

‘Social protection for the self-employed in the UK: the disappearing contributions increase’

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Abstract

A recent government proposal to increase national insurance contributions for the self-employed in the UK, in return for improved pensions and potentially also parental benefits, was immediately reversed. This article analyses the reasons behind this about-turn, linking them to tensions between the goals of thwarting ‘bogus’ self-employment and increasing tax revenues versus commitment to a higher wage, lower tax, lower welfare economy. The analysis is set in the context of the singularity of the UK system in relation to much social protection in continental Europe, and wider debates about the roles of individual, state and labour market in providing security.

Key words: self-employment, national insurance, social protection, contributions increase, United Kingdom

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Introduction and context

There are more differences between the treatment of self-employed people and employees in the national insurance (NI) system than in other elements of social protection in the UK. The focus of this article is one recent attempt to address these differences. In the Budget in March 2017, the Chancellor of the Exchequer announced that there would be an increase in the profits-related national insurance contribution (NIC) rates for self-employed people, to be introduced in two stages. This increase was to be implemented in return for improved social protection that had already been introduced or was envisaged in future. There was general agreement from serious social policy commentators that this was a sensible move. Yet within a week, the proposed increase had been abandoned. This article analyses the reasons behind the policy proposal being introduced, and why it was reversed so quickly. It sets this analysis within the broader context of the particular nature of social protection in the UK, and in relation to policy developments at a European level.

The background to this policy reversal is the recent increase in self-employment in the UK, as elsewhere. Nearly half the growth in employment since the recession has been in self-employment (Deane, 2016). But it is also important to highlight the nature of self-employment in the UK, and the need for social protection that this suggests. For example, the House of Commons (HC) Work and Pensions Committee (2017) reports that part-time self-employment grew by 88 per cent from 2001-15, compared to 25 per cent for full-time. Delloit and Wallace-Stevens (2017) suggest that nearly one in five of the self-employed become so in order to escape unemployment, and Caraher and Reuter (2017) add that some may be avoiding the ratcheting up of conditionality in the benefits system.

There have been recent suggestions, however, that the rise in self-employment and non-standard contracts may have plateaued (for example, Bell, 2017); and some commentators argue that cyclical changes, employment rules and tax incentives are important drivers for any increase, in addition to the structural labour market developments that have captured so much attention. There is also growing concern about how much of this recent growth in self-employment is 'bogus' (HC Work and Pensions Committee, 2017), with Citizen's Advice (2015) estimating that there could be 460,000 'bogus' self-employed people, though others believe this to be an over-estimate. This phenomenon is often attributed to employers attempting to avoid paying tax and employers' national insurance contributions, or granting employment rights, or both, and is therefore clearly relevant to the social protection issues for self-employed people discussed in this article.

Overall, there is little dispute that the expansion of self-employment is one real and important recent trend in the UK labour market. The importance of social protection for self-employed people is also clear. Concern about the precarious nature of some self-employment – even when the self-employment is apparently genuine – has been growing, for various reasons. For example, in 2016, out of 5.5 million businesses, the vast majority were small, with three-quarters employing no-one (Taylor, 2017). A growing proportion of households containing one or more full-time self-employed people find themselves in poverty (DWP, 2018), and many are likely to be amongst the 'just about managing' for whom Prime Minister Theresa May expressed sympathy on initially taking office. Forty-five per cent of self-employed people aged 25 or over earn below the 'national living wage' (the hourly national minimum wage for this group) and 64 per cent of low-paid self-employed people have no income from savings,

investments or pensions (Broughton and Richards, 2016). Median profits for the self-employed have fallen more than employees' earnings since the start of the crisis (D'Arcy and Gardiner, 2014, cited in Caraher and Reuter, 2017), though this may be partly due to changes in the composition of both groups. The ability of social protection systems to provide adequate security for the self-employed should therefore have become an increasingly urgent policy issue in the UK. Policy developments in the European Union (EU) certainly suggest that this is the case at EU level, with ongoing discussion of a Recommendation on social protection for the self-employed as well as those in so-called 'atypical' employment (European Commission, 2017a, 2017b), which is discussed later in this article in order to set the UK system in context.

Recent policy developments

Background

The hasty abandoning of the proposal to increase NICs for self-employed people in the 2017 Budget can only be understood against the background of recent government thinking and action in this policy area. Following an independent review of self-employment (Deane, 2016), the government decided to abolish the flat-rate Class 2 NICs that self-employed people pay in addition to any profits-related contributions that are due. This would mean that the way in which self-employed people qualify for national insurance benefits would need to be rethought. The abolition of Class 2 NICs was due to take place in April 2018, but in November 2017 it was postponed for a year, and it has now been officially abandoned (House of Commons, 2018).

The government had consulted on benefit entitlement for the self-employed following the original proposal (DWP, HMRC and HMT, 2016), which would have left only Class 4 (profits-related) NICs for self-employed people. It proposed a zero rate band for liability for the remaining Class 4 NICs on profits, matching existing provision for employees, so that those with low profits but above a certain level could qualify for the relevant benefits (Seely, 2018: 11-15). Voluntary contributions (Class 3) could be paid by lower-income self-employed people to gain access to some contributory benefits – but without mitigation, this could reportedly have meant a five-fold cost increase for some self-employed women. Social protection for lower-paid self-employed people would have become more voluntary, arguably making their position more precarious - though the government argued that this would affect small numbers, and that voluntary Class 3 contributions can be paid up to six years from the time to which they relate (Seely, 2018: 15). However, according to the government, the reason why the abolition of Class 2 NICs was postponed, and then ultimately abandoned, was in part to allow time for consultation on the impact on self-employed people with low levels of profits.

This was not the first time that recent governments have looked to reform the contributions side of the NI system. A prime reason for this has been related not so much to social protection as to increased emphasis in public debate on the lack of alignment between NICs and income tax. This is based on the idea that NICs are just another form of taxation. The issue is also becoming increasingly obvious because of the recent real increases in personal tax allowances year on year, without matching increases in the NICs primary threshold. Political rhetoric about creating a higher wage, lower tax, lower welfare economy has focused only on (income) tax, not NICs. Indeed, some commentators argue that NICs have been increased in recent years not in order to improve benefits but to keep taxation down (Bell and Gaffney, 2012). There is evidence that it is easier to raise social insurance contributions (Koreh and Beland, 2017) - for example, Gordon Brown MP, when he was Labour Chancellor, succeeded in 2002 in increasing NICs by 1 per cent to fund the health service, with little public protest. This must be one major reason for successive governments' failure to bring about the merger between NICs and income tax proposed by many commentators. But even so, the widening

gap between NIC and tax thresholds may cause the lower paid to resent paying NICs on earnings officially considered to be too low to pay income tax (Bennett, 2015: 45).

Although there is some overlap, income tax and NICs are nonetheless very different in structure, and each can be levied on different kinds of income. Calls have increased for closer alignment, or even a merger. The Office for Tax Simplification (OTS) (2016) has also argued since 2011 that the structure of NICs is no longer fit for purpose for the modern labour market, and that it should become annual, cumulative and aggregated, like income tax. Alignment is largely seen as being relevant to employees, because simplifying the administration is intended primarily to assist employers (who in addition could potentially pay employer NICs as a payroll levy instead); but it would also affect the self-employed. Previous proposals for a merger have sometimes come from those interested in reforming social security benefits; but economists and tax experts, and recently the OTS (2016), focus instead on the revenue side. The OTS highlighted the 'distortion built into the system – two individuals with the same gross income, constituted differently, may have very different NICs outcomes, and possibly be entitled to different benefits' (OTS, 2016: 8).

Concern has also grown about the tax advantages of self-employment, leading to some consensus about the need to level the playing field, to discourage 'bogus' or 'false' self-employment. The abolition of flat-rate Class 2 NICs for the self-employed would have gone further in this direction, if taken by itself. But recent government proposals to increase profits-related Class 4 NICs which would have instead brought the position of employees and the self-employed closer together were almost immediately withdrawn (see below). The remainder of this article tells this narrative and attempts to analyse its drivers, before putting the UK social protection system in context in relation to the EU as a whole in order to highlight its singularity.

National Insurance (NI): proposed change in the 2017 Budget, and withdrawal

In the Conservative government's Budget on 8 March 2017, the Chancellor of the Exchequer proposed an increase in the main NICs rate for the self-employed, from 9 per cent to 10 per cent in 2018 and 11 per cent in 2019 (HMT, 2017a). This followed the Autumn Statement (HMT, 2016), in which he said that the government was considering how to ensure fair taxation of different ways of working and sustainability of the tax base.

These increases in NICs for the self-employed would have raised £645 million in 2019/20 (HMT, 2017a). The Chancellor's argument relied partly on the need for additional revenue for public services, especially social care. This was rather odd reasoning, given that NICs are not part of income tax, as noted above, but largely ring-fenced in a Fund to finance NI benefits (Seely, 2018), with explicit decisions needed to use the revenue for anything else, and a requirement for separate legislation to change NIC rates etc. In such statements government spokespeople appear to be blurring the distinction between NICs and taxes, even if they have not (yet) been merged as recommended by some (e.g. OTS, 2016).

The Chancellor also said that the increase would create a fairer and simpler NICs system, and would remove an incentive for false self-employment. The disparity between employee and self-employed NICs would have increased with the abolition of Class 2 NICs proposed previously by the government and discussed above (Hammond, 2017). In the past the size of this subsidy has been put at around £3 billion per year (Seely, 2018). In addition, the HC Work and Pensions Committee (2017: 13) argues that 'bogus' self-employment 'passes the burden of safety net support to the welfare state at the same time as reducing tax revenue', because of possible future claims for means-tested benefits from self-employed people (see also Taylor, 2017: 72).

But the Chancellor also noted that recent pension reforms benefit the self-employed (by an average additional £1,800 per year of retirement, he stated on 15 March in parliament). He was referring to the fact that, since April 2016, self-employed people have been eligible, like employees, for the new single tier state pension, which is higher than the previous basic pension. As this replaces earnings-related pension provision, for which self-employed people were ineligible, they benefit significantly (by on average £35,000 compared to just the basic state pension, according to the Institute for Fiscal Studies). The official estimate is that the subsidy to the self-employed was rising to over £4 billion in 2017/18 because of changes to state pension entitlements, a figure which is higher than the total received in contributions from both the main classes of NICs paid by this group (Government Actuary's Department, 2018, Appendix D, cited in Seely, 2018).

In addition, the government hinted in the parliamentary debate on 8 March 2017 that it would consider improving parental payments for the self-employed. The Deane review of self-employment (2016) had recommended increasing maternity allowance for self-employed women to the higher level of statutory maternity pay in the first six weeks; and the Women and Work All-Party Parliamentary Group (2017) recommended a form of statutory maternity pay for self-employed mothers, and a re-examination of parental benefits for self-employed people generally.

Convincing reasons were therefore put forward on both the revenues and benefits side for the proposed increase in NICs for the self-employed. However, the Prime Minister swiftly announced that legislation would not be introduced until the autumn, and only once the Taylor report on employment conditions was published (May, 2017). And shortly afterwards, in the face of opposition from government supporters and others, the proposal was withdrawn entirely, via a letter from the Chancellor to the Treasury Committee only a week after the Budget (Selly, 2018). The government promised that, although the autumn Budget would include measures to raise the equivalent revenue, it would not increase NICs during that parliament. The Chancellor cited the 'spirit' of the Conservatives' 2015 election manifesto, which ruled out increases in sales tax (VAT), income tax and NICs - whilst noting wryly that in practice subsequent legislation committed the government only to not increasing employees' Class 1 NICs. On 29 March, the Chancellor described the proposal as 'shelved' rather than abandoned, whilst emphasising the importance of the public being able to trust the government in power, especially in view of the Brexit negotiations. Leaders in the *Financial Times* (1-2 July and 16 March 2017) argued that the original proposal was 'surely right', and that its reversal was a case of 'putting politics over good policy' (see Seely, 2018, for other examples of commentary). From a social policy perspective, the sequence of events can perhaps best be viewed as a case study of evidence-based policy meeting political reality.

Unfortunately, although it began to take evidence for an inquiry into the Budget,¹ the Treasury Committee could not complete this because of the general election in June 2017. This saw the Conservatives win a reduced majority, and so have to negotiate a support agreement with the Democratic Unionist Party. Press reports (*Financial Times*, 12 July 2017) then started to suggest that parental pay arrangements would not after all be extended to self-employed people. This is particularly significant for self-employed women, whose numbers have increased recently (Watson and Pearson, 2016), and whose access to state maternity allowance may be more problematic because of alterations in the qualifying rules due to the NIC changes described above. Already, because Class 2 and Class 4 NICs are paid via income tax self-assessment now, pregnant women and new mothers may find they are getting

¹ <https://www.parliament.uk/business/committees/committees-a-z/commons-select/treasury-committee/news-parliament-2015/making-tax-digital-budget-2017-evidence-16-17/>

a lower rate of maternity allowance, at least until they notify the authorities that they are participating in the NI system (*Daily Telegraph*, 9 September 2017).

Analysis: policies and politics

Widespread support for the proposal

Several commentators agreed that the proposal to increase NICs for the self-employed was a sensible change which would have made the NI system fairer, especially in the context of recent and proposed improvements in benefits and other tax and NIC changes (Seely, 2018). These included the Resolution Foundation and the Institute for Fiscal Studies (e.g. see Tomlinson, 2017; *Financial Times*, 10 March 2017), as well as Matthew Taylor (2017), in his review of the modern labour market for the government in July of the same year. Supporters argued that the proposed change would simplify the system; that it was progressive, when taken in conjunction with other changes; that it would lead to better control of the 'gig economy'; and that it was in line with the proposed abolition of class 2 NICs and improved pension provision for self-employed people, as argued by the Chancellor (Hammond, 2017). The Institute for Fiscal Studies said the difference in NICs between self-employed people and employees amounted to an advantage for the self-employed of £1,240 per year (Adam *et al.*, 2017). The government itself estimated the annual subsidy via NICs to self-employed people as exceeding the value of their reduced benefit entitlement by £5.1 billion in total (HMRC, 2017). Thus, in relation to both fairness and sustainability of revenue, the arguments in favour of the proposal seem to have convinced many serious commentators on fiscal events and social policy.

Reasons for withdrawal

There appear to have been several reasons for the subsequent withdrawal of the proposal.

The tabloid newspapers had a field day, defending small businesses and sturdy independent workers from a 'tax' rise (e.g. *Daily Mail*, 2017). The Labour Party leader himself (15 March 2017) denounced the NICs increase as unfair. Government supporters saw the proposal as contradicting Conservative government commitments to a higher wage, lower tax, lower welfare economy. As the Chartered Institute of Taxation (2017) commented, there was also no consultation or preparation of the public before the announcement. In addition, and perhaps crucially, the government - unlike Chancellor Gordon Brown, who clearly linked his proposed NICs increase to funding for the health service - was not very specific about the purposes to which the additional revenue would be devoted. There was therefore insufficient indication of hypothecation for the revenue collected. It failed to link the proposal organically to the Taylor report on the labour market, wider reforms for self-employed people (*Financial Times*, 16 March 2017) or any rethinking of social insurance principles for a modern social security system - despite its concurrent redesign of NICs for self-employed people, described above.

This may be in part because, as Dellot and Wallace-Stephens (2017: 9) argue more generally, policy-makers see 'welfare' as anathema to an entrepreneurial society – despite evidence to the contrary, which links protection against unemployment in particular to risk-taking (Rapp *et al.*, 2018). The OTS (2016) did call for a re-examination of the contributory principle. But as noted, its focus was primarily on revenue issues, in particular simplification for employers, rather than on social protection. And concern to avoid incentives for 'bogus' self-employment is not usually connected with social rights. In addition, some commentators focused not on social insurance as the relevant issue, but on non-payment of the national living wage, sick pay and holiday pay for self-employed workers, which relate to employment status and rights rather than access to social protection. Others (such as Dellot and Wallace-Stephens, 2017) now see statutory sick pay too as employer-led, and thus part of employment status as well;

but the lower earnings limit for NICs still provides the qualifying threshold for statutory sick pay, and the government sets the rules and amounts, so this could still be seen to be part of state provision for interruptions of employment. The same would be true of maternity, paternity and adoption pay.

Wider social protection issues

The proposal was therefore sprung on an unsuspecting public, with little political preparation in general, and in the absence of informed debate about the system of NI contributions and benefits in particular. The OTS (2016) sees the UK public as confused about the NI system, in particular in relation to how much funding from NICs pays for the health service (20%) and how contributions relate to benefits. The Resolution Foundation describes the self-employed as comprising the 'privileged' and the 'precariat', suggesting perhaps that only some are likely to be reliant on state social protection. Similarly, the Taylor review (2017), although endorsing the proposed increase in NICs and extension of NI benefits, tended, in a somewhat contradictory way, to divide the self-employed into those who could save and provide for themselves on the one hand and those who needed support and a safety net on the other – thus echoing the tone of much public debate in the UK. It argued that regulation was not the best solution. The answers it reached for instinctively were not provision by the state, or collective organisation by trades unions, but instead - following a previous RSA report (Dellot and Wallace-Stephens, 2017) – the use of platform technology to bring self-employed individuals together to provide for themselves. The report does pinpoint a problem for self-employed people if entitlement to benefits is tied to service with a particular employer, as with some employer-provided benefits for employees. But the potential of such proposals on self-provision to provide the broader risk sharing, economies of scale and redistribution inherent in social security provision, and to focus on the vulnerable as apparently intended, is not self-evident.

Harrop (2016) is one of few authors to focus on the key question of how to generate public support for additional revenue raising for social protection - one of the central issues in the proposal to increase NICs for the self-employed. He argues that support can be forthcoming when the spending is highly valued, and/or when entitlements to benefits or services are seen as 'earned'. It is perhaps partly because raising revenue through NICs is easier than via income tax for one or both of these reasons that governments have to date resisted the integration of income tax and NICs. But it could be argued that some items on which the government proposed to spend the additional NICs – contributory benefits for the working age self-employed – were not highly valued enough by the public (in contrast to Gordon Brown's 1 per cent NICs increase for health). This might not have been true for the state pension improvements; but on the one hand they had already been introduced, and on the other they were not yet being experienced by many people. Thus, in addition to the narrower reasons why the proposed increase in NICs for the self-employed was immediately withdrawn, broader causes include a lack of institutional support for, or widespread public awareness of, contributory working age benefits more generally in the UK (Bennett, 2015). This may become a vicious circle (Bell and Gaffney, 2012) – indeed, may already have become one. The OTS (2016: 6), for example, in its report on income tax and NICs following its 'employment status review' (OTS, 2015), suggested a relaunch of NICs, to improve public understanding.

The final section of the article below discusses the broader political and social policy context.

The state and fate of the contributory system

The background to the rise and fall of the proposal to increase NICs for the self-employed is that over recent decades in the UK working age contributory benefits have been eroded in

value and contribution conditions have been tightened. Thus, ironically, as the labour market has become more flexible, these benefits have in some ways become more rigid. Many commentators assume that it is only a matter of time before they are phased out completely, and indeed argue for this (e.g. Centre for Social Justice, 2016). Many moderate-income individuals already exclude contributory benefits from their calculations of potential income in the case of unemployment (Clasen and Koslowski, 2013). In addition, as noted, whilst the personal tax allowance has been increased in real terms, the primary threshold for NICs has not. Thus, the decline in working age benefits - from an already low base, compared with many other EU member states – means that NICs have been increasing relative to income tax, whilst (leaving aside the new pension) it may be increasingly unclear what self-employed people are missing out on. This is, to say the least, an inauspicious context in which to float proposals for NIC increases.

The ageing population, fiscal pressures, the decline in defined benefit pension schemes and the power of the pensioner vote have together ensured that pension reform has been high on the agenda over recent decades. But there has arguably been insufficient academic and analytical reimagining of the working age social insurance system for the modern UK labour market – and even less such ‘puzzling’ that is relevant to the self-employed. Instead, the energies of many have been directed to the new, means-tested universal credit as a practical reality (e.g. Finch, 2016). Public debate has also increased about non-means-tested, non-contributory, universal basic income (UBI) as a possibility (perhaps as a response to growing conditionality in benefits and increasing insecurity in the labour market) (Bennett, 2017). Some might see UBI as a way to level the playing field, indeed: Eichhorst with others (2013: 99) argue that ‘making social security coverage less dependent on the employment status or type of economic activity can help to avoid labour market distortions by narrowing the gap in non-wage labour costs between dependent and self-employment’. The recent increase in in-work poverty has also led to other commentators focusing their attention not on social security policies but on the voluntary ‘real living wage’.

Indeed, the Commission on Social Justice report (1994) was the last thorough examination of social security which proposed reformed social insurance as the core of a new system. In recent years, only a few analysts have proposed thought-through and thorough reforms of the working age NI system in the UK (e.g. Bell and Gaffney, 2012; Harrop, 2016). These authors argue that, whilst contributory benefits require revision for the modern labour market, its revitalisation would also help to build public commitment to creating a sustainable system for the future. The Labour Party is currently (again) rethinking its principles and proposals for social security, but has not so far suggested putting such a system at its core. Whilst this is the case, the specific policy area of NI contributions and contributory benefits for the self-employed is unlikely to be a lively topic of debate either.

Self-employment and social protection: the European context

Provision from a European perspective

The question of how best to provide social protection for the self-employed has risen higher up the European Union (EU) agenda with the wider growth in self-employment (see Spasova et al., 2017). But, as argued below, social protection systems in many EU member states are rather different from the UK’s, with a much greater emphasis on social insurance, including earnings-related benefits for interruptions of employment in many cases. This means that debates in the EU context have a different content as well as tone from those in the UK.

The European Commission is currently organising a consultation with social partners on access to social protection for self-employed people and those on non-standard contracts (EC,

2017b), related to the European Pillar of Social Rights (EC, 2017a). As the initial consultation document notes, historically social protection was developed primarily for workers in standard employment (EC, 2017b). Principle 12 of the Pillar, cited in the staff working document (EC, 2017a), is that 'regardless of the type and duration of their employment relationship, workers, and, under comparable conditions, the self-employed, have the right to adequate social protection'. The key phrase here is likely to be '*under comparable conditions*'. Common principles suggested include: ensuring similar social protection rights for similar work; tying such rights to individuals and making them transferable; transparency of rights and information; and simplifying administration requirements (EC, 2017b).

But the framework of analysis in the staff working document (EC, 2017a) divides member states of the EU primarily in relation to compulsory versus voluntary membership of social insurance schemes for the self-employed ('statutory access'). It then examines 'effective access' – access in practice - including eligibility conditions, the income assessment base, income reporting, transferability of entitlements and administrative burden. In the UK, the House of Commons Work and Pensions Committee (2017: 3) has described insurance as a 'crucial pillar of the welfare social contract'. But the framework adopted by the staff working document is difficult to use for judging the benefits system in the UK which, apart from pensions, relies largely on means-tested provision. As noted in a synthesis report for the European Social Policy Network (Spasova *et al.*, 2017), self-employed people do generally have access to non-insurance-based benefits across other EU member states as well. But in the UK, where contributory working age social insurance may be described as 'nugatory' (Portillo, 1993), non-contributory payments, especially means-tested benefits, assume greater significance. In addition, as described above, employer-provided benefits, based on the NI structure but without contribution conditions, are important in the UK, and are also unavailable to self-employed people. Thus, it is difficult to discuss the pros and cons of the UK's social protection system for the self-employed within the parameters provided by the EU.

Social protection for self-employed people: the UK situation

Spasova *et al.* (2017) argue that low benefit levels can act as a disincentive for the self-employed to make contributions. The consultation document defines adequacy in relation to the individual's previous income level (EC, 2017b). In the UK, however, it cannot be assumed that working age people receiving social insurance benefits have adequate income - or that this, together with occupational provision, form the major elements of social protection for all. And, as social insurance is compulsory at certain income levels, the 'myopia' in not contributing to voluntary schemes highlighted in the consultation document (EC, 2017b) is currently not really relevant. The distinction between 'statutory' and 'effective' access may therefore be less stark in the UK. Some self-employed people – and employees – are certainly excluded due to earning too little to pay contributions or benefit from the zero rate band in the statutory national insurance scheme. But self-employed workers may be more likely to under-insure in terms of private insurance cover, rather than the state system; they have been increasingly less likely to contribute to non-state pensions, for example, with the proportion falling from 23% (2009/10) to 16% in 2014/15 (Keohane, 2017).

In the UK, however, as noted above, if examining more specifically the relationship between provision for employees and the self-employed within the contributory system, there is rather generous treatment of the self-employed in relation to what they pay - but also some gaps in benefit provision. Employees currently pay 12 per cent Class 1 NICs on earnings between the primary threshold and the upper earnings limit, and 2 per cent on earnings above this (Seely, 2017, 2018). Below the primary threshold but above the lower earnings limit, there is in effect a zero rate band, with employees making no payments but nonetheless earning entitlements.

In addition, employers pay secondary Class 1 NICs of 13.8 per cent on earnings above the same level of earnings as the primary threshold. On the other hand, self-employed people pay a flat-rate (Class 2) NIC if profits reach a certain level, Class 4 contributions of 9 per cent on profits between certain higher levels, and 2 per cent on any profits above that (Seely, 2018). This resulted in 2017/18 in an employee earning £32,000 per year paying £6,170 in NICs, whereas the equivalent self-employed person paid £2,300 (Hammond, 2017). Additional issues for company owner-managers are not considered here.

Benefit entitlement for self-employed people is based on Class 2 contributions (Seely, 2017 and 2018). Eichhorst with others (2013), again examining provision with a European perspective, identify major differences in social protection as including: maternity, as the self-employed cannot get paid leave or statutory maternity/paternity/shared parental pay, though they can claim maternity allowance from the state, paid at a lower rate; state pensions, as they receive no earnings-related pension;² and insurance against unemployment and accidents at work, to which the self-employed lack access. Neither can they get employer-provided statutory sick pay, which for employees covers the first six months of sickness absence; but they can claim contributory employment and support allowance from the state. Self-employed people also qualify for bereavement benefits, although these were radically reformed, and simultaneously cut, in April 2017.

When self-employed contractors bid for work, the theory is that a higher hourly gross pay rate compensates them for reduced social protection, so that they can insure themselves and save for contingencies and a pension. However, Eichhorst with others (2013: 94) argue: 'it is doubtful that most dependent self-employed workers sufficiently improve their income over time and save enough to compensate for insufficient public pension entitlements'. Under the new auto enrolment system, employees must save into a private pension by default, unless they opt out, with employers also making a contribution; a minister recently suggested that as part of a review the government was considering including self-employed people in these arrangements. One possibility would be to include them unless they completed an opt-out at the time of their annual self-assessment for income tax. This could be seen as an attempt to equalise the position of employees and the self-employed under the new conditions of the state pension becoming flat-rate only - though this is clearly state-assisted private saving, rather than technically being an element of the state social protection system. The TUC and HC Work and Pensions Committee both put this forward, and the House of Commons (HC) Treasury Committee (2018: 39) repeated the recommendation. The HC Treasury Committee said the government should keep an open mind on this; but one of its witnesses noted that being seen effectively to be increasing NICs is unlikely, following withdrawal of the 2017 Budget proposal.

However, in addition to contributory benefits, there are some categorical, (non-contributory, non-means-tested benefits in the UK, including benefits to meet the extra costs of disability or having children, as well as carer's allowance for those giving substantial care to a disabled person getting certain benefits. In addition, much UK social security provision is means-tested, as noted above. Such benefits are usually based on net earnings; self-employed people arguably therefore have an advantage, in offsetting expenses against profits. They can also qualify for in-work tax credits under similar hours and income rules as for employees. Child tax credit is paid to those with child/ren and a low/moderate income. These tax credits, along

² The new state pension scheme from April 2016 means that from this date no one builds up earnings related state pension and the value of any earnings related pension that pensioners receive above the level of the new state pension is reduced over time.

with most means-tested benefits, are being replaced by universal credit; see article in this issue for more on how self-employed people will be affected by this.

Means-tested benefits are also available to self-employed people not in employment. They can also receive means-tested payments to meet certain costs, including rent and local taxation. Beyond pension age, they may receive means-tested pension credit. Thus, as noted above, the main differences between the benefit entitlement of self-employed people and employees are in the contributory benefits system. But in addition, this system itself is not as central to social security provision in the UK as it is in many other EU countries. This means that the UK fits awkwardly into the framework proposed by the European Commission for analysis of social protection for self-employed people. (For more detail, see Child Poverty Action Group, 2018.)

Future social protection for the self-employed

It is argued above that self-employed people are disproportionately advantaged in relation to how much they get in return for what they pay in the UK's NI system – but that, on the other hand, there are some gaps in provision. However, recent proposals to improve social protection for self-employed people do not always comprise a straightforward suggestion of an extension of state-provided social protection. Broughton and Richards (2017), for the Social Market Foundation, for example, propose a 'self-employed benefits package', including statutory maternity pay, contributory jobseeker's allowance and sick leave insurance – but only for those who save into a private pension scheme. This is decidedly not the same principle as Beveridge's (1942), which was for the state to provide a minimum floor, leaving room for voluntary (private) provision on top. Broughton and Richards instead argue that their proposals would give a message of helping those who help themselves; the scheme would not be compulsory for the low paid, and would be funded by 'hirer's NICs', to equal employers' NICs by 2025. Dellot and Wallace-Stephens (2017), as part of a programme of work on self-employment funded by the RSA, support the equalisation of NICs for employees and the self-employed, and put forward proposals for including the self-employed in the provision of paternity and adoption allowances; but they also suggest that both the state and the market have limits, and that alternative forms of provision should therefore be investigated. The Taylor review (2017) suggested that self-organised social protection should be explored, perhaps implemented via platform technology. More broadly, Gregory (in Hudson *et al.*, 2017: 37), in examining the 'gig economy' and social protection, posits that 'insurance-based contribution systems may no longer be relevant to the contemporary social and economic context'.

The latest British Social Attitudes survey, however, revealed that just under half the population now supports increased taxes and higher public spending, the highest proportion in a decade (Clery *et al.*, 2017). The government's plan to increase NICs for self-employed people, coupled with its other recent and proposed changes, was an example of precisely this combination. But, as noted, the proposal was decisively reversed within a week. And the current political climate makes it hard to foresee further progress towards a fairer system in the near future - despite the argument in the Taylor review (2017: 51) that, whereas the NIC rates paid by the employed and self-employed have moved further apart in the last 50 years, their benefit entitlements have moved closer together. As the *Financial Times* (12 July 2017) put it, the report's public endorsement of the proposal to increase NIC rates for the self-employed was 'dead on publication ... it is a nonstarter for the foreseeable future'.

Koreh (2017), and Koreh and Beland (2017), have argued that literature on the welfare state has focused more on the expenditure side than on its fiscal aspect (revenues and expenditures together). More specifically, they have suggested employing a 'fiscal-centred framework' in relation to social insurance, examining its potential to raise revenue for other purposes beyond

social protection. This may then in turn affect the future direction and shape of social policy. Such a framework can perhaps tentatively be applied to the case study here, despite the differences between the UK's system and more traditional systems of social insurance organised by the government and/or social partners in other European countries described above.

If so, it could be argued that both elements of Koreh and Beland's argument (2017) apply here. The pursuit of goals beyond the financing of social benefits through modifications to the NI system has ramifications for the development of social insurance in the future. The government's concerns about deterring 'bogus' self-employment, as well as meeting fiscal pressures and sustaining the tax base – rather more than its support for securing improved social protection for the self-employed - led it to propose the increase in NICs. And the rapid abandonment of this proposal is likely to lead to not only unbalanced financial contributions towards social protection by self-employed people compared with employees in the UK but also inadequate provision for this group for many years to come.

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