The New Deal offers an opportunity for small businesses to expand whilst receiving financial help with wage costs. Employers who take on young unemployed people (18-24) will receive a subsidy of £60 a week and a grant of £750 over six months to cover the cost of their training. The New Deal for young unemployed people starts in 12 Pathfinder areas in January, and goes live across the UK in April.

Other Labour Market Policies

Also of interest are policies aimed at disadvantaged groups. The Access to Work Programme meets up to 90 percent of approved costs over a threshold of £100 per year for self-employed disabled people. The programme also funds 100 percent of all approved costs in excess of

£10,000 over three years. Another programme, running only in the Oxford area at present, is the Ethnic Minorities Business Service. This service aims to encourage and help members of ethnic minorities to establish and expand small businesses, by providing confidential and independent advice and subsidised training to those involved in setting up new businesses. Another local initiative provided by a private company is a support programme for new and existing businesses, known as Business Launch. Business Launch enables participants to plan and start successful businesses whilst achieving a recognised national qualification.

5.7.4 *Industrial Policies*

The DTI Loan Guarantee Unit runs the Small Firms Loan Guarantee Scheme. The aim is to provide finance for small firms with viable business proposals that have failed to obtain conventional loans, because they lack either security or a business track record. The Scheme guarantees loans from banks and other financial institutions, granted for periods of between 2 and 10 years, amounting to between £5,000 and £100,000 (or £250,000 in the case of businesses that have been trading for more than 2 years). The DTI guarantees 70% of the loan (85% in the case of businesses trading for more than 2 years). In return for the guarantee, the borrower pays the DTI a premium of 1.5% per year on the outstanding balance of the loan. Eligibility is restricted to companies with fewer than 200 employees.

SPUR is another scheme run by the DTI. This scheme aims to help small and medium-sized enterprises develop new products and processes based on technological advances. Most awards involve a 30% grant towards eligible project costs; the maximum award available is normally £150,000 per project. Projects must involve at least £50,000 of eligible costs and last between 6 months and 3 years. Eligibility is limited to companies with no more than 250 employees. In addition to the national schemes, there is a range of regional schemes designed to encourage investment and innovation in parts of the UK that have been designated to receive special attention. Regional Selective Assistance offers grants covering up to 15% of the total capital cost of projects to either create new jobs or safeguard existing jobs. Regional Enterprise Grants cover 15% of the cost of fixed assets associated with investment projects, up to a maximum of £15,000, and are restricted to small firms with no more than 25 employees in Development Areas. Regional Enterprise Grants cover up to 50% of agreed project costs, with a maximum award value of £25,000. They are available to new firms or firms with no more than 50 employees that embark on projects to improve their products or processes.

5.7.5 *Policy Evaluation*

As Meager notes, policies aimed at the self-employed and small businesses often seem to suffer from a lack of clarity in their aims. Programmes that are designed primarily as labour market policies, such as the New Deal, can have significant features that more closely resemble industrial policies; while some of the DTI's regional grants do not exclude new businesses, and could be considered to affect the level of business start-ups. None of the policies currently available fully belongs in the group of labour market policies with national coverage described by Meager. However, the Enterprise Rehearsal scheme is the spiritual heir of the now defunct Enterprise Allowance scheme, which Meager subjected to considerable analysis.

The key reason why we might hesitate to include the Enterprise Rehearsal scheme in this category is that, in practice, its delivery is in the hands of local agencies. Overall responsibility for the scheme lies with the DFEE; however, it is provided through the TECs, which may well themselves do little more than co-ordinate the activities of other local training and enterprise agencies. Two considerations arise from this: firstly, the DFEE's priority is to move people into employment, and hence Enterprise Rehearsal is provided as one part of the Training for

Work scheme rather than as a separate initiative - as was the case with the Enterprise Allowance scheme¹⁸; secondly, there are considerable regional variations in the way in which the scheme is delivered.

Meager stressed three critical variables in his comparative study of schemes in the EU: their selectivity or otherwise, as reflected in their eligibility criteria; the closeness of the funding arrangements to those of the unemployment compensation system; and whether a programme primarily involves a capital or income subsidy. The table below highlights the differences between the Enterprise Allowance and Enterprise Rehearsal self-employment schemes.

Table 5.3 Comparison of UK self employment schemes

Name of Scheme	Enterprise Allowance	Enterprise Rehearsal
Eligibility	Unemployed for at least six weeks and receiving unemployment benefit or certain other benefits.	Aimed at those aged 19 to 24 who have been unemployed for at least 12 months under the Training for Work scheme. Existing businesses that have traded for less than one year may also be eligible.
Form of support	Weekly Allowance	Weekly Allowance/Capital Grant
Rate of payment	Flat rate of £40/week	Existing Benefit + £10 p/w or £400 one-off payment.
Duration of payments	Up to 52 weeks (66 at TECs discretion)	13 weeks if weekly payment.
Conditions for receipt of payment	Must have £1,000 of own capital and work at least 36 hrs/week. TECs can require business plan.	Those eligible for scheme must complete training period (2 days/ week for 8 weeks) and prepare a business plan to qualify for capital grant.
Support mechanisms	Awareness day prior to entry. Participants visited by officials at least once during the year. Option of three business counselling sessions during the year.	Compulsory 8-week business training programme, option of further support for up to 18 months.
Survival Rates	Of those who complete 12 months on the scheme 3/4 survive a further 6 months and about 2/3 a further two years.	No data as yet.

It is immediately obvious that the new scheme is considerably reduced in scope. The eligibility criteria are targeted much more explicitly at the young and the long-term unemployed, and the support period is much shorter. Another significant factor is the choice of support mechanism:

¹⁸ A search of the TEC and LEA websites revealed little attention to the 'Enterprise Rehearsal' scheme. Of 20 websites surveyed, only one mentioned it in any detail.

the option of benefits + £10 p/w is obviously closely tied to the benefit system,¹⁹ but the option of foregoing this completely in favour of a £400 capital grant is also available. This option leaves the new scheme 'sitting on the fence' in terms of Meager's third criterion.

Despite the reduced cost of the scheme, there is little evidence that the TECs have attempted to increase the number of applicants. This may partly be due to their increased commitment to moving the unemployed into employment rather than self-employment. As a part of the Training for Work programme, the scheme simply does not have the high profile enjoyed by the Enterprise Allowance scheme. It seems unlikely, given the reduced financial support it offers and the limited duration of that support, that it will prove as attractive as the Enterprise Allowance scheme.

Meager introduces two other concepts that must be borne in mind in any evaluation of schemes designed to encourage self-employment. 'Deadweight' is used to refer to those who would have become self-employed even without the scheme, whilst 'displacement' occurs where the new subsidised business simply forces an existing firm out of business. Meager argues that deadweight in the Enterprise Allowance scheme was as high as 40%, whilst the lack of capital grants led to new business start-ups occurring in high turnover industries with low barriers to entry, which in turn led to high rates of displacement. Targeting the programme at the young long-term unemployed could have allowed more generous capital grants to be given, since the overall budget would not have been so widely spread. Targeting does address the problem of deadweight, since this group tends to be under-represented amongst the self-employed, and if the grant had been a little higher it might have overcome the problem of restricted entry to the more stable industries. However, the young and long-term unemployed may not be the best equipped to survive long in self-employment anyway.

5.8 What is known about (regulation of) self-employed people's quality of life?

Whether we think in terms of small businesses or self-employed workers, there is evidence that it is the very lack of regulation of self-employment that motivates individuals to become self-employed in the first place. The FSB lobbies government for deregulation of industry, while the self-employed individual may be motivated by a desire for autonomy from the workplace control that he or she would face as an employee. However, conflicting forces are at work in the fields of employment protection and social protection, and these will expose the difference between the willing entrepreneur and the worker on his or her own account who may not be self-employed from choice.

5.8.1 *Legal Definitions*

The UK's statutory employment protection legislation applies only to those whose employment contract defines them as employees. UK courts have a battery of case law at their disposal that defines the difference between a contract of service (employment contract) and a contract for services (independent contractor). The case law has developed in relation to changing patterns of employment. Broadly speaking, these patterns can be identified by applying four tests. The control test asks whether the employer exercises control over the manner in which the worker

¹⁹ It is worth noting in passing that the figure of £40 p/w awarded under the Enterprise Allowance Scheme was in practice a fairly similar figure for most participants. In the UK today, unemployment benefit is around £35 p/w for under-25s.

carries out his or her work. The organisational test asks whether the worker's activities are integral to the business. The multiple test looks at the totality of the relationship: what is the duration of the contract, and is there anything to indicate that the contract is one for services? The most recent test is the entrepreneurial test, key to which are the concepts of risk, responsibility and profit.

The law relating to businesses recognises three categories that are distinguished by their liability to discharge the debts of the business. Individual sole traders are the most numerous, and in law they are seen as the embodiment of the business. The sole trader is solely liable to discharge the creditors of the business. Partnerships are most commonly found in professional occupations; here all partners in the firm are jointly and severally liable to discharge creditors, and hence any one partner can be held liable for all the firm's debts.²⁰ Finally, there are the Limited Company (Ltd) and Public Limited Company (PLC) structures, where the business is itself a legal entity and the shareholders (which can consist solely of a managing director and a company secretary) have only limited liability to creditors if the company goes into receivership.

The definitions of employment are important, since in the UK most employment protection regulation applies only to those who have a contract of service. Self-employed workers have no entitlement to statutory redundancy rights²¹, no access to unfair dismissal legislation or equal pay protection, and only limited access to anti-discrimination and health and safety legislation.

The last government introduced measures that relaxed some requirements in respect of health and safety regulations for firms with less than 20 employees. It is striking in this respect to note that deaths among the self-employed have risen by two-thirds in recent times, leading to calls for a review of the legal safeguards for self-employed workers, particularly to prevent unscrupulous employers from evading their health and safety duties²². In a recent case, however, the Court of Appeal ruled that a self-employed worker contracted to do building work who sustained an injury could claim against the contractor as if he had been an employee of the firm. In the ruling given in the case of *Lane v Shire Roofing Co.* (1995: IRLR 493), the judges said that it was a matter of public policy that the law on health and safety should be given the widest possible interpretation to ensure the safety of individuals at work.²³

5.8.2 *Social Security*

The basic structure of social security in the UK is common to the employed and self-employed, in the sense that both contribute to the same schemes. However, there are some differences in

²⁰ As an interesting aside, the IDBR counts partnerships as zero class businesses since they contain no employees. However, by definition they will contain more than one self-employed person. It is not uncommon for partnerships to encompass 20 or more individuals.

²¹ Labour Research, "Redundancy - the law and workers' rights", LRD Booklets "Redundancy", July 1997.

²² Labour Research, "Workplace deaths and injuries soar", LRD Green & Safety Matters, September 1997.

²³ Labour Research, "New rights for the self-employed", LRD Law Matters, October 1995.

the treatment of the self-employed within that system. Although the payment of social security contributions is compulsory for the self-employed, these contributions are not related to earnings as they are for employees. The self-employed person plays a flat rate personal contribution, and may pay a further contribution related to profits, as opposed to income. The self-employed are not entitled to statutory unemployment benefits that are based on contributions.

They may qualify for other forms of social security payments on the basis of low income whilst working: however, the rules governing this are particularly obfuscatory. One especial difficulty is that most require the self-employed person to produce at least one set of accounts in order to assess their income. Clearly this will be difficult for the newly self-employed to arrange, so they may be deprived of assistance at precisely the time when they most need it.

However, they do remain entitled to those aspects of the welfare system in the UK where provision is universal; access to the National Health Service, family allowances and the basic state retirement pension. UK employees are obliged either to contribute to the state earnings-related pensions scheme or a recognised company or occupational scheme, or to contract into a private pension system. The self-employed are not compelled to make pension contributions, but many do make private arrangements. Some banks and other financial institutions operate schemes that are specifically aimed at the self-employed.

The self-employed are entitled to invalidity benefits on the same basis as employees: namely, that they are medically unfit for work. They are not eligible for occupational schemes that give specific benefits for illness or injury in relation to specific occupations. Although in theory they are eligible for short-term sickness benefit, they are required to show that there is a break in their normal pattern of earnings as a result of incapacitation. In practice, this means that they must have worked for fewer than 16 hours per week on average over the preceding year, and that the business is no longer a going concern.²⁴

Income figures for self-employed people need to be treated with some caution. The lowest income bracket includes many taxpayers whose self-employed earnings are not their main source of income; for those earning up to £1,000 in self-employment income (69,000), this represents less than 10% of their total taxable income from all sources. Even in the highest bracket, self-employed people's income is often supplemented by income from other sources. Using data from the same source, the mean level of total income was £15,000 in 1994,²⁵ of which 79% arose from self-employment.

Earlier data collected in the UK in 1991 (Meager et al., 1994²⁶) reveals that whilst at that time

²⁴ "Social Protection in Europe", chapter 6, "Social protection and the unemployed", European Commission DG V, 1995.

²⁵ Average annual earnings for all full-time workers stood at £14,700 in 1990, so this figure from 1994 is almost certainly below average earnings and well below average male earnings: this is probably all the more relevant, given that self-employed men outnumber self-employed women 3 to 1.

²⁶ Meager N. et al, "Self-employment and the distribution of income", IRF, York 1994, in "Social Protection in Europe", chapter 6, "Social protection and the unemployed", European Commission DG V, 1995.

self-employed people had higher average earnings than employees, the distribution of their income was heavily skewed. The self-employed, who made up 9% of the overall total, accounted for 12.5% of those in the lowest decile of incomes and 15% of those in the highest decile.

Figures taken from the spring LFS for the last five years show that self-employed people accounted for between 15% and 16% of all working hours in the last five years, whilst they only comprised 13% of the workforce at maximum during the same period. The total number of hours worked by the self-employed per week during the survey period was 131 million: if this figure is correlated with the total number of self-employed people, it suggests an average working week of just over 40 hours. However, the statistics do not include hours paid for but not worked (i.e. paid holidays), so some of the difference in hours worked may be explained by a lower propensity on the part of the self-employed to take holidays, which for many of them would be unpaid. Moreover, although the survey includes unpaid hours of work, it does not distinguish between full- and part-time work: a factor which may serve to reduce the figure for the average working week.

One final point worthy of note in the LFS is the home ownership statistics it provides. The self-employed are more than twice as likely as employees to own their own homes outright. However, since the probability of owning one's own property increases with age, it may be that the mean age of the self-employed is higher than that of the workforce as a whole.

5.8.3 *Teleworking*

Homeworkers and teleworkers lie on the fringes between employment and self-employment. Homeworkers, who are dependent on an outside employer and are not self-employed in the normal meaning of the word, are often not treated as employees because of the interpretation of existing laws. The Employment (Homeworkers) Bill, which was recently defeated in the House of Commons, aimed to improve the legal status of homeworkers. The Bill sought to amend their legal definition in employment legislation from 'employees' to 'workers'. Although the Bill was defeated, an all-party group of MPs signed an early day motion calling for further debate on the issue.²⁷

The attractions of teleworking for the employer are twofold: flexibility and cost. By working at home, employees can, if necessary, work outside normal working hours or put in extra hours to complete their workload, in a less regulated way than would be possible if they were working at their employer's premises. In addition, savings can often be made on the cost of premises. In the case of British Gas, homeworking has enabled the company to reduce the number of its offices from 120 to 37.²⁸

A recent survey conducted by the Labour Research Department contacted unions with members affected by teleworking. The survey found that a variety of jobs can be classified as current or potential telework positions. The people involved range from highly technologically-equipped managers with direct links from their home to the company's main computer, to financial services workers doing accounts at home who feel they could benefit

²⁷ Labour Research, "Bid to improve homeworkers' rights", LRD Labour Research Bargaining Backup, May 1996.

²⁸ Labour Research, "Flexibility based on 'atypical' working", in LRD Booklet "Flexible Working Time", January 1996.

from a greater use of new technologies.²⁹

A key issue arising in discussions of teleworking schemes is the degree to which participation in them is voluntary. At British Telecom (BT), the agreement states that all managerial and professional grades may request teleworker status; if accepted, all their existing terms and conditions of employment will be maintained. However, as the UK's leading communications company, BT has a vested interest in ensuring that its teleworking scheme is a successful model that can be used to persuade other organisations considering telework. Other employers simply have cost-cutting and greater flexibility in mind.³⁰ Labour Research found examples of compulsory teleworking at British Gas and at the regional electricity company Manweb. British Gas has introduced 'home start' or 'site start' working, where all service engineers receive work overnight via a direct radio link to a computer in their van, parked outside their home. Manweb introduced compulsory teleworking as part of a reorganisation in 1992.

One of the attractions of teleworking for some people is the prospect of reduced stress. However, Professor David Osborne, a psychologist at the University of Wales, has found that working at home can lead to loneliness and loss of creative impetus, causing depression, anxiety and stress. Turning the home into an office can also lead to physical health and safety risks. Although BT will provide workstations for use at home, many teleworkers will ignore ergonomic advice on workstation layout, display screen position and chair height, and may run the risk of RSI. Finally, homeworking should not be seen as a solution to childcare problems. People working at home still need childcare, as it is clearly impossible to work and look after children at the same time.³¹

5.9 Conclusion

The dramatic rise in both the total number of self-employed individuals and the proportion of self-employment as a percentage of total employment in the UK during the 1980s has not continued in the 1990s. Whilst the total number of people in self-employment continues to increase, albeit more slowly than in the previous decade, the ratio of self-employed people to employees has remained relatively constant in recent years.

However, this data is based on statistics drawn from the LFS, and it is therefore subject to the limitations of sample survey techniques. The areas of doubt are twofold: firstly, it is possible that workers on the borderline between self-employment and employment may classify themselves as self-employed in a culture that is overtly pro-enterprise; and secondly, where sample sizes are relatively small there is a significant possibility of an unrepresentative sample. However, self-definition also has its advantages, and the LFS does provide a wealth of data about the nature of self-employment. The disadvantage of the alternatives presented by tax and social security data is that the underlying definitions of self-employment used in them exclude certain groups that arguably should be regarded as self-employed, and double count others whose main income does not come from self-employment. The data from VAT records may provide some useful flow data on small businesses whose turnovers exceed the VAT

²⁹ Labour Research, "Home is where the Computer is - teleworking", LRD, October 1995.

³⁰ Labour Research, "Home is where the Computer is - teleworking", LRD, October 1995.

³¹ Labour Research, "Home is where the Computer is - teleworking", LRD, October 1995.

threshold, but the low total numbers suggest that many people working on their own account are excluded. This fact is implicitly recognised in the IDBR, which makes an estimate scaled from the LFS to cover unregistered zero class businesses that would otherwise not be counted. Three different categories of institutions can be identified as fulfilling representational and advisory roles in relation to self-employed people. To some degree their roles can be distinguished by the extent to which they are able to influence regulation of their industry. Whilst the FSB must lobby the government for deregulation, the RCVS is legally recognised as the body responsible for regulating the profession. A further point of comparison is the balance between their commitment to representation of the industry on the one hand, and their provision of services to members on the other. The FMB provides far more services than the others and its role as an employers' association gives it a labour market focus, in contrast to the industrial focus of the FSB. The RCVS exercises more power than the others, yet it offers a much more limited range of services. However, since membership is compulsory for all practising veterinary surgeons, it has no need to attract members. Possibly the most interesting fact to emerge is the right, shared by many professional groups, to exercise an effective legal monopoly over their work.

The emphasis in UK support for self-employment is shifting in favour of industrial policy. To some extent this may be due to changes in the structure of government departments, the priorities the government sets for them and the nature of the agencies they use to deliver those policies. There is no shortage of advice for the self-employed, and there is a high degree of co-operation between the various public and private agencies that deliver it - particularly at regional level. The industrial policies listed in the relevant section are only a sample from a huge range of industrial programmes run by the DTI, many of which are targeted at particular areas, technological innovation and product development. Those that are included have been selected largely for their claimed relevance to small businesses, although the fact that the DTI views businesses with fewer than 200 employees as small is revealing, since only a very small percentage of UK businesses employ more than this number. As a successor to the Enterprise Allowance scheme, Enterprise Rehearsal is clearly much more limited in its application: both in terms of its scope and its duration. Although Meager's analysis suggests that capital grants may be a more effective way of encouraging self-employment than weekly allowances, the derisory level of the grant option in the Enterprise Rehearsal scheme is unlikely to have the desired effect of overcoming barriers to entry in more stable business environments.

Further polarisations emerge when we consider the regulation and quality of self-employed people's working life. Firstly, there is a divergence of interests where the issue of employment protection is concerned. The interests of small businesses are best served by deregulation, whilst the interests of self-employed workers with no employees may have more in common with those of the workforce in general, and would benefit from an extension of employment legislation. Similarly, social security contributions are a cost rather than a benefit to small businesses with employees. The self-employed individual is excluded from many of the welfare benefits available to employees, and bears a heavier burden of risk, yet on average he or she is not especially well paid and works longer hours. Where the rewards place workers in the top decile of earners, their motivation is easy to understand; however, the motivation for the large number of self-employed people whose incomes are lower is less easy to explain. Teleworking is not living up to expectations at the current time. To fulfil some of the early predictions, nearly all of the UK's 3 million self-employed people would have to be teleworkers. However, the teleworking phenomenon does present an interesting picture of the grey area between employment and self-employment. It also raises some interesting questions about employment protection legislation; if these questions can be resolved in favour of teleworkers, other groups may also benefit.

6. GROWTH AND PATTERNS OF SELF-EMPLOYMENT: DISCUSSION AND IMPLICATIONS

In the previous chapters the issue of self-employment in the EU has been discussed from different angles. Descriptions have been given of what it is (definitions), of what the statistics tell us about it, and of how developments in self-employment in the different Member States can be explained. For three particular Member States - the Netherlands, Belgium and the United Kingdom - we have taken a deeper look at the developments of self-employment, at the quality of working life and the social position of the self-employed, at the parties that are active in this field, and at the policy initiatives that have been undertaken.

In this final chapter we will discuss a number of the most important topics that have come to the fore in these chapters. In doing so, we will try to identify relevant topics and options for scientists and policy makers that require further exploration and/or action.

6.1 Discussion and explanation of developments in self-employment

Self-employment is not a very singular phenomenon. The self-employed are a quite diverse group of professionals, artisans, traders, farmers, service providers and people with other forms of occupations, whose self-employed status is sometimes combined with other occupations, who sometimes employ or work together with family members or other persons, who either see themselves as an entrepreneur, as a worker or as something in-between. They are active in different sectors of the economy, have different educational backgrounds and are of different sexes. As such, the group of self-employed isn't really a *group* at all.

Nevertheless, some general tendencies have been found with regards to the characteristics of the self-employed. Their number within the EU has risen in the last ten years, although relative to the total level of employment the rate of self-employment has decreased from 15.3% to 14.6%. Self-employment in agriculture is decreasing, whereas the service sector can be seen as the engine of potential growth of self-employment. Relatively more people with medium and higher levels of education are becoming self-employed, and female self-employment is slowly gaining ground on male self-employment (although self-employed men still outnumber self-employed women by a factor of four).

Behind these general European figures and trends there is a wide variety of national statistics and developments.

- In some countries the level of self-employment is very high (over 30% in Greece), in others it is low (below 10% in Denmark, Germany and Luxembourg), in some it is rising (Italy, United Kingdom and the Netherlands), in others it is going down (like in Ireland, Spain and France).
- In some countries self-employment is greatest in the service sector (75% of self-employment in Belgium and Luxembourg), in other countries agriculture is the more important sector (over 40% in Ireland and Austria), whereas in the UK over 30% of self-employment is situated in industry.
- In some countries the largest part of the self-employed population has only the lowest levels of education (over 70% in Portugal, Spain and Greece), in other countries they are a

- minority (below 30% in Germany, the Netherlands and Austria),
- In some countries the male/female ratio in self-employment is more than 4 or 5 to 1 (Ireland, Denmark, Greece), in others it is below 3 to 1 (the Netherlands and Portugal).

Some trends are similar in most countries and have a similar effect on the level of self-employment in these countries. For instance, in all countries there is an increasing *participation of women in the labour market*, which, due to a lower propensity of women to become self-employed, results in a downward push on the level of self-employment. However, most trends are more or less divergent between the different Member States, and no single factor or combination of factors can help to fully explain these developments. Statistically, the strongest explanations come from the level of *development of a Member State's economy* (measured in GNP), which affects the economies of scale to be attained in production functions, and from *the sector composition of the Member State's economy*, in which a declining importance of agriculture results in lower levels, and an increasing importance of the service sector results in higher levels of self-employment.

However, none of these - and other - explanations can sufficiently and satisfactorily account for the development of self-employment within the EU Member States. In our view, this is because on the one hand it is not clear enough what and who we mean exactly when we refer to the self-employed, and because on the other hand we lack the required in-depth insight into the subject matter to understand the social, economical and cultural processes that are at work. We see two fundamental problems that lie at the root of this.

1. One fundamental problem is the institutional distinction between labour and entrepreneurship - a distinction which in real life is becoming more and more blurred in modern Europe. However, in both legal and policy frameworks, in statistical and in other administrations this dichotomy is central. As a consequence, target groups are hard to identify, no matter whether this is for labour market, industrial or social welfare policy purposes, or for scientific or administrative purposes.
2. Another fundamental problem concerns the growing diversity of the self-employed, which does not allow for simple generalisations. Self-employment comprises different sorts of economic activity by people with quite different backgrounds, qualifications, visions and ideas - people who also react quite differently to economic and institutional stimuli. As a consequence no singular (nor, for that matter, multiple) explanation can work until the self-employed can be disaggregated to a level which allows for a heterogeneous composition.

What does all this imply for policy makers and scientists who want to learn about trends among the self-employed, who want to understand the role and the economical, social, technological and cultural potential of self-employment, and who want to identify proper target groups to focus their scientific or policy attention upon?

On the one hand they will need an objective measure to identify the self-employed, and to distinguish them for instance from other occupational groups like employees and employers. To do so in a useful manner, we think it is necessary to develop a refined typology of sub-groups of the self-employed - sub-groups that display similar characteristics with regard to their educational and occupational background, their (appreciation of their) present self-employed position, and their visions and aspirations with regard to their future positions.

We believe a sensible distinction can thus be made between what we might call, *different self-employment careers*. It is these sub-groups that may be expected to display some homogeneity with regards to their interests, problems and need for support. And hence it is these sub-groups to whom policy measures should be tailored.

In the Belgian essay (chapter 4) reference is made to a Panel Study on Belgian Households that could be used to develop such a typology. In the Netherlands (and some extent also in the UK) a similar attempt could be made with an extended version of the Labour Force Survey, or with the data in the panel study on so-called 'starters'. Moreover, we feel it is important to carry out a more in-depth and international study that looks into the concept of different self-employment careers from a 'subjective' actor perspective.

On the other hand we recognise the necessity of having clear criteria and definitions in the field of social protection and welfare law and policies. In these cases it is important, we think, to distinguish between policies that are meant to offer protection to dependent workers on the one hand, and policies that are meant to stimulate and support (potential) the self-employed on the other. In the first case strict and objective criteria are needed, in order to protect against abuse. Here, the criteria developed in English case law may prove useful (referred to in the previous chapter (paragraph 5.8.1) as 'the control test', 'the organisational test', 'the multiple test' and 'the entrepreneurial test'). In the latter case self-definition may prove to be the best criterion as it can be used in an indirect manner as we have suggested to distinguish between different self-employment careers.

We agree with Meager (1993) and Pennings (1997), in as much as we do not believe it is possible to develop one single definition of self-employment that would not be subject to definitional, measurement-methodological and cultural biases. Therefore, where the interpretation of statistical material on a higher aggregate level is concerned, we must be aware of the existence of such biases, and account for them in the interpretation of the data.

6.2 Opportunities and threats of self-employment

Self-employment has become an important policy issue, and for good reasons. It's clear that self-employment offers important opportunities, to the individuals concerned as well as to society as a whole. For individuals in general and for people in deprived positions in particular, these opportunities offer the a possible way to participate on the labour market and to develop individual talents. This potential also becomes clear when we look at for instance the level of job satisfaction among the self-employed vis-à-vis other groups like teleworkers or regular employees (see chapter 3).

It is questionable whether the opportunities from self-employment for society as a whole lie in a outright growth of employment. Whether there really is a substantive employment creation effect as a consequence of promoting self-employment is not evident is yet to be proven because the effects of displacement and of combinations of self-employment with other occupations make measurement difficult (see chapter 3 for a discussion of these effects).

A more important positive effect of encouraging self-employment might flow from the dynamisation of the economy and the better mobilisation and utilisation of human potential for innovation and new economic activity. In the Belgian essay (chapter 4) similar benefits are mentioned, self employment can act as a counterbalance to excessive concentration of power in large enterprises, and contribute to flexibility in the labour market.

There are also connected policy opportunities in other fields, for instance the qualitative

development of the living and working conditions of deprived areas and quarters in big cities, which is of crucial importance to most European countries. For this reason it would be worthwhile to conduct further exploration of the potential of connected policies in these fields - an exercise that would be rather new and quite promising.

Of course there are also threats connected with self-employment. Among these are a lack of external know-how and of training associated with self-employment (see the Belgian essay) and problems with the protection of health and safety at work (the UK essay). The major threats of self-employment are, however, connected to social security. In particular from the Dutch and British essays in this report we can see a number of problems in this area. In general we can say that existing social security systems are not really applicable to mixed forms of labour and entrepreneurship (either mixed in character, or 'mixed' in the combination of employment and entrepreneurship pursued during a career or a lifetime). As such they offer little to no security for the self-employed. On top of that, the self-employed are *by nature* in a more vulnerable position. As the EU report on Social Protection in Europe (European Commission, 1995) states, sole operators are inherently vulnerable since they are dependent on their own income generating capacity to earn a living. Where they are dependent on savings or private insurance to cover the related risks, a large group of the self-employed is hardly able to generate the surplus this requires (if only because they are also confronted with the necessity to make use of any surplus to make *investments* themselves). Next to all this, it should not be forgotten that there is a large difference between occupational groups. On the one hand there is for example the group of self-employed professionals (lawyers, consultants), who tend to be well-organised and articulate. On the other hand there are the sole traders and agrarians, who are less well-organised and often in greater need. Especially for this latter group there is a serious risk of marginalisation and social exclusion, in particular in the problems associated with bankruptcy (see the Dutch essay).

Further background information to this problem is provided by the overview of the social insurance cover as depicted in the EC publication on Social Protection in Europe (see Table 6.1). From this it becomes clear that the self-employed are not only more vulnerable, but are also in many Member States confronted with less extensive cover of their risks. To some extent this may be deemed the rightful consequence of the decision to become self-employed (i.e. to run entrepreneurial risks). However, these circumstances may fail to foster a climate in which the individual and societal opportunities of self-employment are effectively and fully exploited. Serious reflection on European social protection systems is therefore advisable. Moreover, a full exploitation of the opportunities of self-employment requires more than just proper social protection. Measures to stimulate growth are also necessary.

EU member states have many policy initiatives to stimulate self-employment in accordance with the importance they attach to the opportunities connected to self-employment. In this report both the UK and the Dutch essay provide several examples. These policies have different backgrounds³², and may come for example from the labour market, industrial, welfare or social protection policy fields. They come from different levels (national, regional and local), and are delivered by different actors (authorities, branch associations, chambers of commerce, etcetera). In recent years these policies have steadily risen in importance and

³²

More than is suggested by Meager (1993, when he suggests two dichotomies to define self-employment/small firms policies: labour market policies vs. industrial policies; and national policies vs local/sectoral policies.

attracted larger budgets. Meager (1993, 97) gives a clear example of this with regard to measures to promote self-employment in the labour market policies in different Member States (see Table 6.2).

It's interesting to note in this respect that, although we followed Meager in paying primary attention to labour market policies related to self-employment, both the Dutch and the British essay conclude that the emphasis in self-employment policies is gradually shifting from labour market policies to industrial policies - a development for which their respective authors offer several explanations.

Meager's analysis (1993) has drawn attention to the significance of the institutional and legislative environment for understanding the impact of self-employment schemes. The discussion of relevant institutions and legislation in the previous chapters has made clear that they are in a process of almost permanent change. In a piecemeal way all of these elements have been subjected to political interventions which are mainly inspired by a deregulation view. Against that background one can sense a certain disillusionment among policy makers inspired by the failure of these interventions to produce positive results.

Table 6.1 Social insurance cover for the self-employed in the EU (source: European Commission, 1995) (+ = cover provided)

	Pension	Survivors	Invalidity	Health care	Sickness benefit	Industrial injury	Maternity	Unemployment	Children's allowance
Belgium	+	+	+	Large risks only	+	No	+	No	Lower for 1st child
Denmark	+	+	+	+	+	Minority only	+	+	+
Germany	Yes for the majority, but some voluntary			Yes, but some voluntary	Yes, if in public health insurance	Farmers, craftsmen, rest voluntary	+	No	+
Greece	+	+	+	+	Only those in IKA	No	+	No	No
Spain	+	+	+	+	+	Farmers	+	No	+
France	+	+	+	+	No	Farmers	+	No	+
Ireland	+	+	+	No	No	No	No	No	+
Italy	+	+	+	+	No	Manual workers	+	No	Farmers
Luxembourg	+	+	+	+	+	+	+	+	+
Netherlands	+	+	+	+	No	No	Voluntary	No	+
Austria	+	+	+	+	Voluntary only	+	+	No	+
Portugal	+	+	+	+	+	Occupational illness only	+	No	+
Finland	+	+	+	+	+	Farmers, rest voluntary	+	No, but flatrate scheme	+
Sweden	+	+	+	+	+	+	+	+	+
United Kingdom	+	+	+	+	+	No	+	No	+

Accepting that self-employment programmes do make a difference (Meager 1993), we think that the possibilities of effectively influencing employment trends through such schemes should not be overestimated (cf. Vilroks 1987) given the multitude and complexity of shaping factors and actors³³. However, one can also observe that policy measures have tended to be piecemeal and initiatives in one area are often counteracted by initiatives in another. To give but one example, the case of physiotherapists is illustrative. Physiotherapists are often self-employed; of 555 physiotherapist practices 101 (18 percent) are self-employed without employees and 196 (35 percent) are self-employed with one employee only. However, self-employment in physiotherapy is under heavy pressure and indications are that the level is declining as a result of policies of the ministry of public health care to curb health care expenditure and of insurance companies to restrict the total number of patients per year for whom treatment will be paid. One conclusion which can be drawn from this example is that to the extent that self-employment can be promoted through labour market policies, integral schemes are required. With this we mean a balanced use of different policy instruments, information and advice, training and education, financial and fiscal measures, assistance and mediation to market entrance and technological services. (as well as a proper form of social protection for the self-employed). We can conclude that so far no EU Member State meets with this requirement.

The point about integral schemes should not be read as implying *standard* schemes, that is schemes providing standard measures for all the (potential) self-employed. The diversity of self-employment requires a differentiated approach, which offers tailor-made (integral) schemes for various categories. As yet accurate empirical information about types of self-employment is lacking. The existence of different types of self-employment has been argued by various authors (for instance, Meager 1993; Vilroks 1987) but more research would be needed to establish which types are relevant from the point of view of policies dedicated to supporting self-employment. It is true that policies have paid functional attention to certain demographic variables such as sex, age, skill and employment status (wage employed, unemployed) but they have not been informed by explicit information concerning attitudes towards (self) employment. This is not to suggest that attitudes are decisive, but they do not seem to have been addressed by existing policy measures. In fact, in line with Keasy and Watson (1991) who have argued that explanatory models of success and failure of businesses pay too little attention to specific interests, motivation and aspiration of the entrepreneur, we want to argue that (self) employment policies can become more focused when they relate explicitly to the attitudes of the self-employed in the category to which they purport to address themselves.

One major problem to overcome in developing new policies to support self-employment is lack of self-organisation and representation of the self-employed, particularly in the case where the more vulnerable sub-groups who run the highest risk of marginalisation are concerned. As was noted earlier, it is the stronger groups, like the self-employed professionals, who are the most articulate and well-organised. They cannot, however, be seen as representative of the self-employed generally. In order to tailor policies to the specific needs of more, broader and

³³ An interesting example is the differential impact of the employment status of the father in the choice of the children. While a Dutch study (De Wit, 1991) found that children of self-employed fathers are more likely to become self-employed themselves, an English study of Asian self-employment (Metcalf, Modood, Virdee, 1996) reports that the remarkable growth of self-employment is losing its momentum, as the first generation British Asians encourage their children to move into professional and salaried careers.

different groups of self-employed workers, these policies will need to be informed by more in-depth research.

As to the effectiveness of existing policies, not much can be said at this time. As far as evaluations exist, they almost always focus on one particular policy, largely leaving aside the highly specific institutional context within which these schemes are operative. We note the lack of integral studies, comparisons and evaluations, which would tell us more of the interaction between different institutional provisions, preferably differentiated for different subgroups of the self-employed.

Roughly speaking, however, two observations can be made on the effect of policy measures in this field. Firstly, a general impression is that as a direct stimulus to encourage individuals to become self-employed, financial instruments are the most effective. Second, the mediating effects of advice and support are most apparent in the survival rate of new initiatives. Where for example in Germany the potential self-employed are required to have relevant qualifications, have their business scrutinised by a lending institution, and enjoy relatively protected markets, they are relatively well-placed to survive (compare Meager, 1993, iv).

Finally, coming back to the issue of social policies, the need for changes in the Member States' social security systems with a view to stimulating self-employment has been argued before (European Commission 1995; also Pennings 1997 in relation to (self-employed) teleworkers). Specific measures have been suggested, for instance concerning the level of pensions and maternity benefits. The inclusion of such measures evidently leads to a relevant improvement of the system of social protection. It is doubtful, however, whether the most serious shortcoming can also be tackled in this way. This relates to the lack of social protection in relation to temporary periods of incapacity (for instance in the case of sickness or industrial injury), unemployment and low earnings. Social security systems are based on a model of lifelong and permanent waged employment, in which benefits are predicated on contributory insurance and the length of service (Coenen & Leisink 1993; Leisink 1997). This model is inadequate in view of the varied working life careers which are now pursued by an increasing number of people. This inadequacy is already more or less recognized in relation to workers on flexible contracts, but recent legislative 'repair', as in the Netherlands where the parliament accepted the bill on 'Flexibility and Security', is still based on the model of waged employment. People moving through different forms of employment and self-employment during their working life do not fit into this model. Therefore, the need for a more fundamental transformation of social security systems, involving basic income or negative income tax schemes, is even more pressing than at the time when it was first argued by Vilrocx (1987; also Vilrocx 1993)³⁴.

At present the basic function of social security systems is to compensate for involuntary loss

³⁴ One could object that a basic income scheme is more likely to encourage entry to crowded markets with low entry barriers and low initial capital requirements. Meager (1993) has shown that this is the case with policies providing an income subsidy or allowance, and that the displacement effects of this type of policy are larger than in the case of policies providing a capital subsidy. However, the introduction of a basic income scheme is likely to go along with a broader transformation of labour market patterns, which will also affect the ceteris paribus conditions of the displacement effects. In addition, our earlier point that there is a need for differentiated tailor-made policies implies that basic income schemes would not oblige self-employed to make use of such a scheme in the form of regular income subsidies; one could also imagine a system of saving which would result in a capital subsidy.

of income through inability to find employment. We have seen that substantial numbers of the self-employed, particularly among new starters, combine their self-employment with a (part-time) job. This can be interpreted as a rational form of risk-management, both with a view to reducing the dependency on the firm's sales and with a view to securing eligibility for social protection arrangements. However, this same behaviour can also unintentionally produce the very failure which it wants to prevent. That is to say, the self-employed person who must invest time and energy in his/her job may as a consequence not be in a position to invest enough time and energy in the development of the newly started firm. What this situation signals is that social security systems should be transformed in such a way that they enable people to develop and apply their capacities, irrespective of the (arbitrary) form that their employment position takes. Such a transformation would also imply that the rather forced interest in attempts to increase self-employment, which seems to obsess a number of policymakers, can be replaced by the goal of supporting increased labour market participation and social participation in general, irrespective of the form that this takes.

Clearly in order to facilitate effective policy-making more research is needed, especially from a more integral perspective, overarching the separate policy measures. Moreover, given the fact that the focus on policies to promote self-employment is relatively new for individual EU Member States and the clear effect on the European economy and labour market they might have, it seems particularly important to perform international comparative studies, to engage in benchmarking activities, and to organise for a collective learning experience throughout the EU.

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