

Self-Employment in the United Kingdom and Ireland.

Current Trends, Policies and Programmes

(Draft)

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Introduction

From a European perspective, there are significant differences between Ireland and the UK regarding the context within which self-employment exists. Despite some convergence in the past ten years, the services sector is larger in the UK than in Ireland, accounting for 71 per cent and 61 per cent of all employment respectively. Since the mid-1970s, activity and employment rates in Ireland have been consistently lower than in the UK and unemployment rates higher. The dramatic political and economic developments in the UK in the 1980s – which included large-scale privatisation, labour market deregulation and an associated reification of self-employment as a moral imperative - have no comparison in Ireland. Nor are the UK's large ethnic minorities, especially Asian, with their high rates of self-employment a feature in Ireland. Finally, in terms of public administration Ireland remains highly centralised, a factor which impacts on self-employment programmes and which is in marked contrast to the very devolved system in the UK.

From an international perspective, however, Ireland and the UK appear to have more in common. The legal framework surrounding self-employment, for example, has evolved from the same principles in both countries, and some aspects of it from the same legislation. Both countries also had in common the so-called European model – a particular form of Fordism characterised by a commitment to underpinning living standards through transfer payments. Additionally, both countries are Member States of the EU and can draw down support for human resource development from the European Social Fund. (As an Objective 1 region, this has been a more significant issue in Ireland than in the UK). More pertinent, as EU Member States, both countries are committed to developing employment policy in the context of the

European Employment Strategy agreed at Essen in 1994 and reinforced by the Employment Guidelines in 1997.

Notwithstanding similarities and dissimilarities between Ireland and the UK, the trends in both countries have, broadly speaking, followed the same trajectory. The 1980s have been referred to as the decade of self-employment in the UK. From the mid-1970s to the late 1980s the number of self-employed outside of agriculture increased from 1.72 million to 3.2 million. The increase slowed during the early 1990s finally plateauing out by 1996 at just over 3 million. In Ireland, the direction of the trend has been similar, but it has occurred later and the more recent fall-off that is evident in the UK is not repeated here. In the mid-seventies there were just 86,000 self employed outside of agriculture in Ireland. By 1989 this had increased to 118,000 and by 1997 to 158,940.

The upturn in self-employment during the 1980s and early 1990s coincided with two major policy concerns in both countries. The first of these (fuelled in part by the Birch report) was the growing awareness of the increasing employment potential of the small business sector. The second was the growing problem of unemployment. The manner in which these two concerns entered the public policy domain differed between the two countries. In the UK, government advocacy of self-employment emphasised, from the start, its potential to contribute to economic diversification and employment creation *and*, directly aligned to this, the desirability of the unemployed being active agents in exploiting this potential. In Ireland, public policy interest in self-employment first occurred in the context of addressing unemployment and particularly long-term unemployment and was only subsequently promoted as an economic diversification strategy. This important variation is reflected in different types of policies in the two countries and in different issues of debate.

Nonetheless, policy developments in both countries have – at different times - embodied elements of both concerns, i.e., they have included general supports for all potential entrepreneurs and specific measures for the unemployed seeking to enter self-employment. Quite often, however, the implications of the different target groups and the dual objectives that they represent have been blurred, with limited recognition given to the different issues which each gives rise to. In both countries, therefore, there are unresolved issues concerning the extent to which self-employment provides alternative economic survival strategies for the unemployed or the extent to which it represents a broader economic development strategy based on diversification of the economy into small business sector and within that more especially into the micro-sector.

Reflecting this unresolved issue, it is also the case that the long-term implications of the dual objectives have also been overlooked. For example, if self-employment is

to be an alternative survival strategy for the unemployed, then the adequacy of the income levels generated by their businesses and the long-term sustainability of the businesses should be a primary marker of the effectiveness of the strategy. On the other hand, if economic diversification into the micro-sector is the objective, then the sustainability of micro-enterprises and their capacity to grow and generate employment should be the most significant indicator of success.

In Ireland and to a lesser extent the UK, these issues have received little policy attention to date. To a great extent, this reflects the emphasis of support programmes that have been very much focused on the front-end of self-employment, i.e., on the transition to self-employment from some other status. Programmatic supports to sustain durability or to transform one-person operations into micro-enterprises have been less frequent and the macro-policy framework does not compensate for this. This issue is recognised to some extent in both countries but remains unresolved.

Against this backdrop, this paper looks at recent trends in self-employment in the two countries and positions this against the broad policy backdrop that provides both the incentives and the context for self-employment. A number of the major programmes to support self-employment are then examined and some conclusions drawn regarding the appropriateness of these and of the wider policy framework.

Section 1: Trends in Self-Employment

The difficulties of defining self-employment have been widely referred to in the literature and that discussion is not reproduced here. Instead, given that the trends in self-employment are explored primarily on the basis of Eurostat data, the definition of self-employment used by Eurostat is used in this discussion. Eurostat defines the self-employed as “*persons working for themselves who may or may not employ other workers and members of the family who help to run an enterprise without payment*”. This definition does imply a greater degree of homogeneity to the self-employed than is warranted by the data. Some writers for example, have drawn attention to the distinction between the full-time self-employed and those who work for themselves on a part-time basis (Moralee, 1998). Likewise, Cowling et al (1997) suggests that the self-employment of men and women must be understood separately. In the discussion below, data is provided on these variables. But the greater part of the discussion is organised around two categorisations. First, as the self-employed with employees are significantly different in a number of respects than those without employees, these two categories are differentiated in the more detailed presentation of the data.

Second, in applying the Eurostat definition in the current exercise, it has also been necessary to exclude self-employment in the agricultural sector. Notwithstanding Meager's (1992) argument against this approach, it is essential in order to make meaningful comparisons between the trends in the two countries. In the UK agricultural self-employment accounts for just 16 per cent of all the self-employed (1997 figures) and in any given year adds less than two percentage points to the rate of self-employment. In addition, the inclusion of the agricultural sector in the self-employed data does not alter the trends over time (see Abell et al, 1995). In Ireland, however, the situation is markedly different. Here, agriculture accounts for over one third of self-employment (1997), adding up to 8 percentage points to the self-employment rate. More significantly, the trend in self-employment in agriculture is running directly counter to the trend in self-employment outside of agriculture: i.e., as non-agricultural self-employment has steadily increased since the mid-1970s, agricultural self-employment has steadily decreased.

Trends in Self-Employment, 1983 - 1997

Table 1 looks at the trends in self-employment in all sectors and the trends in sectors outside of agriculture. When agriculture is included, the dramatic difference between Ireland and the UK is evident, so too is the degree of relative stability in these trends over time. The trends outside of agriculture, however, show increasing convergence between the two countries in the rate of self-employment. Throughout the 1980s and early 1990s, the proportion of overall employment accounted for by self-employment outside of agriculture increased steadily in Ireland and the United Kingdom, from a previous period of decline (UK) and relative stability (Ireland). Since the early 1990s, the increase levelled off and now appears to be stabilising – with some fluctuations – slightly below the 1993 peak for Ireland and the 1994/5 peak for the UK.

Table 1
Self-Employment in the UK and Ireland as a Proportion of all Employment

	1975	1985	1990	1993	1994	1995	1996	1997
<i>UK including agriculture</i>	13.1	11.4	13.3	12.5	12.9	13.0	12.6	12.5
<i>UK excluding agriculture</i>	7.2	9.9	11.6	11.7	12.1	12.1	10.8	11.8
<i>Ireland including agriculture</i>	21.0	21.5	22.6	21.8	21.6	20.8	19.8	21.9
<i>Ireland excluding-agriculture</i>	10.3	11.6	13.3	14.0	13.6	13.6	12.9	12.9

Source: Eurostat

In the UK in 1975, self-employment outside of agriculture accounted for just over 7 per cent of all employment. By 1994 it had risen to just over 12 per cent but by 1997 had decreased to 11.8 per cent. In Ireland, self-employment outside of agriculture accounted for just over 10 per cent of all employment in 1975, but this rose steadily to 14 per cent by 1993. By 1997 it had slipped back to just under 13 per cent. The rate of increase over the period has been higher in the UK and currently the contribution of self-employment (outside of agriculture) to overall employment is just one per cent below that of Ireland, compared with the three percentage point difference that prevailed in 1975.

The overall rates of self-employment are useful in situating the trends in self-employment against the broader employment backdrop. However, the absolute numbers of self-employed in each year gives greater insight into the scale of the changes that have occurred.

Table 2
Number of self-employed outside of agriculture, Ireland and UK

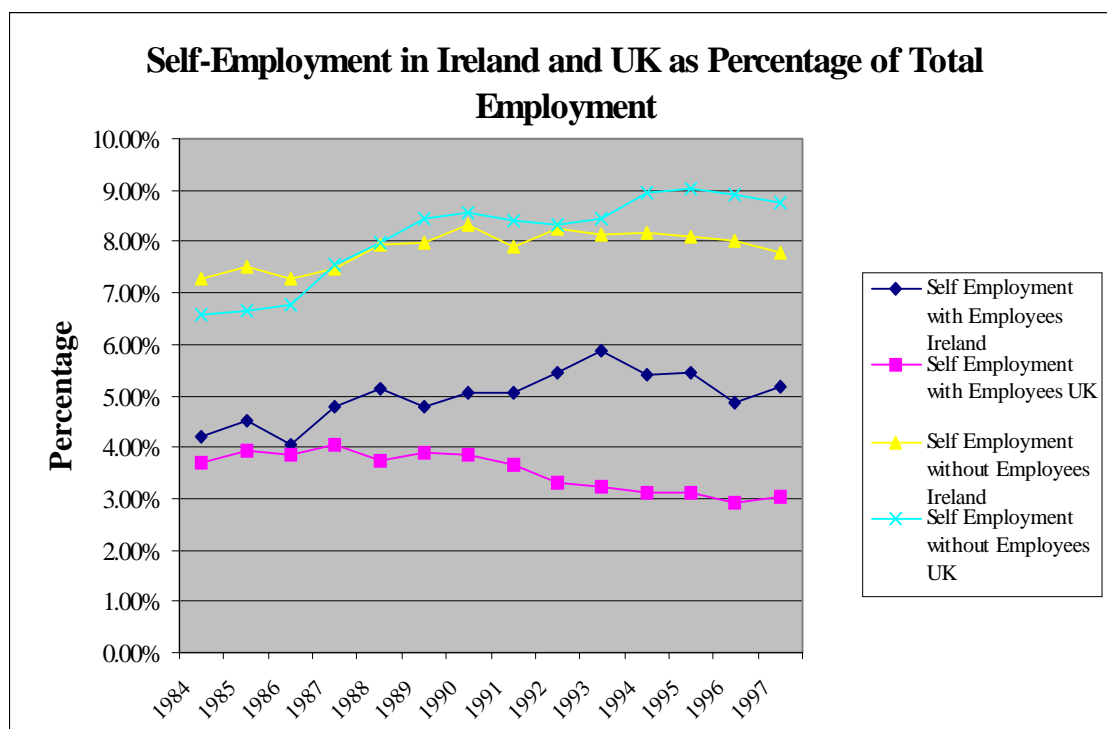
Year	UK	Ireland
1975	1,720,000	86,000
1985	2,509,860	106,000
1986	2,540,100	102,140
1987	2,807,30	111,930
1988	2,934,400	120,190
1989	3,209,080	118,400
1990	3,252,850	128,710
1991	3,086,460	126,300
1992	2,931,580	135,820
1993	2,915,550	140,620
1994	3,032,500	143,540
1995	3,085,090	150,680
1996	3,032,750	149,970
1997	3,083,370	158,940

Source, Eurostat.

When looked at in absolute numbers, it appears that the peak of self-employment in the UK occurred in the late 1980s, subsequent to which it decreased. Since 1994 the numbers have risen again and now seem relatively stable at a level somewhat below the late 80s high. The absolute figures for Ireland show a steady increase up till 1988, followed by a period of fluctuation until 1992. At that point the figures began to increase steadily with a particularly significant increase occurring between 1996 and 1997. While it is premature to draw emphatic conclusions from these trends at this stage, it appears that the massive growth in self-employment in the UK during the 1980s was specific to that decade and will not be replicated. Already

some commentators are referring to the 'post-enterprise culture' of the UK (see Burrows and Ford, 1998). In contrast, it may be that the 1990s will be the decade of self-employment in Ireland.

When the data is examined more closely, other interesting variations between the two countries become evident. These relate to the different trends in the self-employed with and without employees (Table A.1). In Ireland in 1984, the self-employed with employees accounted for 4.2 per cent of all employment and 36.5 per cent of self-employment. By 1997, these figures had changed to 5.19 per cent and 39.9 per cent respectively. In the UK, the comparable figures for 1984 are 3.68 per cent and 35.8 per cent. In 1997, these were 3.04 per cent and 25.7 per cent. In Ireland therefore, the self-employed with employees have increased in significance relative to total self-employment and to total employment. In the UK, their significance appears to have diminished.



(Hakim, 1989)

The total volume of employment in the micro-sector has also changed in the years between 1992 and 1997. In Ireland in 1992, 45,050 micro-entrepreneurs employed 152,440 people. In 1997, there were 52,530 micro-entrepreneurs with a combined workforce of 187,140. In the UK, over the same period as the number of micro-entrepreneurs decreased from 627,440 to 603,360, the number of their employees also decreased from 2,060,820 to 1,947,030. When the numbers of entrepreneurs are combined with their workforces, the micro-sector in 1997 accounted for 11 per cent of all employment outside of agriculture in the UK and just under 21 per cent in

Ireland. When the self-employed without employees are added to the figure, total employment in the self-employed / micro-sector accounts for just under 20 per cent of all employment in the UK and just over 28 per cent in Ireland.

In brief, the micro sector is more important in Ireland than in the UK both in relation to self-employment and employment creation. In addition, the sector appears to have consolidated its position over the 1990s increasing both the number and size of micro-firms and total employment. In the UK, the sector has diminished in its relative contribution to self-employment and employment creation. It has shown a decrease in both the number and size of micro-enterprises.

**Table 3:
Overview of Employment in the Self-employed and Micro sector,1997**

	UK	Ireland
Self employed with no employees	2,288,060	95,460
Self employed with employees	795,310	63,480
% 1 employee	29%	2%
% 2-3 employees	34%	58%
% 4-9 employees	37%	40%
Total employees in micro-sector	1,947,030	187,140
Proportion of all employment in the micro-sector (including SE)	11%	21%
Proportion of all employment in the self-employed / micro sector	20%	28%

Two other trends are also noteworthy. These relate to part-time self-employment and to the proportion of women among the self-employed. In Ireland, part time self-employment accounted for just over 9 per cent of all self-employment. Since then it has decreased and by 1997, accounted for just 7.5 per cent. In contrast in the UK, part-time self-employment accounted for over 17 per cent of all self-employment in 1984 and since then has increased, reaching just over 21 per cent in 1997 (Table A.2). In both countries, part-time self-employment is more prevalent among the self-employed without employees.

Part-time working is also more prevalent among women than among men. However, as part-time self-employment has decreased in Ireland, the proportion of women among the self-employed has increased from 17 per cent in 1984 to 21 per cent in 1997. In the UK, the proportion of women among the self-employed has been relatively constant at around 25 per cent (Table A.3). Over that period, in both the

UK and in Ireland, the numbers of women in self-employment have increased at a higher rate than the number of men.

In terms of the sectoral distribution of the self-employed, there is little variation between the two countries. In both Ireland and the UK, the self-employed with employees are clustered in 'distributive trades, hotel and catering and repairs'. Banking is also significant for this group in the UK. The self-employed without employees in both countries are found in 'construction', 'distributive trades etc' and 'other services' (Table A.4). In terms of occupations, in both the UK and Ireland, 'legislators, senior officials and managers', 'professionals' and 'craft and related trade workers' account for the majority of the self-employed both with and without employees (Table A.5).

More generally, a demographic profile of the self-employed shows the following:

Age: there is little variation with regard to age either between the two countries or between the self-employed with and without employees. Around 50 per cent of the self employed with and without employees are in the 25-44 age group, with just slightly less in the 45 plus age group (the self employed with employees in the UK are the exception). The proportion of the self-employed aged less than 25 years continues to be low.

Education: in Ireland, the largest single component of both categories of the self-employed have 'low' levels of education, but this is more marked among those without employees. In the UK, the largest single component of both categories are returned as having 'medium' levels of education.

Marital status: the marital status of the self-employed follows the same pattern in both countries. While the vast majority of all the self-employed are married, there is a higher proportion of single people amongst those without employees.

Table 4
Demographic Characteristics of the Self-Employed in Ireland and the UK

Self-Employment in Ireland and UK 1997					
		Ireland		UK	
		With Employees	Without Employees	With Employees	Without Employees
Total Numbers		63,475.02	94,685.91	79,5310.1	2,288,057
		Percentages		Percentages	
Gender	Women	19.76	21.60	24.94	26.93
	Men	80.24	78.40	75.06	73.07
Age	<25	2.26	2.91	1.23	4.79
	25-44	50.72	53.87	47.95	49.20
	45+	47.02	43.22	50.82	46.01
Work	Full-time	98.14	89.67	90.09	74.83
	Part-time	1.86	10.33	9.85	25.11
Education	High	30.04	26.39	31.22	21.39
	Medium	30.55	26.74	34.77	40.82
	Low	39.25	46.78	33.86	37.67
Marital Status	Single	13.30	21.83	9.18	20.66
	Married	82.83	73.40	81.03	67.51
	Other	3.88	4.77	9.79	11.83

Explaining the trends

The level and rate of self-employment in any economy is influenced by very many factors. Prevailing economic conditions (including levels of unemployment and sectoral change), changes in the practices of employers, individual preferences and government policy are all identified as potential contributors to the inflow and stock of the self-employed. All of these, together with demographic change, have been referred to in explaining the massive increase in self-employment in the UK during the 1980s (see Campbell and Daly, 1992 and a critique by Taylor 1997). Other more nebulous factors may also intervene. Meagre (1994), for example, suggests that the positive ideology of self-employment in the UK during the 1980s may have increased people's propensity to report themselves as self-employed. It is impossible, on the basis of labour force data alone to assess the contribution of any specific factor or group of factors to the overall rate of self-employment. Attempts to attribute

causality on the basis of such data must rely on positioning the trends against known features of the context and inferring the nature of the relationship. Some quite rigorous analyses have been carried out on the sources of inflow to self-employment allowing the employment push hypothesis to be tested (see for example, Meagre, 1994; Bryson and White, 1994), but even these have had to be tentative in their conclusions.

This paper, therefore, makes no attempt to identify the specific factors underlying the observed trends in either country or the variation between the countries. We can note however, a similar convergence of factors in the UK and in Ireland during the period when self-employment in each country was peaking. Thus, in the UK, the late-eighties (when the absolute numbers in self-employment were at their highest and immediately before the rate of self-employment reached its highest point), were characterised by strong economic performance, growth in overall employment, fluid capital markets, positive ideology and strong support programmes. In Ireland, the mid-1990s, (also a period of intense growth in self-employment) are also characterised by unprecedented economic growth, employment growth, greater access to capital, and strong public support programmes.

We can also suggest that while this constellation of factors appears to be associated with an upsurge in self-employment, this does not outlive the factors themselves. Thus, in the 1990s in the UK, a period of recession coupled with some decrease in government support programmes, we see a decline in the numbers in self-employment and in the rate of self-employment. The more recent upturn in employment growth overall, is not paralleled by an upturn in self-employment. This lends support to the argument made by Boden and Corden (1994) that while periods of economic recession and growth can both, for very different reasons, result in increased entry into self-employment, it requires a period of growth for the businesses established to survive.

Equally, however, it is worth considering the suggestion that Moralee (1998) makes that the fall off in self-employment in the UK may simply be because the rates have already peaked and cannot continue to grow. Although Moralee doesn't develop this, the idea of a maximum rate of self-employment is an interesting one hinted at elsewhere in the literature (see for example, Taylor 1998). The mechanisms through which the rate will be controlled would vary, for example, saturation in the easy-entry markets which many new entrepreneurs enter; the creaming effect of public programmes which results in an initial success rate which cannot be replicated indefinitely. Limiting the rate of self-employment is also possibly a function of the success of the self-employed in creating new jobs. The greater is the volume of new employment created by the self-employed, de facto, the lower will be the rate of self-employment. This effect on the rate of self-employment is simply a function of mathematics. But downward pressure on the rate of entry to self-employment is also

a function of economics: the greater the size of micro-enterprises serving a particular market, the less will be the opportunities for new entrepreneurs to enter that market. Consequently, while acknowledging that market opportunities are not a zero-sum game, it must also be recognised that as micro-enterprises grow in terms of the volume of employment they create, they will exert a downward pressure on entry to self-employment.

This point highlights the need to clearly recognise the distinction between supporting self-employment as an economic diversification strategy and supporting self-employment as an individual economic survival mechanism, particularly for the unemployed. While these two may appear superficially as entirely compatible objectives, the target groups of policy to promote either will effectively be competing for market share. This issue is returned to later. First the broad policy framework of self-employment in the UK and in Ireland is examined.

Section 2: The Policy Framework for Self-Employment in the United Kingdom and in Ireland

This section discusses the policy framework for self-employment in the UK and in Ireland. The policy framework is understood to have three dimensions. The first of these is the *interventionist* dimension, implemented through public policies (predominantly in the areas of industrial and labour market policy) that actively seek to promote the option of self-employment through the implementation of support programmes. The second dimension is the broader *macro / regulatory* framework – including macro-economic policies and administrative requirements - within which self-employment and micro-enterprises operate. The third dimension is comprised of *social* policies – including health, social insurance and pensions which underpin the longer-term wellbeing of the self-employed and their families. Although these policies are operated simultaneously, they can be seen as having a chronological impact on self-employment: at the transition or start-up phase (*interventionist policies*), at the consolidation / survival phase (*macro / regulatory policies*) and finally at the post-entrepreneurial / retirement phase (*social policies*). The adequacy or otherwise of policy in these areas, therefore, will impact on specific aspects of self-employment.

As the discussion below shows, there are quite significant variations in the contemporary policy context within which self-employment occurs in Ireland and in the UK, particularly in regard to the first, interventionist, dimension. Despite this, both countries share two significant features of the policy framework. The first is the virtual absence of legal or regulatory barriers to self-employment. Unlike the situation that prevails in Germany, for example, where occupational qualifications

can be a pre-requisite to entry, in both the UK and Ireland, it is legally possible for anybody who wishes to do so, to establish themselves in self-employment in almost all sectors and occupations. The only exceptions to this are in the accounting, legal and medical professions. (There are, of course, practical barriers to self-employment such as those that derive from capital markets). The second shared feature is the predominant focus within the policy framework on interventionist policy that supports the initial transition into self-employment. The policy framework to support the survival in self-employment is less developed. (It should be noted though, that this situation is not unique to the two countries in question). Moreover, in some instances the regulatory framework provides a hostile context for self-employment, albeit unintentionally so.

In looking in more detail at the policy framework in the UK and Ireland, each country is discussed separately.

The Policy Framework for Self-Employment in Ireland

The actual and potential importance of self-employment in Ireland was slow to be granted official recognition and the current policy framework has developed in a somewhat piecemeal manner. Despite that, at this point there is a fairly comprehensive, albeit narrowly focused, body of policy in place to support *transitions to* self-employment. The genesis of these can best be understood against the backdrop of the development of economic policy more broadly.

During the 1930s, the early years of the newly independent state, Irish economic policy was based on protectionism as the new state attempted to build and diversify its under-developed economy on the basis of the large agricultural sector. By the 1950s this was no longer a feasible option and economic development policy shifted towards opening up the economy and attracting foreign investment into the manufacturing sector. That policy had a considerable degree of success up until the oil crises of the 1970s, at which point long-term unemployment emerged as an entrenched and persistent problem. While attracting foreign industry continued (and still continues) to be an important part of economic development policy, the growing unemployment crises forced a diversification.

Interventionist Policies

That diversification was reflected in two new policy directions. First, in 1983 fuelled by high levels of unemployment and a recognition of the weaknesses of the then package of labour market measures, a programme to support unemployed people to enter self-employment was introduced. The Enterprise Scheme (ES) was modelled on the Enterprise Allowance Scheme (EAS) which had been introduced shortly before in the UK. In the early 1990s the ES was discontinued but by that time, two

new programmes of support to enable *long-term* unemployed people enter self-employment had been introduced. Significantly, these programmes were established by the Department of Social Welfare (DSW) and represented a new departure in active welfare policy. Reflecting this, these programmes have been more finely tuned to the specific household income needs of the long-term unemployed (These programmes are discussed in detail in Section 3).

The second policy direction emerged in the mid 1990s when the concern to develop the indigenous sector led to a greater awareness of the relationship between this sector and micro-businesses and of the contribution of self-employment and micro-enterprises to employment creation in this sector. At that point, new structures (City and County Enterprise Boards) were introduced to support the establishment of micro-enterprises (The County Enterprise Boards are also discussed in some detail in Section 3). Apart from the CEBs, state support to small businesses is embedded within the agencies charged with supporting economic development more generally or in specific sectors or regions (see Table 4). (An additional impetus to the support framework for self-employment in Ireland derives from the concerns of the European Union in relation to employment creation and adaptation to economic change. Reflecting this, self-employment measures are included in many of the Operational Programmes for Ireland. These are targeted both at self-employment generally, and at self-employment in certain sectors).

Table 5
Overview of Self-Employment Support Framework, Ireland

Programme	Support Provided			Date	Implementing Agency	Target
	Advice/training	Money	Others			
CEBs	*	*	*	1993	Department of Enterprise Trade and Employment	Micro-business
Forbairt	*	*		199	Department of Enterprise Trade and Employment	More than 10 employees
Udaras na Gaeltacht	*	*	*		na	Business in Gaeltacht areas
Shannon Development		*	*		na	Business in Shannon
Employment Allowance	*	*		1983	FAS	Unemployed business starters
AAES	*	*	*	1993	ABPCs	Unemployed business starters
BTWAS	*	*		1993	DSW	Unemployed business starters

Macro/Regulatory Policies

The major elements of the macro-policy context, as they impact on self-employment, have been identified by Storey (1994) as interest rates, taxation, public spending and inflation. Policy in these areas is developed in respect of the economy as a whole. Consequently, the extent to which such policies favour self-employment / micro-enterprises will be based on their being formulated with the interests of that sector in mind or on the basis of special provisions or concessions to that sector in mind. In reality, of course, macro-policies are not formulated with the interests of the micro-sector. Nor is it the case, however, that significant concessions are made to the micro / self-employed sector.

- The taxation system offers no special supports or provisions to the self-employed or to micro-enterprises. These are subject to the same taxation regime as large companies. The payment structure and levels of payment in respect of Company Tax, VAT and personal tax that pertain generally, apply also to the micro-sector. However, the treatment of proprietorial directors within the system of personal taxation is disadvantageous.
- Within the policy framework, no measures are in place to provide low-interest finance for the micro / self-employed sector and in general, this sector is not well served by the mainstream capital markets (NESF, 1997; First Interim Report of the Joint Committee on Small Business and Services, 1996). Two issues are relevant here. The first is the difficulties which micro-enterprises and sole-traders experience in accessing capital, due mainly to the reluctance of the mainstream financial institutions to make micro-finance available, because of high administration costs and the perception of high risks. The second is the inability of the sector to negotiate low interest finance and consequently, the burden of interest rates together with the burden of debt repayment, impinges heavily on the incipient enterprise. More recently, there has been some amelioration of this situation as a number of the major banks have set aside loan funds specifically for micro-enterprises and the self-employed. There are also in existence a number of sources of small-scale finance to the micro-sector and, in some cases, specifically to the unemployed starting businesses (Duggan, 1998).
- The self-employed must report to a number of Government Departments, agencies and other bodies. These include the Revenue Commissioners, VAT inspectors, the Department of Social, Community and Family Affairs (previously the DSW), local authorities. If the self-employed person is receiving support from a programme, they will have to report to that as well. For the self-employed with employees, the burden of reporting is greater. It has been argued that the *'volume of state requirements pressing on small business is very considerable and*

requires a significant diversion of energy from the central task of running the business' (Task Force on Small Business, 1994).

- Although there is no minimum wage legislation in Ireland, certain areas of labour legislation are also seen to impose a burden on the self-employed. In this regard, the interests of the self-employed begin to come into tension with those of employees, highlighting the relevance of Storey's (1994) assertion that policy for self-employment must not be based only on the interests of the self-employed.

Social Policy

There are no special supports in place to facilitate the self-employed to secure the future well being of themselves and their families through adequate pension, insurance or health coverage.

- Public social insurance cover disadvantages proprietorial directors and their families, providing them with minimum benefits and, crucially, failing to provide unemployment cover.
- The Family Income Supplement scheme whereby a payment is made to those on low incomes is not available to the self-employed.
- Pension coverage of the self-employed is low but also differs considerably between sectors. In 1995, in the agricultural sector only 12 per cent of the self-employed were covered compared to 39 per cent of all other self-employed. However, the latter also shows great variation ranging from 17 per cent for those in service occupations to 53 per cent in professional occupations. (ESRI, 1996).

The Policy Framework for Self-Employment in the UK

The policy framework surrounding self-employment in the United Kingdom has emerged in a different economic and political context. In contrast to the situation in Ireland in which self-employment was first seen as a response to unemployment only later being recognised as a more general development strategy, in the UK the inverse process occurred. During the 1950s and 1960s the UK economy was characterised by a period of increasing public ownership and a process of concentration in private sector manufacturing. The predominance of large-scale enterprises by the late 1960s led to concern about the disappearing SME sector in the UK compared with other European countries. A committee of enquiry was established to examine the state of small business. Most of its recommendations, which included the establishment of a network of advice centres, were implemented

throughout the 1970s as, what Scott (1995) refers to as ‘a gentle process of support for the SME sector’ was put in place. At the end of the 1970s, the Tory Government, under Margaret Thatcher began a drive towards privatisation and deregulation. At the same time, growing concern about unemployment led to a focus on self-employment as a possible remedy. Self-employment came to be seen as a panacea for unemployment, to which an ideological dimension was added stressing the entrepreneurial virtues of hard work, thrift and independence. According to Scott (1995) this ideology, and in particular its stress on independence, was simultaneously an attack on the welfare state, an attack on the public sector and an attack on bureaucracy and regulation which was seen to hamper enterprise.

In a comprehensive review of the small firm sector in the UK in the early 1990s, Storey (1994) noted the absence of an overview of the history and development of small firm policy in the UK. That situation still pertains and it is consequently difficult to comprehensively summarise the full range of supports in place either now or in the past. One can say, however, that during the 1980s, a range of incentives was put in place to support self-employment including supports aimed at specific sectors and problem areas; the provision of financial assistance; and indirect assistance such as information and advice (see Storey, 1994 for a discussion of these). A number of major programmes have been categorised by Scott (1995), (see Table 6). As is the case in Ireland also, these programmes emphasised supports to the start-up phase of self-employment

Table 6
Overview of Self-Employment Support Framework, UK

Programme	Support Provided				Programme start dates	Programme financing	Target Group
	Advice / training	Logistics	Money	Others			
Business and Enterprise training		*		*	1989	TECs/LECs	Any business
Local Enterprise Agencies	*			*	1980-1990	TECs/LECs Local Authorities	New businesses
Enterprise Initiative			*	*	1988	Ministry of Industry and Commerce	Any business
Loan Guarantee Fund			*		1981	Government	Small business
British Coal Enterprise			*	*	1984	British Coal	Businesses in areas affected by coal mine closures
Livewire	*		*		1982	Shell UK plc	Young entrepreneurs
Prince's Youth Business Trust	*		*	*	1983	Government and Private Sector	Young entrepreneurs
Enterprise Allowance Scheme		*	*		1983	LECs/TECs	Unemployed Business starters

Source: CEDEFOP, 1994

Macro / Regulatory Policy

The major aspects of the macro / regulatory policy framework in the UK are similar to those described for Ireland and general summing up of the Irish situation applies also to the UK. That is there are no special measures in place to sustain self-employment in the economy generally, nor are there special supports to underpin the capacity of the self-employed to ensure their future well-being.

- The issues regarding access to capital is also broadly speaking the same in the UK as in Ireland. That is, small enterprises and sole-traders experience difficulty in accessing capital and interest rates impose a relatively greater burden on these enterprises than on larger units. Access to capital was easier during the late 1980s (Meagre, 1992), but this has more recently led to concerns of indebtedness particularly among homeowners (Burrows and Ford, 1998). More generally, Lynch (1997) identified the following difficulties for the self-employed sector: the lack of specialisation of banks in this area; the absence of a common approach to small business and micro-credit lending techniques and the absence of sustainability of many small business and micro credit funds.
- The UK taxation system is marginally more favourable to the self-employed than is the Irish system. But this derives solely from the reduced rate of corporation tax (25%) prevailing for firms which return profits of less than £300,000 per year. In other respects, the self-employed with and without employees are subject to the same tax regime as applies in the economy generally.
- The burden of reporting to the various authorities is also considerable in the UK and a number of regulatory regimes require the reporting of income from self-employment. The self-employed may have to account for themselves at different times, in different ways and under different rules to the Inland Revenue, VAT officials, the Department of Social Security, local authorities, and other agencies, none of which harmonises their demands for information or the computation of income (Boden, 1996).

Social Policy

As in Ireland, the UK benefit system was developed to provide support to employees. It has not been adequately adapted to meet the needs of the self-employed (Metcalf, 1998).

- Social insurance cover is also disadvantageous for the self-employed, providing them with a more limited range of cover than applies to the employed.

- One notable exception to this general situation is that Family Credit (similar to FIS) is payable to the self-employed, although the take-up rate is lower amongst this group than amongst employees (Marsh and McKay, 1993).
- Official figures suggest that the proportion of self-employed people who claimed annuity tax relief on personal pensions increased from around 36 per cent in 1987 to 39 per cent in 1989/1990. The 1994 Household Budget Survey shows that 56 per cent of self-employed men belonged to a personal pension scheme compared to 34 per cent of women. The self-employed with low earnings are less likely to have personal pensions, as are the self-employed amongst ethnic minorities (Hancock et al, 1995).

Summary

The debate around self-employment in the UK and in Ireland is fuelled variously by researchers, representative / lobby groups and policy makers. In the UK, where self-employment and the self-employed have been the subject of a very substantial amount of study, research has been a more important contributor to debate than is the case in Ireland. To a large extent, the debate in the UK has been positioned within the grey area that exists between the macro approach to self-employment as economic diversification and the micro approach to self-employment as an individual survival mechanism. One reflection of that is the concern that the contemporary high level of self-employment in the UK is a reflection of the disintegration of the primary labour market and that consequently self-employment is a second-rate option. That thesis has been supported by studies that show the low earning potential of a proportion of the self-employed, a high rate of indebtedness amongst them and the fragility of some small enterprises. In particular, businesses started by the previously unemployed are seen as particularly vulnerable (Eardly and Corden, 1996; Boden and Corden, 1994; Bryson and White, 1994). The demise of the EAS temporarily reduced the attention paid in the literature to previously unemployed business starters. But more recently there has been a growing awareness that without special measures, the unemployed and particularly the long-term unemployed, are unlikely to avail of incentives to enter self-employment (Metcalf, 1998). This focus has led to concerns about the correct *welfare* and *labour market* policies required to support this form of self-employment or at least to provide an incentive to enter it.

The re-entry of the issue of self-employment as an alternative to unemployment into the debate in the UK continues to focus on the effectiveness and efficiency of public programmes, that is of interventionist policy. The more general debate around self-employment and particularly as it is articulated by representative organisations (such as the Federation of Small Businesses) is more focused on the broader regulatory framework. In this context, demands for taxation changes to allow the retention of

profits for reinvestment, the simplification of the tax reporting systems and the administration of VAT all feature here. However, the rigorous assessment of the small firms sector in the UK conducted by Storey (1994) warns against deregulation as a means of bolstering self-employment and argues more generally that the self-employed sector is now too significant in the UK economy for public policy to be formulated only on the interests of that sector.

To a very great extent, the debate in Ireland is similar to that in the UK. On the one hand are those who call for measures to ensure greater access to self-employment for the unemployed and other disadvantaged group, notably women, the disabled and members of the Travelling community. Access to capital is seen as a particular barrier for these groups. But so too is the linking of eligibility for participation on certain programmes to Live Register status, a feature that tends to disadvantage women. On the other hand, calls for contextual changes in the regulatory framework from the small firms lobby are also a feature in Ireland and one which is finding an echo in official documentation (c.f. Taskforce on Small Business, 1994).

Inherent in the debate in both countries is the tension between self employment as economic development policy which benefits the economy generally (through the creation of jobs) and the self-employed themselves (through the creation of wealth) and self-employment as a survival mechanism for the unemployed which also benefits the economy (through reducing unemployment) and the self-employed (through the generation of income). That tension is played out in a number of ways including the different positioning of policy for the two objectives within economic policy and small firms policy on the one hand and welfare and labour market policies on the other. It is also evident in the fact that the demands of the small firms lobby are perceived to run counter to the demands of Trade Unions (in relation to labour legislation, minimum wage legislation etc), and to the demands of the organisation of the unemployed (in terms of the link between welfare payments and movements from the Live Register). Overall, despite positive assessments of the role of public policy in promoting self-employment, question remains about the effectiveness of small firms policy to promote employment creation and the effectiveness of welfare / labour market policies to underpin the long-term well being of the former unemployed.

Section 3: Main Programmes of Support for Self-Employment

During the 1980s and 1990s there have been very substantial differences between the UK and Ireland in relation to self-employment support programmes. Since the early 1990s, the situation in Ireland has been characterised by the establishment of

major national programmes and the development of new infrastructure to support self-employment. This was in contrast to the situation that prevailed in the 1980s when just one small self-employment programme for the unemployed was in existence. The current national programmes, the Back to Work Allowance Scheme and the Area Enterprise Allowance Scheme are targeted at the long-term unemployed (in fact, due to the almost automatic transition from the AEAS to the BTWAS, these can be considered a single programme). The County Enterprise Boards support micro-enterprise development more generally. These programmes are designed and monitored by central government but both the AAES and the CEBs are delivered locally.

Both the CEBs and the AAES / BTWAS are discussed in more detail later in this section. As the CEBs have not been fully evaluated (although the mid-term review did assess their operation to date), the discussion of these is based on official reports and statistics. In contrast, the AAES and the BTWAS have each been the subject of a recent comprehensive evaluation (WRCsec 1997a; WRCsec 1997b), and these evaluations provide the data for the discussion of these two programmes.

The situation in the UK is quite different. Here, there has been a move away from the national programme model implemented during the 1980s and early 1990s to the devolution of discretionary programme delivery at local level. To a large extent, this reflects a greater desire to achieve more cost-effective targeting of supports at those firms most likely to succeed and to create employment.

Between 1983 and 1991/2 the Enterprise Allowance Scheme (EAS) operated as an incentive to the unemployed to enter self-employment. The introduction of EAS, as already noted, while specifically reflecting the need to address the problem of unemployment also reflected the growing awareness of the employment potential of the small-business sector. The scheme provided for the payment of an allowance to unemployed people starting businesses on a fortnightly basis for a period of one year. From 1983 to 1991, the EAS was run directly by the Department of Employment's regional offices. During this period it is credited with the creation of 571,953 new jobs with up to 76 per cent of businesses still trading 6 months after completing the scheme. The scheme's popularity peaked in 1988 / 1989 when participation accounted for 5.26 per cent of unemployment (Scott, 1995). At that point the EAS was credited with 25 per cent of all inflow to self-employment (Meagre, 1994).

In 1991, responsibility for the EAS was transferred to the newly established Training and Enterprise Councils (TECs) in England and Wales and Local Enterprise Companies (LECs) in Scotland. In accordance with the remit of the LECs and TECs, the scheme was subject to substantial modification at the local level and operated from 1991 to 1995 as the Business Start-up Scheme. The funding arrangements

and the degree of discretion over eligibility meant that the programme changed from being a form of assistance for the unemployed to being one of general promotion of self-employment. TECS were paid by outcome, based on business survival. Business plans and assessment of business viability became a dominant feature and from April 1995, the programme was replaced by general business start-up support grants with no specific link to the unemployed (see Metcalf, 1998 for an overview of the transition from EAS to BSUS). Tracking of participants on the BSUS indicates survival rates of up to 70 per cent eighteen months after participation. Storey (1994) estimates expenditure per participant as in the region of £2,000.

The demise of the EAS / Business Start-up Scheme means there are now no national support programmes for self-employment in the UK. Instead, there are a plethora of supports / incentives available to the potential self-employed at the local level. These have been brought into a somewhat more integrated framework by the establishment of a series of networked one-stop shops. This network is known as Business Link in England, Business Connect in Wales, and Business Shops in Scotland. They seek to develop linkage between relevant agencies and organisations such as the LECs and TECs, Chambers of Commerce, local Universities etc. The objective is to provide information and direction to those interested in starting business and to facilitate them to negotiate the contemporary support framework. The one-stop shops are part funded by the national Exchequer and in the regeneration zones by the EU. The networks must also generate revenue themselves and consequently levy a charge for their services.

In one region, Scotland, a more comprehensive strategy to promote and support self-employment is underway. This is the Birth Rate strategy promoted by Scottish Enterprise since 1993. This strategy has not been evaluated and unambiguous data on its impact to date are not available. Nevertheless, as an alternative to the patchwork of incentives which exist in other regions of the UK, (and as one which holds some similarities to the County Enterprise strategy in Ireland), it is looked at in some detail in this section.

Self Employment Supports in Scotland

Since 1993, Scottish Enterprise has implemented an overall strategy to encourage and support self-employment and the development of small enterprise. In effect, this represents an attempt – with some apparent success – to develop a coherent framework that acts as a gateway to pre-existing enterprise supports while also promoting attitudinal change. The objective is to bring about a change in the economic culture and to support individuals to become self-employed or to establish small businesses. The strategy was based on research that demonstrated the importance of entrepreneurship to the economy on the one hand, and on the other,

the fact that Scotland had lost out in job creation because it had had a lower business birth-rate over the years (Business Birthrate: Enquiries Review, 1993).

The strategy called for wide-spread commitment to the task of increasing the number of business start-ups and Local Enterprise Companies, banks, schools, universities, local authorities, business organisations and entrepreneurs have all contributed in various ways to the strategy. Over 100 specific initiatives within the overall strategy were introduced since its inception. These have sought to make people much more aware of the possibilities of starting businesses, to provide better information and advice and to help people gain access to finance. Initiatives have also been undertaken to encourage businesses started by women, young people and non-home owners and to encourage more faster-growing businesses.

The Strategy has three main dimensions:

- **Improving Attitudes:** The objective here is to improve attitudes about enterprise development and about entrepreneurs in Scotland. It is implemented through a sustained media campaign to raise the profile of entrepreneurs and to increase awareness of the potential of and for self-employment, through the creation of six Centres of Entrepreneurship in the Scottish Universities and through the development of educational material for use in first and second level schools.
- **Developing the Infrastructure:** This aspect of the strategy seeks to improve supports for new businesses. A central element to achieving this was the establishment of thirty-eight Business Shops as a first-point source of help and information on starting a new business. Emphasis is also placed on improving access to finance to help entrepreneurs. This includes sources of finance such as banks (the Small Business Loan Scheme), equity finance (LINC Scotland, Scottish Equity Partnership), and access to the stock market (AIM).
- **Unlocking Potential:** Here the main priority is to persuade those with an interest in setting up their own business to actually do so. This is being done through the Personal Enterprise Show, a roadshow of eight local exhibitions organised by the Scottish Enterprise Network. These make available a range of materials for people interested in starting a business, host seminars on key business issues and provide opportunities to discuss business plans with entrepreneurs and advisors.

The Business Birth Rate strategy has not been systematically evaluated. But some data is available to suggest it is achieving an impact. The strategy is reaching and in some instances exceeding the set targets. For example, over 10,000 school and higher-education students have gone through enterprise programmes since the Business Birth Rate Strategy began. The Business Shops assisted over 40,000

people attempting to start their own businesses in 1997. The financing initiatives have brought an estimated £200 million into the pool of funding available to new and growing businesses in Scotland. Finally, the Personal Enterprise Roadshows attracted over 22,000 delegates.

Other data also suggest a positive impact on the client group, although measures of deadweight and displacement are not available. MORI polls over the period 1992 to 1997 showed an increase in the numbers of people in Scotland who reported themselves to be 'enthusiastic' about and 'committed to' starting businesses had increased. As a result, the level of interest in starting a business in Scotland is now on a par with that of the rest of the UK. There is also evidence that more businesses actually were created. Data compiled from the records of the four Scottish clearing banks shows an increase in the numbers of businesses being created while the number of closures has remained static. In 1995, 21,417 business start-ups were reported and 15,344 closures. In 1996 the corresponding figures were 23,047 and 15,983 (Scottish New Business Statistics, 1997).

Self-Employment Programmes in Ireland

In 1993, 36 County Enterprise Boards were established to provide funding to new and expanding enterprises with fewer than 10 people, i.e., micro-enterprises. This was a new departure in relation to state support for enterprise, which had previously emphasised support to enterprises with more than 10 employees. The thinking behind the new development was clearly set out in the Operational Programme for Local Urban and Rural Development (1993):

- Ireland adopts a relatively interventionist industrial and enterprise development policy generally, a policy which is supported under many parts of the EU Structural Funds and there is no reason to reject such an interventionist approach in relation to micro-enterprise.
- Extension of some level of public support beyond the traditional manufacturing and traded services category into other services seems to be well justified. Notwithstanding the genuine concerns about deadweight and displacement there seems to be a very good case at a time of an unemployment crisis to look at ways of extending assistance in a controlled way to the services sector.
- the micro business sector, on which the local enterprise initiative is specifically focused is an important source of economic activity and employment. Data show that while relatively unimportant in manufacturing, such enterprises account for 60 per cent of employment in retailing, 40 per cent in wholesaling and 36 per cent in construction.

The operational programme also summarised the anticipated macro-benefits of the County Enterprise Boards, as follows:

- the provision of a basic support system for micro / small enterprises which will increase the rate of start-up of micro-enterprise, improve their survival rate and preserve existing employment and which will assist viable existing firms to survive and expand, thereby preserving or increasing employment;
- forging an enterprise partnership at local level between the social partners financial institutions and local communities to promote and support enterprise activity undertaken by individuals, firms and community groups;
- generation of an improved enterprise culture through the preparation of County Enterprise Plans, the provision of business information and by other means.

There are 35 County Enterprise Boards in operation. Their role is to assist the development of small and start-up enterprises and they are mandated to deal specifically with micro enterprises. The intention is to establish on a regional basis viable and sustainable jobs and enterprises. The services of the County Enterprise

Board are open to all micro-enterprises, subject to their satisfying a number of criteria. These are the inherent quality of the proposed project; its relevance to the locality within which it is situated; its estimated cost effectiveness and viability and that it does not displace existing business. Typically, the projects will be small in nature and it is not envisaged that total project costs will exceed IR£100,000.

The County Enterprise Boards provide a range of financial and other assistance. Their key financial incentives are as follows:

- Feasibility study grants: up to 75% of cost subject to maximum of IR£5,000
- Capital grants: up to 50% of capital outlay subject to a maximum of IR£50,000
- Employment grant: up to IR£5,000 is available for each new full-time job created.

A project may receive either capital grants or employment grants, but not both.

Other services available are:

- Business planning advice and guidance
- Business information
- Single point of contact to other State agencies
- Mentor programmes
- Management development programmes.

The CEB strategy has not been evaluated to date. Consequently, assessments of the sustainability of the enterprises it supports, the dead-weight and displacement associated with these are not available. Some preliminary data on the number of projects and jobs supported is available however.

Table 7
Grants to and Jobs Created by Enterprises Supported by CEBs

	1994		1995		1996	
Grants Approved	IR£24,272,582		IR£12,564,628		IR£5,798,823	
Grants paid	IR£4,964,724		IR£13,507,575		IR£7,366,019	
Feasibility studies approved	802 (1993/4)		324		214	
Other project approvals	1,957 (1993/4)		1,256		1,536	
Jobs created in CEB assisted enterprises	full-time	part-time	full-time	part-time	full-time	part-time
	1,776	263	2,888	790	3,081	529

Source: First Interim Report of the Joint committee on Small Business and Services

Excluding feasibility studies, a total of 4,749 micro-enterprises have been supported since 1993. Between them these have created a total of 9,327 jobs of which the vast majority are full-time. From the above data, it also appears to be the case that the average number of jobs created by these enterprises has increased since 1993. Although as there may be a time-lag between the receipt of assistance and the creation of jobs, this conclusion is not emphatic. A comparison of the average cost of each job created by the CEBs with jobs created by other support agencies, suggest the CEBs are cost-effective.

Table 8
Features of Expenditure of Enterprise Support Programmes, 1995

	CEBs	Forbairt	IDA Ireland	Shannon Development	Udaras na Gaeltacht
Support Programme Expenditure IR£	14,928,000	60,363,000	95,000,000	27,591,000	16,373,000
Expenditure on small business IR£	14,298,000	19,900,000	na	na	na
Expenditure on non-financial assistance IR£	1,421,000	4,468,000	none	2,119,000	1,787,000
Jobs created	3,295	10,678	11524	1429	1251
Average cost of jobs created IR£	IR£3,551	IR£9,441	IR£12,048	IR£8,115	IR£9,700

Source: First Interim Report of the Joint Committee on Small Business and Services, 1996.

The Back to Work / Area Enterprise Allowance Schemes

The rationale for the AAES and the BTWAS reflected a number of concerns at the time of their introduction. These included the persistence of long-term unemployment, the shift in welfare policy from passive to more active forms of support and a desire to ease the transition from welfare (and also from the black economy) to economic activity. The AAES was introduced in 1992, initially in the 12 pilot areas within which Area Based Partnership Companies had been established to respond to long-term unemployment at the local level. The Government statement introducing the AAES described the main features as follows:

- a *The payment by the Department of Social Welfare, for a period of twelve months, to a person who is starting a business, of an allowance equivalent to the social welfare payments the person would have been entitled to on the Live Register. This is to ensure a family income while the new business is getting underway.*
- b *The retention by the person of secondary benefits (i.e., Christmas bonus, fuel and butter allowances, differential rents, medical cards and supplementary welfare) associated with the payment, for a period of twelve months.*

- c *An assessment of the business project will be undertaken by the Area Partnership to ensure that such business does not displace existing businesses.*
- d *After a period of twelve months the business project will be reviewed to assess its long-term viability.*
- e *Persons who have established viable projects will be transferred for a further 40 weeks to the Enterprise Scheme at a level of £40 weekly and £60 weekly for single and married persons respectively. (Press Release from the Department of the Taoiseach, 30th April, 1992)*

In 1993 the DSW introduced the BTWAS on a national basis with the same qualifying conditions as applied to the AAES. The period of support under the BTWAS was initially two years, subsequently extended to three. The rate of support for participants is 75, 50 and 25 per cent of prior welfare income in the first, second and third years of the programme, respectively. As with the AAES, participants retain prior entitlements to secondary benefits. In 1995, the ES ceased and the BTWAS became the continuing support to the self-employed on the AAES. With the extension of the ABPC strategy to almost the entire country in 1995, the AAES and the BTWAS now effectively operate as a continuous four year programme of support on a national basis.

Table 9
The AAES and the BTWAS: Eligibility Criteria and Programme Supports

	AAES	BTWAS
Eligibility	LTU 23+ & Lone Parents (No Age Criteria)	LTU 23+, & Lone Parents (No Age Criteria) & Persons with Disability (1,000 Places)
Implementing Agency	ABPCs + DSW	DSW
Screening	Application & Business Plan (variable across ABPCs)	Application (standard)
Form of Financial Support	Allowance ("Docket" for Encashment)	Allowance (mainly by Electronic Funds Transfer)
Initial Level of Financial Support	100% of Prior Welfare & Retention of Secondary Entitlements	75% of Prior Welfare (yr 1) decreasing to 25% (yr 3) & Retention of Secondary Entitlements
Capital & Grants	Variable Across ABPCs	Joint Loan Fund (DSW & First Step)
Form of Non-Financial Supports	Enterprise Officers Plus Business Training and Services (variable)	Job Facilitators
Duration of Support	1 Year	3 Years

Source: WRCsec, 1997c

The ABPCs implement the AAES which includes promoting awareness of the AAES, providing information to potential entrants, assessing the viability and displacement potential of business proposals, and providing support to participants who have established businesses under the programme. The ABPCs have also introduced a range of financial and non-financial support packages to parallel the income support

provided by the AAES. These include access to grants and loans, access to specific programmes of assistance such as mentoring and access to accountancy services (WRCsec, 1997a). At the end of their first year of self-employment, participants on the AAES transfer to the operational framework of the BTWAS. At this point, support is available to them from Job Facilitators who are the DSW personnel with responsibility for implementing the BTWAS. There is a degree of flexibility in this, but the following set of activities is typical: providing information to the unemployed regarding the operation of the BTWAS; interviewing people seeking to become employed or to start their own business with assistance from the BTWAS; providing follow-up assistance to the self-employed.

Since their introduction, there has been a consistent increase in the number of participants on the BTWAS and the AAES. In December 1997, there were 9,600 participants on the BTWAS and over 4,500 on the AAES. When the figures for both programmes are combined, these were catering for 11,200 participants in April 1997 or approximately 9 to 10 per cent of the long-term unemployed on the Live Register. This places the AAES / BTWAS among the largest of the programmes that have been introduced in any country to assist the unemployed enter self-employment.

Profile of Entrants

The profile of entrants to the AAES and the BTWAS differs from that of the long-term unemployed and from that of the inflow to and stock of self-employed nationally. In comparison to the long-term unemployed, entrants to the AAES and the BTWAS are more likely to be men, to be in the 35 to 44 year old age group, to be educated to third level. Conversely, women and those with no second level qualifications are under-represented. In comparison to the inflow to and the stock of the self-employed, what is most interesting is that entrants to both programmes have considerably lower levels of education than the self-employed without employees.

Profile of Businesses Established

A profile of the businesses established under the AAES and the BTWAS is presented in Table A6. The main points are that:

- the vast majority of businesses are sole traders, with no employees but some degree of reliance on the unpaid labour of family members. The unpaid labour of spouses or partners is particularly relevant;
- the vast majority of businesses are started from the self-employed person's own home and continue to operate from this base;
- approximately three quarters of businesses require start-up capital and among those that do, there is significant variation in the amount required;
- over 60 per cent of businesses operate in local or very local markets and just under 50 per cent report that they have no direct competitors;

- the vast majority of businesses have an average monthly turnover of less than £2,000.

At a very aggregate level of analysis, the majority of businesses established under both programmes operate in the service sector: 60 per cent in the case of the AAES and 58 per cent in the case of the BTWAS. This is somewhat below the proportion found among the non-agricultural self-employed nationally (i.e., 72 per cent in 1993). A very small proportion (i.e., 4 per cent) of entrants to both programmes established businesses in the agricultural sector, mainly in the areas of market gardening and horticultural activities.

Deadweight, Displacement and Survival

Table 9 presents the key data in relation to deadweight, displacement and survival.

Table 10
Deadweight, Displacement and Survival in the AAES and the BTWAS

	<i>AAES</i>	<i>BTWAS</i>
Range of estimated deadweight	38 to 48 (43)	28 to 59 (36)
Displacement		
% of businesses with potential to displace employment	42	44
Estimated employment displacement	19	10
Survival rate at time of survey	81	89
Estimated post-support survival	60-65	60-65

Source: WRCsec, 1997c

The assessment of deadweight was based on the conventional method (i.e. participants' subjective assessment of their behaviour in the absence of the programme) combined with a more rigorous mode of assessment. This indicated deadweight in the programmes as two-fifths (AAES) and one third (BTWAS). This is in line with levels reported in other studies and is somewhat below the levels associated with the former Enterprise Scheme in Ireland and the Enterprise Allowance Scheme in the UK.

Displacement

In assessing displacement in relation to the two programmes, particular emphasis was put on the assumed role of market factors in mediating the loss of employment (as distinct from trade) in other businesses. Additional factors such as the presence of direct competitors and estimates of the share of turnover gained at the expense of direct competitors were also taken into account. On the basis, the employment displacement associated with businesses established under the AAES and the BTWAS is estimated to be in the region of 19 and 10 per cent respectively. These estimates appear low in comparison to those of other programmes, including the EAS.

Survival

By the time of the survey, 81 per cent of businesses established under the AAES and 89 per cent of those established under the BTWAS were still in existence. When the first year on the AAES is discounted - 100 per cent of entrants survived this - the survival curves for both the AAES and the BTWAS are very similar. The data outlined in Figure 2 demonstrate the crucial role which the structure of financial supports play in underpinning the survival of businesses – a finding which echoes work in the UK (Bryson and White, 1994).

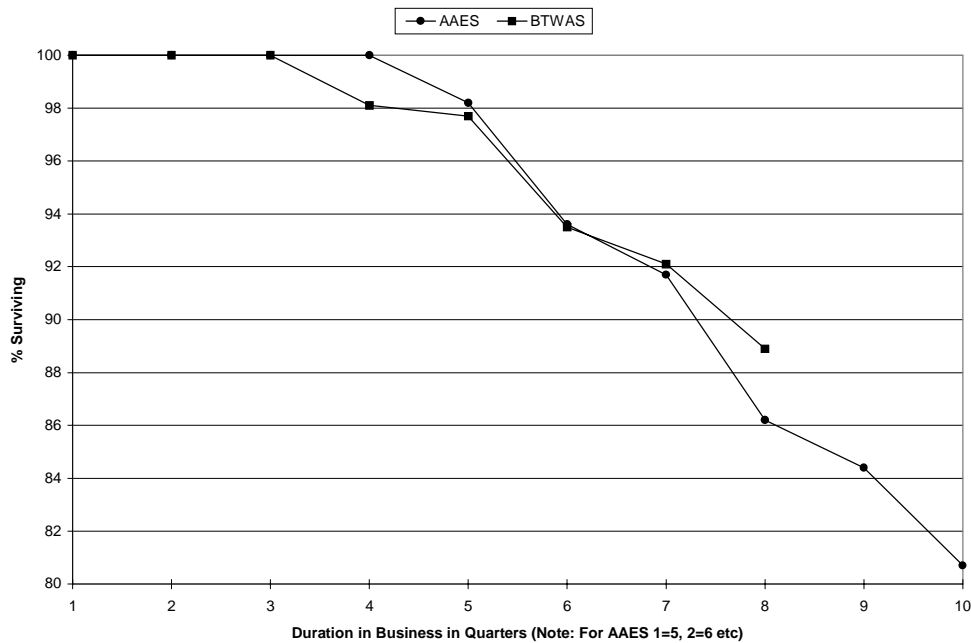


Figure 2 Survival Curves for Businesses Established Under the AAES and the BTWAS

This is also reflected in the reasons for business failure identified. These were:

- lack of access to a sufficient level of start-up capital and to working capital;
- an over-estimation of market demand for product or service and inadequate market research and business planning;
- an under-estimation of competition;
- lack of support and guidance;
- lack of personal motivation;
- the drop in income support from the BTWAS.

Summary

In assessing the contribution of the AAES and the BTWAS, it is important to consider both their strengths and weaknesses. On the plus side, these programmes have

put in place a system of supports to assist the long-term unemployed to make the transition to self-employment. Given the pattern of increase in the number of entrants and the fact that a high proportion of entrants had previously never participated in a labour market programme, it is clear that they are filling a gap in the policy package. Both programmes, but in particular the BTWAS, also recognise that there is a need to provide practical assistance to and incentives for those working on a casual basis or in the black economy to regularise their situations. Third, the levels of deadweight, displacement and survival compare favourably with other programmes leading to a low overall cost of implementing the programmes. (Although it must be acknowledged that the assumptions underpinning the assessment of displacement are open to question).

The evidence in relation to the weaknesses of the programmes highlights the fragility of many of the businesses established as the central issue requiring attention. This is broadly the case with respect to both programmes even though those starting business under the AAES have access to a four year programme of support and a more intensive set of financial and non-financial supports in year one. The fragility of the businesses is illustrated by the low turnovers of a large proportion of surviving businesses, the entry of a substantial minority of businesses into areas where barriers to entry are low but in which competition is likely to be high and the dependence of many surviving businesses on income support. The latter points to the likelihood of a substantial increase in business failures following the cessation of income support.

In essence, what the above suggests is the need to distinguish between the proven capacity of the AAES and the BTWAS to *activate* the long-term unemployed and their capacity to underpin their *inclusion* in economic and social life. The extent to which they can achieve the latter objective will depend, fundamentally, on the longer term viability and profitability of the businesses established.

More broadly, issues of debate in relation to current provision of incentives for the unemployed to enter self-employment focus on issues of access to enterprise opportunities and, to a lesser extent, supports for the sustainability of the enterprises established by the unemployed. The former issue is reflected primarily in calls for special measures for women and other groups under-represented among the self-employed. But it is also reflected in arguments to capture enterprise opportunities for the unemployed in ways which do not require the unemployed themselves to become entrepreneurs. One model, identified on the basis of actions supported by the EU Human Resource Initiative, EMPLOYMENT, highlights the role which brokering organisations can play in identifying market opportunities, developing the technical and business competencies of unemployed participants etc (Figure A.1).

Essentially, this model recognises that access to finance is not the only barrier which the unemployed face in starting enterprises.

Finally, the issue of longer-term supports has also been highlighted by the National Economic and Social Forum (NESF). It has identified a matrix of supports required spread across the chronological phases of enterprise. Thus it highlights the different manifestations of supports (interventions of advice, training, business planning, funding, space provision and guidance) across the four stages of enterprise development: pre-enterprise, start-up, early operation and expansion / consolidation (NESF, 1997).

Section 4: Conclusions

Assessments of public policy in both the UK and in Ireland indicate its effectiveness generally in promoting self-employment (Storey, 1994) and specifically in relation to the unemployed (WRCsec 1997a; 1997b, Metcalf, 1998). But as already noted, issues remain regarding the longer term impact of both sets of policies. In particular, as Storey has observed, while the quantity of small enterprises increased in the UK, their quality has decreased. This appears to be a continuing feature as borne out by the data reported on in Section Two. Moreover, in the more recent period, this coincides with greater targeting of resources in the UK on the more viable enterprises. More specifically, evaluation and reviews of public policy to support self-employment among the unemployed highlight the difficulties which enterprises established by this group experience in maintaining adequate levels of income and in underpinning the long-term well-being of this group of self-employed and their households. Studies in both countries show the fragility of such enterprises, the low level of income that they generate and the greater likelihood of indebtedness. The longer term implications for public policy and public expenditure of these issues have not been fully acknowledged.

Public policies in both countries also maintain a predominant focus on supports for the transition to self-employment. Policies to support survival and expansion are less of a feature and there is cause for concern about the capacity of the self-employed to generate employment. Little or no research has been done on this issue in Ireland, but in the UK, Cowling et al. (1997) have identified the characteristics of the self-employed most likely to create employment. These were a high level of job-related vocational skill (rather than academic achievement) and a degree of maturity. They conclude *“the key findings are that the decision to hire employees is related to work and lifetime experiences rather than academic achievements. There is also an important and complementary role for financial capital”*. Research in the UK has also

established a link between the size of an enterprise and the desire to grow in terms of employment. Hakim (1989) found that only 55 per cent of the firms run by the self-employed aspired to employment creation. Moreover, it was also found that those least likely to do so were firms employing just one or two, including the owner / manager. On the basis of evaluations of support programmes, it also appears that the capacity of businesses established by the previously unemployed to create employment is particularly limited.

This highlights the issue of different categories among the self-employed. In general, self-employment has been defined on the basis of its distinction from employee status rather than on the basis of its inherent characteristics. Attempting to understand the factors that promote its development and growth or in understanding the types of policy which are required to support these has been hampered by the heterogeneity of the sector. It has also been hampered by the failure to specify clearly the objectives of policy. For example, as discussed briefly at the outset, if alternative routes are the issue then long-term sustainability of the enterprise together with future wellbeing of the entrepreneur and her or his family is important. If economic diversification is the issue, then capacity of small firms to grow and provide employment at least of a quality within the economy generally is the issue. In both cases, the supports required to achieve the objective extend beyond the entry and start up phase.

There is clearly a need to state the precise objectives of various aspects of public policy to support self-employment and to make evident the varying (and not always compatible) balance which exists between creating employment, reducing unemployment and achieving greater social equity within these policies. There is also a need, at this juncture, to set the objectives of public policy for self-employment against the broader backdrop of public interest. As Storey has clearly stated, the interests of self-employed are not a sufficient basis for the development and implementation of policy. But it is also necessary to take into account the more social and or indirect objectives of public policy in this area particularly as these impact on the unemployed. Issues of equity and inclusion (WRCsec, 1997a; 1997b), the desirability of intervening in depressed urban areas (Storey, 1994) and the capacity of self-employment programmes to increase the stock of human capital thus improving the position of the unemployed on the labour market, need all to be factored in.

In both the UK and in Ireland, there is some recognition of these issues. But, to the extent that they have been incorporated into policy, this has occurred in an incrementalist or piecemeal way. In both countries, therefore, there remains much to be done to transform the current package of incentives to support entry to self-

employment into a coherent strategy to develop and consolidate the self-employed / micro-sector.

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Table A1: Trends in Self-Employed with and without Employees (excluding Agriculture), UK and Ireland, 1984 - 1997

Self -Employed		Total Numbers (1,000's)		Percentage of Total Employment	
YEAR		Ireland	UK	Ireland	UK
1984	With employees	38.25	851.37	4.20%	3.68%
	Without employees	66.36	1523.03	7.28%	6.58%
	Total	104.61	2374.41		
1985	With employees	40.21	935.47	4.50%	3.94%
	Without employees	67.25	1574.39	7.52%	6.64%
	Total	107.46	2509.86		
1986	With employees	36.52	922.94	4.05%	3.87%
	Without employees	65.62	1617.15	7.27%	6.78%
	Total	102.14	2540.10		
1987	With employees	43.64	979.17	4.78%	4.04%
	Without employees	68.29	1828.12	7.47%	7.54%
	Total	111.93	2807.30		
1988	With employees	47.31	937.89	5.14%	3.74%
	Without employees	72.89	1996.51	7.92%	7.97%
	Total	120.19	2934.40		
1989	With employees	44.40	1011.79	4.79%	3.90%
	Without employees	74.00	2197.29	7.99%	8.46%
	Total	118.40	3209.08		
1990	With employees	48.71	1011.61	5.06%	3.86%
	Without employees	80.01	2241.24	8.32%	8.55%
	Total	128.71	3252.85		
1991	With employees	49.24	936.28	5.05%	3.66%
	Without employees	77.07	2150.17	7.90%	8.39%
	Total	126.30	3086.46		
1992	With employees	53.90	831.78	5.43%	3.30%
	Without employees	81.92	2099.79	8.26%	8.33%
	Total	135.82	2931.58		
1993	With employees	58.88	805.38	5.87%	3.23%
	Without employees	81.74	2110.17	8.14%	8.45%
	Total	140.62	2915.55		
1994	With employees	57.25	780.72	5.42%	3.11%
	Without employees	86.29	2251.78	8.17%	8.96%
	Total	143.54	3032.50		
1995	With employees	60.55	787.60	5.45%	3.10%
	Without employees	90.13	2297.49	8.11%	9.04%
	Total	150.68	3085.09		
1996	With employees	56.70	746.95	4.88%	2.91%
	Without employees	93.27	2285.80	8.03%	8.91%
	Total	149.97	3032.75		
1997	With employees	63.48	795.31	5.19%	3.04%
	Without employees	95.46	2288.06	7.80%	8.76%
	Total	158.94	3083.37		

Table A2: Trends in Full-Time and Part-Time Self-Employment in Ireland and UK 1984, 1990, 1997 (excluding agriculture)

	Ireland		United Kingdom	
	Full-Time	Part-Time	Full-Time	Part-Time
1984	99,000	5,000	1,955,000	419,000
1990	122,000	7,000	2,728,000	524,000
1997	148,000	10,000	2,428,000	653,000

Table A3: Trends in Male and Female Self-employment in Ireland and UK, 1984, 1990, 1997 (excluding agriculture)

	Ireland		United Kingdom	
	Men	Women	Men	Women
1984: with employees	33,406	5,634	661,102	190,271
without employees	54,262	12,094	1,224,156	408,756
1990 with employees	41,691	7,016	783,251	228,355
without employees	63,869	16,136	1,664,976	576,265
1997 with employees	50,935	12,539	596,955	198,354
without employees	74,231	21,228	1,671,802	616,255

Table A4: Sectoral Distribution of Self-Employed, Ireland and UK, 1997 (excluding Agriculture)

Sector	Ireland		UK	
	With Employees	Without Employees	With Employees	Without Employees
Mining and Quarrying	270.15	123.09	406.37	4,248.07
Manufacturing	6370.93	8605.13	64,034.67	179,512.7
Energy, water supply	25.7	64.87	888.68	3,012.6
Construction	10434.08	19,682.22	102,121	642,558.3
Distributive Trades, Hotel and Catering, repairs	26.876.38	26,698.13	301,394.3	354,262.2
Transport, storage and communication	2.643.91	10,857.37	35,779.43	183,597.3
Banking, business renting	8.256.56	10,967.79	161,563.9	390,022
Other services	8.544.54	18,169.91	128,439.1	527,160.9
Missing data	29.89	291.47	682.75	3686.06

Table A5: Self-Employment with and without Employees by Occupational Status in Ireland and UK in 1997 (excluding agriculture)

1997 Occupational Status	Ireland		UK	
	With Employee es	Without Employees	With Employees	Without Employees
Legislators, senior officials and managers	15,000	10,000	338,000	270,000
Professionals	10,000	15,000	172,000	384,000
Technicians and associate professionals	4,000	8,000	64,000	287,000
Clerks	0	1,000	22,000	84,000
Service workers	16,000	17,000	19,000	127,000
Skilled agricultural workers	0	0	1,000	29,000
Craft and related trade workers	12,000	24,000	132,000	762,000
Plant and machine operators	4,000	16,000	34,000	180,000
Elementary occupations	2,000	4,000	13,000	163,000
No Response	0	0	0	1,000