

Self-employment, Small Firms and Enterprise

SUMMARY

- Self-employment is a form of contractual relationship which, in certain circumstances, will have greater benefits to the parties involved than an employer–employee relationship. Government intervention, however, may make self-employment artificially more attractive by raising the costs of employment relationships.
- Certain ethnic minority groups, older people and those without English as a first language tend to be over-represented among the self-employed. This is partly because of the flexibility the arrangement provides but also because self-employment offers a ‘safety valve’ for those who find it difficult to find employment in the formal labour market.
- It is vital that businesses are not impeded from moving from a situation where the owner is self-employed without employees to a situation where the business has employees. There is evidence that businesses are impeded in this way. In just nine years to 2009, the proportion of micro-businesses with employees fell by almost one fifth. At the same time the proportion of self-employed with no employees rose rapidly.
- Women, individuals from certain ethnic groups, those with young dependants, those with low or no qualifications, those for whom English is not a first language and those who have recently experienced unemployment make up a much greater

proportion of the workforce of small firms. For example, whereas 11 per cent of employees of small firms had no qualifications, only 4 per cent of employees of large firms had no qualifications.

- Some workers will prefer to work for small firms because of the greater flexibility they offer in their working practices. In many cases, however, small firms will employ people who are talented but who are not able to negotiate the more formal recruitment processes of larger firms. Micro-businesses therefore perform an important economic and social function – employing people who might be overlooked by larger employers.
- Genuine entrepreneurial insight and discovery tends to come from small firms. Entrepreneurship is crucial for economic growth. The nature of entrepreneurial insight is such, however, that we have no idea where it will come from – not even in the most general terms. Probably only one in every thousand ‘start-up’ firms will become one of the large businesses of the future.
- Policies to promote entrepreneurship must come in the form of removing impediments to business and should not involve the promotion of particular business activities. It is simply not possible for government intervention to pick this tiny number of winners. All government can do is create a climate in which entrepreneurship can thrive.
- The smallest firms are a key driver of job creation. Businesses do not start big. One quarter of employees working in firms that were established ten years earlier are working for firms that started from a position of employing only one person.
- The cost of regulation has grown enormously over the

last fifteen years. This particularly affects small firms with employees because regulatory costs act like a 'poll tax'. Wide-ranging exemptions from employment regulation and the minimum wage would be appropriate for small firms. Such exemptions would have the additional advantage of allowing the government to 'experiment' with deregulation. Standard terms and conditions of employment could be drawn up which would ensure that employees clearly understood the exemptions. Radical reforms of the tax system would also assist small firms which experience much greater compliance costs than large firms.

- Moves by the government to promote entrepreneurship through the state education system or provide specific tax exemptions and reliefs for particular forms of business activity are wasteful or counterproductive.