

Self-employment in rural England

A report to the Countryside Agency

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Introduction

In its report '*Our countryside: the future*', the Government clearly sees a thriving small business sector as being crucial to the future development of rural areas.

Some[rural] areas are more successful than others in growing small and medium-sized companies, establishing business clusters and encouraging the formation of start-ups. It is from activities such as these that much of the future prosperity of rural areas will spring.

Yet remarkably little is known either about the nature of self-employment in rural areas or the contribution it makes to the overall rural economy. To fill this gap in our knowledge, the Countryside Agency commissioned a study, the overall aim of which was to provide an analysis of the extent and nature of self-employment in rural areas.

Within this overall aim the specific research objectives were to provide:

- A quantification of the numbers and characteristics of self-employed people in rural areas.
- Information about the incomes of self-employed people and the proportion who have low incomes, including a commentary on the reliability of information on earnings from self-employment.
- An understanding of the types of work self-employed people with low incomes are doing and in which sectors, through an analysis of occupation and industry.
- A measure of the relative importance of self-employment in the economies of rural and non-rural areas, as indicated by the proportion of the *aggregate* income of the two types of areas that comes from self-employment.
- An analysis of the dynamics amongst the self-employed. Are they consistently self-employed; do they move between self-employment and benefits; or become employees? How do entry to and exit from self-employment relate to the likelihood of poverty?

To answer these questions, secondary analysis was undertaken of three major national data sets. The *Family Resources Survey 1999 and 2000* provided information about the incomes of self-employed people living in rural areas and the characteristics of those with low earnings. The *Quarterly Labour Force Surveys 1996 and 1997* were used to provide information on the dynamics of rural self-employment. Data from the *British Household Panel Surveys 1991-1997* was re-analysed to study the income dynamics associated with moves into and out from self-employment in rural areas.

This report

The report begins with an overview of self-employment in rural areas, comparing the characteristics of the rural self-employed both with rural employees and with self-employed people who live in urban areas.

Chapter 2 reviews the incomes of self-employed people, looking not only at their self-employed earnings but also their total personal incomes, as well as total household incomes. It covers the contribution made by self-employment to rural economies and assesses the reliability of information collected by surveys on self-employed earnings.

Chapter 3 focuses specifically on people who derive only modest incomes from their self-employment, describing who they are, the types of business they run, as well as their total personal and household incomes. It also takes a briefer look at the people who report making either nothing or a loss from their businesses.

Chapter 4 looks at the extent and nature of the dynamics of self-employment, including the origins of people who become self-employed, as well as the destinations of people who cease to be self-employed. It also analyses the extent to which moves into and out from self-employment are associated with moves into and out from poverty.

Finally, chapter 5 provides an overview of the findings and draws some broad conclusions with regard to rural labour markets.

1 Self-employment in rural areas

Self-employment is an important aspect of rural labour markets. About one in ten (9 per cent) of people aged over 16 in rural areas were self-employed in their main occupation. This was slightly higher than in urban areas, where 7 per cent were self-employed. If we look just at those who were working, then 16 per cent were self-employed in rural areas. In urban areas the proportion was rather lower at 12 per cent.

This chapter describes the personal characteristics of people living in rural areas who were self-employed, their qualifications and employment histories and the types of businesses they run. In doing so, comparisons are drawn first with employees in rural areas and, secondly, with their self-employed counterparts in urban areas.

Personal characteristics of self-employed people living in rural areas

The archetypal self-employed person in a rural area was male, aged between 35 and 54, lived as part of a couple and was an owner occupier.

Self-employed people in rural areas were disproportionately drawn from the male population. Seven in ten were men, compared with half of employees and a little under half of the population as a whole (Table 1.1).

They were also drawn from the older people in the workforce. Their average age was 47 – while the average age of employees was 40. Nearly six in ten of them (56 per cent) were aged between 35 and 54. Compared with employees they include far fewer people aged under 35 and rather more aged over 55. In fact almost one in ten (9 per cent) of self-employed people were working beyond the official retirement age of 60 for women and 65 for men (Table 1.1).

The household circumstances of self-employed people broadly mirrored their age profile. By far the largest proportions were either couples under the age of retirement either with dependent children (32 per cent) or without children (28 per cent). These proportions were remarkably similar to those for rural employees, but, compared with the rural population as a whole, both groups were over-represented. Of particular interest, once again, is the proportion of self-employed people who live in households headed by a pensioner (Table 1.1).

Table 1.1 Personal characteristics of self-employed and employees in rural areas

Column percentages

	Self-employed	Employees	All aged 16+
Men	69	50	47
Women	31	50	53
Age			
16-24	3	12	8
25-34	14	23	15
35-44	26	26	18
45-54	30	25	18
55-64	20	12	15
65 and over	7	2	26
Below retirement age	91	97	70
Over retirement age	9	3	30
Average age (in years)	47	40	50
Household circumstances			
Single pensioner	2	*	10
Couple pensioner	10	4	20
Single non-pensioner, no children	8	8	6
Couple non-pensioner, no children	28	29	20
Lone parent	1	3	3
Couple with children	32	33	23
3 or more adults, no children	13	15	12
3 or more adults, with children	7	7	5
Housing tenure			
Mortgagor	52	63	40
Outright owner	32	18	34
Local authority tenant	3	6	11
Housing association tenant	2	2	4
Private tenant	11	11	11
Council tax band			
A (lowest)	8	15	19
B	14	22	21
C	21	24	22
D	21	18	17
E	16	10	10
F	11	5	6
G/H (highest)	8	4	4
Standard region			
North	6	7	7
Yorkshire/Humberside	9	8	7
North West	6	7	7
East Midlands	5	5	5
West Midlands	5	5	5
East Anglia	6	7	7
Greater London	-	-	-
South East	14	14	14
South West	28	23	24
Wales	13	14	16
Scotland	9	11	10
<i>Base</i>	<i>1,531</i>	<i>8,403</i>	<i>18,633</i>

Source: Family Resources Survey 1998/99 and 1999/2000

- none; * less than 1 per cent

As a group, self-employed people had considerable levels of housing wealth, which may well be because they included more older people than there were among employees. Similar proportions of self-employed and employees were owner occupiers (84 per cent and 81 per cent respectively) and this was somewhat higher than for the rural adult population as a whole. But a third (32 per cent) of self-employed people owned their homes outright, which was almost twice the proportion among employees (Table 1.1). Self-employed people also tended to live in properties with much higher council tax valuations. Over a third (35 per cent) lived in houses valued in the highest four bands, compared with two in ten employees (19 per cent) and two in ten (20 per cent) of the population as a whole (Table 1.1).

On the whole, the geographical distribution of self-employed people was similar to that both of the adult rural population as a whole and also of rural employees. The only notable difference was the slightly higher proportion of self-employed people living in the South West of England, but this should be interpreted with caution because of the size of the sample (Table 1.1).

Qualifications and work experience of self-employed people in rural areas

Although six in ten (61 per cent) self-employed people in rural areas had left full-time education at age 16 or younger, this was lower than in the rural population as a whole. They included above-average proportions who had left between the ages of 17 and 19 or when they were 20 or older (Table 1.2).

Table 1.2 Qualifications and work experience of self-employed and employees in rural areas

	<i>Column percentages</i>		
	Self-employed	Employees	All aged 16+
Age left full-time education			
16 or less	61	59	68
17-19	23	26	20
20 or over	16	15	12
Highest qualification			
Degree or above	18	16	13
Other	62	67	55
None	20	16	32
Mean number of years in full-time work	24.5	17.5	21.5
<i>Base</i>	<i>1,531</i>	<i>8,403</i>	<i>18,633</i>

Source: Family Resources Survey 1998/99 and 1999/2000

Correspondingly, self-employed people included fewer who had no qualifications at all; eight in ten (80 per cent) had some educational qualifications, including nearly two in ten (18 per cent) who were educated to degree level (Table 1.2). Compared with employees, there were slightly more self-employed people with no qualifications or who had left full-time education at age 16 or younger, but also slightly more educated to degree level or at least to age 20. The differences were, however, slight (Table 1.2).

As a group, people working as self-employed had, on average, worked full-time for 24.5 years. This was a good deal higher than for employees, who had worked full-time for 17.5

years. Two important factors almost certainly explain this. First, self-employed people tended to be older and, secondly, they included far fewer women, who were much more likely to have had spells of part-time working while caring for young children.

The types of businesses run by self-employed people

A little over three quarters of self-employed people in rural areas worked full-time, but 23 per cent were part-time (Table 1.3). Part-timers included a much higher proportion of women (62 per cent compared with 21 per cent of those self-employed full-time). They were also a good deal older than those who were self-employed full-time. Their average age was 51 and a quarter of them (24 per cent) was over the age of retirement. By comparison the average age of self-employed people working full-time was 45 and only 4 per cent were over retirement age.

The great majority of them had just the one job, although a minority (7 per cent) had two or more. This proportion was similar to that found among employees (Table 1.3). Unsurprisingly, second jobs were twice as common among people who were part-time self-employed (14 per cent) than they were among the full-timers (6 per cent).

A third of self-employed people (33 per cent) worked from home, while four in ten (38 per cent) worked at business premises away from their home. The rest said that they had no usual place of work (Table 1.3). The high proportion working from home has important implications for the accuracy of self-employed incomes, which is discussed in detail in the following chapter.

The great majority of self-employed people in rural areas (70 per cent) either worked alone or with a business partner only. Only a very small proportion (2 per cent) had 25 or more employees (Table 1.3).

Self-employed people tended to be more highly skilled than those working as employees. Although they included a similar proportion of white collar workers, far more self-employed people were classified as 'managerial and technical' or 'professional' and fewer of them were 'skilled non-manual'. Similarly among the manual workers rather more were classified as 'skilled' and correspondingly fewer as 'partly skilled' or 'unskilled' (Table 1.3).

Table 1.3 Employment details self-employed people and employees in rural areas

Column percentages

	Self-employed	Employees
Full-time	77	74
Part-time	23	26
Number of jobs		
One	93	95
Two or more	7	5
Place of work		
Works from home	33	3
Varies, no usual place	29	6
Works away from home	38	91
Number of employees		
Works on own/with a partner	70	na
Has 1-24 employees	28	na
Has 25 or more employees	2	na
Standard Occupational Classification		
Managers and administrators	31	14
Professional	13	10
Associate professional and technical	10	9
Clerical and secretarial	4	15
Craft and related	24	10
Personal and protective	4	13
Sales	4	8
Plant and machine operatives	5	11
Other	5	10
Social class		
Professional	10	5
Managerial and technical	38	30
Skilled non-manual	13	23
Skilled manual	25	19
Partly skilled	11	18
Unskilled	3	6
Standard Industrial Classification		
Agriculture, Forestry	10	2
Manufacturing	9	20
Construction	17	5
Wholesale and retail	17	14
Hotels and restaurants	6	5
Transport	4	6
Financial intermediaries	1	4
Real estate	15	7
Public administration	*	8
Education	3	9
Health and social services	7	14
Other community	8	4
Other	3	3
<i>Base</i>	<i>1,531</i>	<i>8,403</i>

Source: Family Resources Survey 1998/99 and 1999/2000

* less than 1 per cent; na not applicable

Half of the self-employed people worked in one of three main industries: construction, wholesale and retail trades and real estate. Despite the popular image of the rural self-employed as farmers, only one in ten self-employed people worked in agriculture, forestry or related industries – a similar proportion as worked in the manufacturing sector (Table 1.3).

Compared with employees, however, larger proportions of self-employed people worked in the construction industry, in agriculture or in real estate, while fewer of them worked in manufacturing, education, health and social services (Table 1.3). Unsurprisingly, they included many more people whose standard occupational classification was ‘craft and related’ but far fewer ‘clerical and secretarial’ or ‘personal and protective’ workers (Table 1.3).

Comparing rural and urban self-employment

On the whole there were only slight differences in the personal characteristics of self-employed people living in rural areas and their peers in towns and cities. The rural self-employed included slightly more women and they were slightly older. They also included rather more people who owned their homes outright (32 per cent, compared with 23 per cent) but the homes they lived in had much the same spread across the council tax bands (Table 1.4).

The geographical spread of rural and urban self-employed people differed. The proportion of self-employed people who lived in rural districts of the South West of England and Wales was far higher than the proportion in urban areas in these regions. In contrast, the proportion of self-employed people living in the South East and North West of England people was a good deal higher in urban areas than it was in the rural districts (Table 1.4).

On the whole rural self-employed people had left full-time education slightly earlier and with slightly lower levels of educational attainment than their urban counterparts. But they had slightly more years’ experience of full-time work – quite possibly because they were also slightly older (Table 1.5).

There was little difference either in the proportion of rural and urban self-employed people who worked part-time or the proportion with more than one job. Rather more rural self-employed people worked from home (33 per cent compared with 27 per cent in urban areas) but fewer of them had no employees (70 per cent, compared with 76 per cent) (Table 1.6).

In terms of social class, rural areas included more people who were classified as ‘managerial and technical’ but fewer who were ‘skilled manual’ workers. They included many more whose standard occupational classification was ‘managers and administrators’ but fewer who were ‘associate professional and technical’ (Table 1.6).

Table 1.4 Personal characteristics of rural and urban self-employed

Column percentages

	Rural	Urban
Men	69	72
Women	31	28
Age		
16-24	3	3
25-34	14	19
35-44	26	29
45-54	30	28
55-64	20	17
65 and over	7	5
Below retirement age	91	94
Over retirement age	9	6
Average age (in years)	47	45
Household circumstances		
Single pensioner	2	1
Couple pensioner	10	8
Single non-pensioner, no children	8	9
Couple non-pensioner, no children	28	25
Lone parent	1	2
Couple with children	32	36
3 or more adults, no children	13	12
3 or more adults, with children	7	7
Housing tenure		
Mortgagor	52	62
Outright owner	32	23
Local authority tenant	3	5
Housing association tenant	2	2
Private tenant	11	7
Council tax band		
A (lowest)	8	11
B	14	13
C	21	18
D	21	21
E	16	15
F	11	10
G/H (highest)	8	9
Standard region		
North	6	3
Yorkshire/Humberside	9	8
North West	6	11
East Midlands	5	8
West Midlands	5	8
East Anglia	6	4
Greater London	-	17
South East	14	29
South West	28	5
Wales	13	2
Scotland	9	5
<i>Base</i>	<i>1,531</i>	<i>4,122</i>

Source: Family Resources Survey 1998/99 and 1999/2000

- none; * less than 1 per cent

Table 1.5 Qualifications and work experience of rural and urban self-employed*Column percentages*

	Rural	Urban
Age left full-time education		
16 or less	61	58
17-19	23	21
20 or over	16	21
Highest qualification		
Degree or above	18	24
Other	62	57
None	20	19
Mean number of years in full-time work	24.5	23
<i>Base</i>	<i>1,531</i>	<i>4,122</i>

Source: Family Resources Survey 1998/99 and 1999/2000

As might be expected, there were some important differences in the industries that the rural and urban self-employed worked in. In particular, rural areas included greater proportions of people working in agriculture or forestry, in the retail trade and in hotel and catering – although this last group was rather small in number. In contrast, urban areas contained more self-employed people who worked in the construction industry, in transport or in real estate (Table 1.6).

Table 1.6 Employment details of rural and urban self-employed

Column percentages

	Rural	Urban
Full-time	77	79
Part-time	23	21
Number of jobs		
One	93	94
Two or more	7	6
Standard Occupational Classification		
Managers and administrators	31	21
Professional	13	14
Associate professional and technical	10	15
Clerical and secretarial	4	4
Craft and related	24	26
Personal and protective	4	5
Sales	4	4
Plant and machine operatives	5	8
Other	5	5
Social class		
Professional	10	11
Managerial and technical	38	32
Skilled non-manual	13	13
Skilled manual	25	29
Partly skilled	11	11
Unskilled	3	4
Standard Industrial Classification		
Agriculture, Forestry	10	3
Manufacturing	9	10
Construction	17	20
Wholesale and retail	17	13
Hotels and restaurants	6	3
Transport	4	7
Financial intermediaries	1	2
Real estate	15	18
Public administration	*	*
Education	3	3
Health and social services	7	7
Other community	8	10
Other	3	2
Place of work		
Works from home	33	27
Varies, no usual place	29	31
Works away from home	38	43
Number of employees		
Works on own/with a partner	70	76
Has 1-24 employees	28	22
Has 25 or more employees	2	2
<i>Base</i>	<i>1,531</i>	<i>4,122</i>

Source: Family Resources Survey 1998/99 and 1999/2000

* less than 1 per cent

2 Incomes of self-employed people in rural areas

Incomes of self-employed people are notoriously difficult to capture in interview surveys. There are a number of possible reasons for this. First, many self-employed people do not draw a regular wage from their business or else they draw only a small amount, making up the difference at the end of the trading year, when they have prepared their annual accounts. Secondly, self-employed people who work alone often do not separate their business and personal finances, operating both through the same bank account and withdrawing money for personal use as and when they need it (Whyley, 1998). For both these groups of people it becomes very difficult to obtain accurate figures or, in some cases, any information about incomes at all.

Thirdly, most self-employed people will (quite legitimately) charge some of their regular personal or household expenditure to the business – in other words, they are receiving payment in kind that is not available to employees. Most commonly, this includes part of the cost of buying and running a car. But, just as significantly, people who work at or from home can claim a proportion of their household bills (fuel, telephone and repairs) to their business, as well as the cost of equipment, such as computers and mobile telephones. All expenditure treated in this way will be deducted from the net income of the business. As we saw in the previous chapter, at least a third of the people who are self-employed and live in rural areas work from home. Income in kind will, therefore, be a significant part of their average income.

Fourthly, some self-employed people will pay a wage to other family members – in some cases for reasons of ‘tax efficiency’. This, too, will act to reduce personal incomes from self-employment.

Consequently, self-employed income data gathered by surveys such as the *Family Resources Survey* tends to be unreliable in a number of key respects.

Generally speaking, there is a higher than average level of missing data. In the 1998/9 survey report, for example, self-employed incomes were assessed in a number of ways depending on whether the person withdrew a regular amount from their business or not. Out of 2,986 people with income from self-employment:

- 306 did not give their income from the business (13 per cent of those asked the question);
- 87 did not give the amount of their ‘drawing’ from the business (10 per cent of those asked the question);
- 116 did not give a figure for the amount of profit before tax (39 per cent of those asked the question);
- 614 did not give the net profit or loss of their business (25 per cent of those asked the question).

In these cases, incomes were imputed - usually by a procedure known as 'hotdecking'. This essentially looks at the characteristics of the person for whom the information is missing and matches it to another record with similar characteristics but where the information was provided by the person interviewed. It then copies that amount to the person with the missing information.

It is also clear that full-time self-employed people are disproportionately over-represented among those with low income. Research using data from the *British Household Panel Survey* found that, when other factors (such as age, occupations, employment sector etc) were controlled for, a self-employed person had over three times the chance of falling into the poorest tenth of the overall household income distribution than did an employee (Meager, Court and Moralee, 1994). This has led to concern about possible, under-reporting of incomes from self-employment.

It has been a matter of concern for some time that the level of expenditure of self-employed people with low household incomes is a good deal higher than others with similar levels of income. The first indications of this came from research undertaken by the Institute of Fiscal Studies (Pissarides and Weber, 1989; Baker, 1993). This showed that, on average, self-employed incomes need to be multiplied by a factor in the range of 1.2 to 1.5 to give true incomes. Moreover, they found important variations across occupational groups and industries. Typically, reported incomes were more accurate for blue collar than white collar workers. Construction workers incomes needed least adjustment, while white collar workers in 'services industries' needed most (Baker, 1993).

This research was followed up in detail in a working group set up by the then Department of Social Security to investigate various methodological issues relating to the statistical series *Households Below Average Income* (HBAI) (Department of Social Security, 1996). This series, which reports on changing patterns of income distribution, was originally based on data collected by the *Family Expenditure Survey*, but now uses the *Family Resources Survey*. A number of unpublished analyses of *Family Expenditure Survey* data were undertaken, which have looked specifically at the incomes reported by self-employed people.

In short, these studies found that the ratio of expenditure to income was above-average for self-employed people with incomes in the lowest four deciles - in other words they had a standard of living that was higher than one would expect, given their income. This discrepancy was lowest for 'own account' workers and for those in farming or other aspects of agriculture. They were highest for 'employers/managers' and 'professional workers'. The discrepancy was lower for those receiving income-related benefits than it was for those who were not. An examination of the individual components of expenditure showed that self-employed people with low household incomes spent more on food, housing and 'goods and services' than employees with a similar level of income. But expenditure on fuel, clothing, personal services, alcohol and tobacco was much the same.

The end result of these investigations was a recommendation from the HBAI working party that 'HBAI retain results including the self-employed, but also provide, and give prominence to, results excluding the self-employed' (Department of Social Security, 1996).

Subsequent to this investigation, the then Department of Social Security commissioned research to investigate the financial circumstances and strategies of households with 'minimal

incomes' in the 1994/5 *Family Resources Survey* – defined as £40 a week or less after housing costs (Elam, Lee and Tadd, 1999). Self-employed people were included in this study, but were not the main focus of it. The main findings, as they relate to self-employed people, were that deliberate under-recording of income was not an important feature and most people were very open about their financial resources. There was, however, under-recording of 'fragmented incomes' - earned incomes pieced together from a range of different sources. There were also important omissions in the recording of income. These omissions occurred both because the *Family Resources Survey* did not cover them and because people did not consider them as income – a source had to be reliable, regular and dependable to be considered in that way. Consequently, casual earnings were often not reported. Fluctuating incomes were found to be a feature of self-employed people in low-income households and they frequently maintained their standard of living by drawing on savings, by using existing credit facilities, such as overdrafts and credit cards, and through help in cash and kind from relatives. These are not measured by the *Family Resources Survey* nor did the people concerned consider them to be income. Finally, although the authors did not comment on it, it is clear from the case studies that self-employed people were more likely to be in the 'minimal income' group because they were able to charge expenses to their business. For one single man, this amounted to £50 a week – reducing his average income after housing costs from £72 a week to £21 a week.

To sum up, survey information relating to self-employed earnings is undoubtedly less reliable than the earnings of employees. It is almost certainly least reliable for white-collar self-employed people and especially those classified as 'professional' or 'employers/ managers'. There are a number of possible reasons for this unreliability – missing (and therefore imputed) information, under-recording of incomes of those reliant on more than one source of income and the greater opportunity for deducting expenses from income under income tax rules. Finally, many people with fluctuating incomes from self-employment maintain a standard of living that is greater than might be expected, by drawing on savings, using revolving credit or relying on help from relatives.

Incomes from self-employment

Bearing these points in mind, we have analysed the levels of income that people received from self-employment, both in rural areas and, for comparison, in urban areas as well (Table 2.1).

Table 2.1 Personal incomes of self-employed people in rural areas

Column percentages

	Rural self-employed	Rural employees	Urban self-employed
Personal net income from self-employment			
Loss of income	7	*	7
No income	3	99	2
£1-50	15	1	12
£51-100	14	-	13
£101-150	13	-	10
£151-200	13	-	11
£201-300	12	-	17
£301-400	9	-	9
£401-500	4	-	6
£500 or more	10	-	14
Median net income from self-employment in £s ¹	£146	£23	£186
Total personal net income			
Loss of income	7	*	7
No income	*	*	*
£1-50	10	3	8
£51-100	14	10	12
£101-150	15	17	12
£151-200	12	20	12
£201-300	17	27	19
£301-400	8	12	10
£401-500	6	5	6
£500 or more	11	4	15
Median net personal income in £s ¹	£166	£196	£198
<i>Base</i>	<i>1,527</i>	<i>8,392</i>	<i>4,119</i>

Source: Family Resources Survey 1998/99 and 1999/2000

- none; * less than 1 per cent

¹ including those with no income or a loss. The median income from self-employment for employees is based solely on those with an income from self-employment

This shows that one in ten of self-employed people received no cash income at all from their businesses, indeed 7 per cent claimed to have made a loss after allowing for business expenses. A similar proportion was in the same position in urban areas (Table 2.1). The characteristics of these people are covered in the following chapter.

On the whole, though, self-employed people in rural areas drew rather lower incomes from their businesses than did those living in urban localities. The average (median)¹ net weekly income drawn by a rural self-employed person was £146, compared with £186 for their urban counterparts. It should, however, be remembered that slightly more of the rural self-employed worked from home (33 per cent compared with 27 per cent in urban areas).

¹ Medians (middle values) are used for averages of sums of money, as they tend to be a more reliable measure than means, which are susceptible to distortion by a small number of high values.

A number of self-employed people had other sources of personal income. For example, 7 per cent of those in rural areas had a second job, 9 per cent were over retirement age and would have qualified for a state pension, while others had occupational pensions or income from investments. As a consequence, *total* personal net incomes of self-employed people were slightly higher (Table 1.2). Again 7 per cent said that they had a net loss of income personally and this applied equally in both rural and urban areas. The average total net personal income of the rural self-employed was £166 a week and, once again, this was less than the average income (£198 per week) of self-employed people in urban areas (Table 2.1).

Comparing the rural self-employed with rural employees shows that, on average, their incomes were a good deal lower (£166 per week, compared with £196 for employees) (Table 2.1). Again, it is important to remember that we are not necessarily comparing like with like as some self-employed people will have income in kind from their businesses. Moreover, the figures for wages of employees will often be more accurate than incomes from self-employment – for the reasons discussed above.

Average incomes do, however, hide some interesting differences in the income distributions of these two groups. First, more self-employed people had low incomes, for example, in addition to those who made a loss, a further 24 per cent had net incomes of less than £150 a week. Only 13 per cent of rural employees had incomes at this level. At the same time, more of the self-employed had high personal incomes – 17 per cent had more than £400 a week net, compared with just 9 per cent of rural employees (Table 2.1).

Household incomes of the self-employed

Altogether, nine in ten of self-employed people in rural areas lived with at least one other adult; only 10 per cent lived alone and a further 1 per cent were lone parents caring for dependent children (see Chapter 1 Table 1.1).

Consequently, the household incomes of self-employed people were a good deal higher than the money they drew from their businesses. The average net household income (before housing costs) of a self-employed person living in a rural area was £368 a week – more than double the amount that they personally earned from self-employment (Table 2.2).

In fact, 5 per cent of self-employed people in both rural and urban areas claimed to have net household incomes of £50 a week or less (Table 2.2). As this is less than the single person's payments of Jobseeker's Allowance or Income Support, it can mean one of two things. It may indicate that self-employed people, whose businesses are collapsing, are failing to claim the benefits to which they are entitled. There is evidence from qualitative research that this is often the case (Elam, Lee and Tadd, 1999; Whyley, 1998). Certainly, the social security rules with regard to self-employed people do not easily accommodate someone with a greatly fluctuating income. On the other hand, it may merely be a consequence of the difficulties of measuring the incomes of self-employed people accurately. Either way, there were practically no employees who had incomes this low.

Table 2.2 Household incomes of self-employed people in rural areas

Column percentages

	Rural self-employed	Rural employees	Urban self-employed
Household net income, before housing costs			
Loss of income	-	-	-
No income	3	*	3
£1-50	2	*	2
£51-100	5	1	4
£101-150	6	3	5
£151-200	7	6	6
£201-300	18	18	16
£301-400	17	22	16
£401-500	14	19	13
£500 or more	30	32	37
Median household net income before housing costs in £s ¹	£368	£404	£399
Household net income, after housing costs			
Loss of income	5	*	4
No income	-	-	-
£1-50	5	*	3
£51-100	6	3	5
£101-150	7	5	7
£151-200	10	8	7
£201-300	16	21	17
£301-400	16	22	15
£401-500	12	17	11
£500 or more	25	23	32
Median household net income after housing costs in £s ¹	£317	£355	£346
Whether receives income-related benefits			
Yes	4	5	4
No	96	95	96
<i>Base</i>	<i>1,527</i>	<i>8,392</i>	<i>4,119</i>

Source: Family Resources Survey 1998/99 and 1999/2000

- none; * less than 1 per cent

¹ including those with no income or a loss

Again, the average net household income (before housing costs) of self-employed people was lower in rural areas than in the towns and cities (£368 a week compared with £399). This was largely due to the greater number in towns and cities with incomes of £500 a week or more (Table 2.2).

Self-employed people living in rural areas also had lower net household incomes than rural employees – by about £40 a week (Table 2.2). Whereas only 4 per cent of rural employees had net household incomes of £150 a week or less, 16 per cent of the rural self-employed were in the same position. Yet similar proportions of them were claiming income-related benefits (Table 2.2). As noted above, the most likely explanation is a combination of two factors – low take-up of benefits combined with the inaccuracy of self-employed incomes.

Because housing costs vary considerably between households, it is customary in analysis of this kind also to look at net household incomes *after* housing costs. This assumes a particular importance when comparing the incomes of self-employed people with those of employees, as many more of the self-employed owned their homes outright, while more of the employees were buying their home on a mortgage (See Chapter 1 Table 1.1).

After housing costs, average household income of self-employed people in rural areas was £317 a week. Once again this was less than the incomes of either rural employees or self-employed people in urban areas. In all three cases the median household income fell by around £50 a week when housing costs were deducted.

This lends support to earlier research showing that self-employed people seem to spend a disproportionate amount of their household income on housing costs, relative to others with a similar income. This is usually taken to mean that self-employed people under-report their incomes. Equally, it could arise as a result of people taking out a single loan to buy property that is used for both business and domestic use. Obvious examples would include farms, shops, hotels and restaurants. In such cases, the business part of the loan could be tax-deductible and, when interviewed, self-employed people would exclude it from their gross earnings when they give a figure either for their regular drawings or their net profit. On the other hand, it is quite likely that they would include the full amount of the loan when giving details of their expenditure.

The income components of self-employed people

By decomposing the gross household incomes of self-employed people in rural areas, it is possible to see the importance of the amounts they draw from their businesses to their overall finances. It is customary to use means for this type of analysis but Table 2.3 gives these figures in two different ways – first based on the median amounts received from different sources and, secondly, on the mean amounts received. Each of these methods has its advantages and its disadvantages and together they can give a more accurate picture.

The advantage of using medians (or middle values) is that it removes the effect of large outlying amounts. The disadvantages, however, are that it sets to zero the amounts received by less than half of the people whose incomes are being averaged and that the component parts do not add up to the total income.

Table 2.3 Income decomposition of self-employed people in rural areas

	Rural self-employed	Rural employees	Urban self-employed
Median gross amounts			
Self-employment earnings	£230	£0	£253
Income from employment	£21	£463	£60
Benefit income	£14	£14	£14
Pension income	£0	£0	£0
Other income	£4	£1	£3
Total income	£473	£540	£524
Mean gross amounts			
Self-employment earnings	£359	£31	£433
Income from employment	£140	£512	£193
Benefit income	£36	£29	£29
Pension income	£31	£18	£28
Other income	£42	£21	£39
Total income	£608	£611	£722

Source: Family Resources Survey 1998/99 and 1999/2000

Note median amounts will not sum to the total gross income

In contrast, the means (the total amounts of money divided by the number of people in the sample) do sum to the total income and we get values for every type of income. On the other hand, they are susceptible to distortion by large outlying values, some of which may well be inaccurate.

If we compare self-employed people in rural areas with their counterparts in towns and cities, we can see that on both measures the urban self-employed not only have higher gross incomes but all the difference in their incomes arises from their level of earnings. There is very little difference in their incomes from benefits, pensions or other sources.

Moreover, it is clear that about half of the difference in their incomes is accounted for by self-employed earnings, the other half by income from employment (Table 2.3). (The median values give more weight to income from employment, while the means give greater weight to self-employed earnings.)

If we now compare the rural self-employed with their neighbours who are employees, we find that there is practically no difference in their mean total gross incomes, but on the median value employees are a good deal better off (£540 a week, compared with £473 a week). What this means is that there is a small number of self-employed people with very large incomes who are pulling up the mean incomes of all self-employed people. Moreover, if we adjust for the possible under-recording of self-employment income as suggested by the Institute of Fiscal Studies (Baker 1993), self-employed people in rural areas would have an increase in their mean self-employed earnings of between £72 to £180 a week² – making them better off overall than rural employees.

As for the components of their total gross income, it is clear that self-employed people rely on income from employment to a far greater extent than employees rely on self-employed earnings. This is the case whether we use median or mean values. Moreover, using the mean measure, it is also clear that they rely more on other sources of income too. This applies

² Multiplying by 1.2 and 1.5 respectively

particularly to pensions and other sources, such as investments, but also to a lesser degree to benefit income as well.

As a consequence, while self-employed earnings account for 59 per cent of the total gross household income of self-employed people in rural areas, 84 per cent of the total income of rural employees is contributed by their wages. Again, if we adjust for possible under-reporting of self-employed incomes, their proportion of total household income rises to between 63 per cent and 68 per cent².

The contribution made by self-employed earnings to the rural economy

Taken across the rural population as a whole, self-employed earnings account for at least a tenth of the total gross income – a little more than in urban households (Table 2.4).

Table 2.4 The proportions of total gross rural incomes contributed by different sources

Column percentages

	Average rural incomes	Average urban incomes
Self-employment earnings	11%	9%
Income from employment	59%	67%
Benefit income	15%	13%
Pension income	9%	6%
Other income	6%	5%
Total (mean) household income (all households)	£468	£531
<i>Base</i>	<i>18,633</i>	<i>66,060</i>

Source: Family Resources Survey 1998/99 and 1999/2000

As might be expected, the bulk of the income of rural households (59 per cent) is in the form of income from employment. Next in importance is income from social security benefits (15 per cent). Self-employed earnings follow (11 per cent) and are slightly greater than the average income from pensions.

Bearing in mind the caveats about self-employed incomes that were outlined at the beginning of this chapter, it seems likely that the actual contribution of self-employed earnings may well be even greater than the *Family Resources Survey* indicates. If we again adjust the figures for the possible under-reporting of self-employment incomes, then between 13 and 15 per cent of rural incomes come from self-employment³.

³ Multiplying by 1.2 and 1.5 respectively

3 The low-income self-employed in rural areas

The previous chapter began with an overview of the problems relating to incomes from self-employment. These problems need to be borne in mind in interpreting the analysis reported in this chapter too. Following the investigations reported in the previous chapter, the *Family Resources Survey* has refined the way that it collects income data for the self-employed and the results are now more reliable, provided one does not use too narrow a definition of low-income. For this reason, we have defined the low-income self-employed as people whose earnings were less than 60 per cent of the median value, excluding people reporting either no self-employed earnings or a loss. This group represents a third of all self-employed people in rural areas. The one in ten self-employed people without an income from their business are reported separately.

Table 3.1 Proportions of self-employed people with low earnings in rural and urban areas

	<i>Column percentages</i>	
	Rural self-employed	Urban self-employed
Loss of income	8	7
No income	3	2
Less than 60% of median income ¹	33	29
More than 60% of median income ¹	56	62

Source: Family Resources Survey

¹ excluding those with no income or a loss

As can be seen from Table 3.1, the proportion of self-employed people who reported incomes from self-employment that were less than 60 per cent of the median amount earned by all self-employed people was higher in rural areas than in urban ones. Rural areas included larger proportions both of those with no earnings (who had either no income or reported a loss from their business) and of those with low earnings (who did have an income but it was below 60 per cent of the median).

Characteristics of people with low earnings from self-employment in rural areas

Previous research, using the *British Household Panel Survey*, showed that people in the poorest tenth of the self-employed income distribution were disproportionately likely to be female, young and to work in ‘other services’ occupations (including a range of personal and domestic services). They were also more commonly sub-contractors or in some other form of ‘dependent’ self-employment and had disproportionately entered self-employment from either unemployment or economic activity (Meager, Court and Moralee, 1994).

Table 3.2 Personal characteristics of the low-income self-employed in rural areas

Column percentages

	No income/loss	Below 60% of median ¹	Above 60% of median ¹
Men	63	53	78
Women	37	47	22
Age			
16-24	2	3	3
25-34	15	14	14
35-44	26	24	30
45-54	29	28	32
55-64	19	20	18
65 and over	10	11	4
Below retirement age	89	86	95
Over retirement age	11	14	5
Average age (in years)	47	48	46
Household circumstances			
Single pensioner	2	2	*
Couple pensioner	8	13	7
Single non-pensioner, no children	6	7	8
Couple non-pensioner, no children	28	25	29
Lone parent	2	2	*
Couple with children	31	32	34
3 or more adults, no children	15	11	13
3 or more adults, with children	8	8	7
Housing tenure			
Mortgagor	51	48	56
Outright owner	34	33	30
Local authority tenant	2	5	2
Housing association tenant	2	3	1
Private tenant	11	11	11
Council tax band			
A (lowest)	12	9	8
B	12	17	13
C	17	24	19
D	18	19	22
E	12	14	17
F	15	9	11
G/H (highest)	11	6	9
Standard region			
North	6	6	6
Yorkshire/Humberside	8	8	9
North West	6	6	6
East Midlands	7	6	5
West Midlands	6	5	5
East Anglia	6	6	6
Greater London	10	12	15
South East	27	30	27
South West	12	11	14
Wales	12	11	8
Scotland			
<i>Base</i>	<i>178</i>	<i>550</i>	<i>927</i>

Source: Family Resources Survey 1998/99 and 1999/2000

- none; * less than 1 per cent

¹ excluding those with no income or a loss

Table 3.3 Employment details low-income self-employed people in rural areas

Column percentages

	No income/loss	Below 60% of median ¹	Above 60% of median ¹
Full-time	72	56	88
Part-time	28	44	12
Number of jobs			
One	76	81	91
Two or more	24	19	9
Self-employed in second job	19	12	3
Place of work			
Works from home	29	34	30
Varies, no usual place	17	23	33
Works away from home	55	43	37
Number of employees			
Works on own/with a partner	67	84	64
Has 1-24 employees	32	16	38
Has 25 or more employees	*	*	3
Standard Occupational Classification			
Managers and administrators	40	27	29
Professional	13	11	14
Associate professional and technical	15	11	10
Clerical and secretarial	4	7	3
Craft and related	11	19	28
Personal and protective	4	8	2
Sales	3	5	4
Plant and machine operatives	4	6	5
Other	4	6	3
Social class			
Professional	11	6	13
Managerial and technical	53	36	36
Skilled non-manual	13	18	11
Skilled manual	14	19	29
Partly skilled	8	16	9
Unskilled	2	5	2
Standard Industrial Classification			
Agriculture, Forestry	15	8	10
Manufacturing	9	10	9
Construction	6	9	21
Wholesale and retail	16	16	17
Hotels and restaurants	6	5	6
Transport	8	4	4
Real estate	12	13	15
Education	6	7	3
Health and social services	11	10	7
Other community	10	10	5
Private households	*	5	*
Other	3	3	2
<i>Base</i>	<i>178</i>	<i>550</i>	<i>927</i>

Source: Family Resources Survey 1998/99 and 1999/2000

* less than 1 per cent; na not applicable

¹ excluding those with no income or a loss

The current analysis both confirms and extends this picture. It shows that self-employed people with incomes from their business that were below 60 per cent of the median were disproportionately likely to be:

- women (Table 3.2)
- over the age of retirement (especially pensioners living as a couple) (Table 3.2) and
- living in homes with a low Council Tax valuation (Table 3.2).

It did not, however, show that young people were susceptible to low incomes from self-employment.

In terms of their businesses they were disproportionately likely to:

- work part-time (Table 3.3)
- have two or more jobs and to work as self-employed in their second job (Table 3.3)
- work alone or with just a business partner (Table 3.3)

Table 3.4 Qualifications and work experience of the low-income self-employed in rural areas

	<i>Column percentages</i>		
	No income/loss	Below 60% of median ¹	Above 60% of median ¹
Age left full-time education			
16 or less	57	62	60
17-19	25	24	23
20 or over	18	15	18
Highest qualification			
Degree or above	20	18	20
Other	62	62	61
None	18	21	19
Mean number of years in full-time work	24.7	22.3	25.2
<i>Base</i>	<i>178</i>	<i>550</i>	<i>927</i>

Source: Family Resources Survey 1998/99 and 1999/2000

¹ excluding those with no income or a loss

The low-income self-employed were no more likely to be white-collar workers than those who were better off. But they did include more people working at lower skills levels both among white- and blue-collar workers (Table 3.3). For example, 21 per cent of the low-income self-employed were classified as partly skilled or unskilled compared with 11 per cent of the better-off. Interestingly, the groups for whom earlier research (see Chapter 2) indicated the largest discrepancy between incomes and standard of living – people in working in a managerial or professional capacity – were not over-represented among people with self-employed earnings below 60 per cent of the median (Table 3.3).

Despite working at a lower skill level, people in low-income self-employment had spent slightly more years in full-time education and had higher levels of qualifications than those with higher incomes (Table 3.4). And, although the average age of self-employed people did not vary by income group, those on low incomes had three fewer years in full-time work (Tables 3.1 and 3.3). This may be a result of more years in full-time education or it may indicate greater job instability among people on low incomes, confirming earlier research (Meager, Court and Moralee, 1994).

As earlier research has also shown (Meager, Court and Moralee, 1994), self-employed people with low incomes worked disproportionately in the service industries, including education, health and social services, private households and 'other community' (Table 3.3). People working in the distributive trades (that is, retail and wholesale) were, in contrast, under-represented (Table 3.3). Further, it is worth noting that industries that were more common among the rural self-employed than among their urban peers (agriculture, distributive trades and hotels and catering) were not associated with an increased likelihood of low income. Conversely, work in the service industries that *were* associated with low incomes was no more common among the rural self-employed than it was among self-employed people living in towns and cities (see Chapter 1, Table 1.3).

Personal incomes of people with low earnings from self-employment in rural areas

Although they all earned relatively little from their self-employment, many of the low-income self-employed had other resources that boosted their total personal income. While all of them earned less than £150 a week from their self-employment, only 57 per cent of them had total incomes that were this low (Table 3.5).

As a consequence, while on average the low-income self-employed received £50 a week from their businesses, their average personal income was £88 (Table 3.5). This income came from a variety of other sources – second jobs, pensions, social security benefits, as well as savings and investments.

Household incomes of people with low earnings from self-employment in rural areas

Moreover, few of the low-income self-employed also lived in households that had a very low income – only 23 per cent had total net household incomes (before housing costs) of less than £150 a week (Table 3.6) – as many of them had someone else in their household who had an income. In other words, having a low income from self-employment does not necessarily mean that people are poor. Quite possibly this is because the self-employed with low earnings included a much higher proportion of women living with a partner, who were quite probably second-earners.

Even so, the proportion of self-employed people with net household incomes below £150 a week was eight times that found among those with higher earnings from self-employment (Table 3.6).

On average, the total net household income of the low-paid self-employed averaged £265 a week - about six-tenths of the average income enjoyed by higher-earning self-employed people.

Table 3.5 Personal incomes of the low-income self-employed in rural areas*Column percentages*

	No income/ loss	Below 60% of median ¹	Above 60% of median ¹
Personal net income from self-employment			
Loss of income	71	-	-
No income	29	-	-
£1-50	-	52	-
£51-100	-	41	-
£101-150	-	7	18
£151-200	-	-	22
£201-300	-	-	21
£301-400	-	-	15
£401-500	-	-	7
£500 or more	-	-	17
Median net income from self-employment in £s	£0/-£24	£50	£244
Total personal net income			
Loss of income	42	-	-
No income	2	-	-
£1-50	17	23	*
£51-100	11	34	3
£101-150	8	18	16
£151-200	4	8	16
£201-300	7	10	24
£301-400	3	4	13
£401-500	3	2	9
£500 or more	2	1	20
Median net personal income in £s	£65/-£12	£88	£259
<i>Base</i>	178	550	927

Source: Family Resources Survey 1998/99 and 1999/2000

- none; * less than 1 per cent

¹ excluding those with no income or a loss

Consistent with this was the fact that 8 per cent of the low-income self-employed were receiving income-related benefits – compared with only 2 per cent of people whose self-employed earnings were more than 60 per cent of the median amount (Table 3.6).

So, while low-paid self-employment does not necessarily lead to poverty, it certainly seems to increase the chances of it.

Household incomes after housing costs

People with low earnings from self-employment included fewer mortgagors than did self-employed people with higher earnings (48 per cent compared with 56 per cent). Potentially, this could make a difference to the relative incomes after housing costs of these two groups. There are two reasons for this. Most obviously, outright owners will have no mortgage repayments and, secondly, low-income tenants may be eligible for help with their housing costs while those with mortgages would not. This would seem to suggest that self-employed people with low earnings should have lower housing costs than those with higher earnings and that difference in total household incomes *after* housing costs would be narrower than the difference before housing costs are deducted.

This was, in fact, the case. After housing costs were deducted, the low-income self-employed had net household incomes that averaged £226 a week, compared with £406 among self-employed people higher earnings. In other words, the difference in incomes had narrowed slightly from £197 to £180 a week.

Table 3.6 Household incomes of the low-income self-employed in rural areas

	<i>Column percentages</i>		
	No income/ loss	Below 60% of median¹	Above 60% of median¹
Household net income, before housing costs			
Loss of income	-	-	-
No income	21	2	-
£1-50	4	4	-
£51-100	11	9	-
£101-150	9	8	3
£151-200	5	11	4
£201-300	11	22	15
£301-400	12	17	17
£401-500	7	11	17
£500 or more	21	15	43
Median household net income before housing costs in £s	£314/£134	£265	£462
Household net income, after housing costs			
Loss of income	24	5	*
No income	2	-	-
£1-50	6	6	*
£51-100	13	8	3
£101-150	6	12	4
£151-200	5	14	8
£201-300	15	19	14
£301-400	5	15	19
£401-500	10	11	14
£500 or more	15	10	37
Median household net income after housing costs in £s	£262/£84	£226	£406
Whether receives income-related benefits			
Yes			
No	4	8	2
	96	92	98
<i>Base</i>	<i>178</i>	<i>550</i>	<i>927</i>

Source: Family Resources Survey 1998/99 and 1999/2000

- none; * less than 1 per cent

¹ excluding those with no income or a loss

The income components of people with low earnings from self-employment in rural areas

As discussed above, people with low earnings from self-employment often have other sources of income personally and many live with a partner who also has an income. Consequently, fewer than a quarter of people who earned less than £150 net a week from their business lived in households with incomes that were this low.

Table 3.7 Income decomposition of the low-income self-employed in rural areas

	No income /loss	Below 60% of median ¹	Above 60% of median ¹
Median gross amounts			
Self-employment earnings	-	£79	£361
Income from employment	£70	£46	£37
Benefit income	£14	£21	£11
Pension income	-	-	-
Other income	£5	£3	£4
Total income	£277	£350	£582
Mean gross amounts			
Self-employment earnings	£22	£127	£535
Income from employment	£246	£180	£151
Benefit income	£53	£44	£27
Pension income	£48	£42	£22
Other income	£59	£26	£48
Total income	£429	£419	£782
<i>Base</i>	<i>178</i>	<i>550</i>	<i>927</i>

Source: Family Resources Survey 1998/99 and 1999/2000

Note median amounts will not sum to the total gross income

¹ excluding those with no income or a loss

From Table 3.7 we can see that, on average, self-employed earnings only accounted for three tenths of the gross household income of self-employed people in rural areas, whose self-employed earnings were less than 60 per cent of the median. Their total gross income was £419 a week, on average, £127 of which was self-employed earnings. In fact income from employment exceeded this amount and it was almost equalled by their total income from social security benefit, pensions and other sources. Again this is consistent with the disproportionate numbers of women, part-timers, pensioners and people with two or more jobs (Tables 3.2 and 3.3).

If we compare them with self-employed people in rural areas with higher self-employed earnings, we find that they were much more dependent on other sources of income. On average, the higher-paid self-employed received £535 gross per week in self-employed earnings, which was 68 per cent of their total gross household income (Table 3.7).

Self-employed people in rural areas whose businesses make a loss or do not provide them with earnings

Earlier in this chapter, we saw that 11 per cent of self-employed people in rural areas either made a loss from their business (8 per cent) or did not draw an income from it (3 per cent)⁴. In contrast to the low-paid, whose circumstances have just been described, much more caution needs to be exercised when considering this group for all the reasons outlined in the previous chapter and for this reason they are discussed in much less detail.

On the whole, similar groups of people were over-represented among them, as we found among the low-paid self-employed. So, they included disproportionate numbers of women,

⁴ Because the numbers are small in each case, we have grouped them together, although it should be noted that the characteristics of those drawing no income tended to be midway between people making a loss and those with low incomes.

people over the age of retirement and part-time workers. Even so, the numbers of people in these groups was smaller than that found among the low paid (Tables 3.2 and 3.3).

At the same time, there were some important differences. First of all the proportion with second jobs was even higher than among the low paid and more of them were self-employed in their second job (Table 3.3).

Secondly, far fewer of them had no employees; a much higher proportion had a Standard Occupational Classification of 'managers and administrators' and many more were in the 'managerial and technical' social class. These groups, it should be remembered, were the ones that previous research found to have a much higher standard of living than their household incomes would imply (see Chapter 2). At the same time, earlier qualitative research on small business failure showed that owners and managers of small businesses that were in difficulty typically did not draw an income and often put money into their business in order to keep it afloat (Whyley, 1998).

Thirdly, they included the largest proportion of people running businesses in the agricultural sector and the smallest proportion in the construction industry. This would be consistent with the buoyancy of the building trade and financial difficulties facing farmers during the 1998-2000, when the *Family Resources Survey* data that was analysed was collected.

When we look at their total net personal incomes and total net household incomes (Tables 3.5 and 3.6), it is clear that some of these people were in quite serious financial difficulty. Others, however, had other sources of income, which offset their lack of self-employed earnings, at least in part (Table 3.7).

So, while all of them had no incomes at all from their business, only 44 per cent had no personal income and 21 per cent said that they had no income coming into their household. This meant that, although the average (median) income from self-employment of people who made a loss was -£24, their average total net personal income was -£12 and their total household net income was £134 (Tables 3.5 and 3.6). In other words, for the most part, they personally contributed little, if any, earned income to the household budget. The variation was greater still for the small number of people who drew no income from their business, yet had total net household incomes that averaged £314, making them at least as well off as the low-paid self-employed (Table 3.6).

If we now look at the components of their total *gross* income, we can see that some people did generate an income from their businesses before they deducted business expenses. However, on average the bulk of their household income (£246 of the £429) came in the form of earnings – both their own and often a partner's (Table 3.7).

Table 3.8 Comparison of mean gross and mean net incomes from self-employment

	No income /loss	Below 60% of median ¹	Above 60% of median ¹
Gross self-employment earnings	£22	£127	£535
Net self-employment earnings	-£83	£52	£375
Expenses charged to the business	£105	£79	£160
<i>Base</i>	53	550	927

Source: Family Resources Survey 1998/99 and 1999/2000

¹ excluding those with no income or a loss

Finally, an interesting picture emerges when we compare gross and net earnings from self-employment. This shows that people making no income or a loss from their businesses were charging much more to their businesses than were people with low earnings from their businesses. Even those on low incomes charged amounts that, proportionately, were far higher than the higher earners (Table 3.8). This supports the hypothesis discussed in the previous chapter that some self-employed people report small or negative incomes that are not commensurate with their standard of living, because they are able to deduct considerable amounts in business expenses.

4 Moves into and out of self-employment in rural areas

The final piece of the self-employment jigsaw uses a combination of data from the *Quarterly Labour Force Surveys* and *British Household Panel Surveys* to provide more information about the dynamics of rural self-employment and its implications for rural poverty. This includes the origins of those entering self-employment, the destinations of those who leave and the extent to which these transitions are accompanied by moves into or out from income poverty.

Moves into self-employment in rural areas

Each quarter around 0.7 per cent of adults in rural areas, who were not already self-employed, set up in business. Men were twice as likely to enter self-employment as women, which is consistent with their proportions in the self-employed population in rural areas (Table 4.1⁵).

Table 4.1 Moves into self-employment

	<i>Cell percentages</i>		
	Rural	Mixed	Urban
Proportion of people aged over 16 in self-employment			
All	10	9	8
Men	15	13	12
Women	6	5	4
Entry rates for those not already self-employed			
All	0.7	0.6	0.6
Men	0.9	0.8	0.8
Women	0.5	0.4	0.4

Source: Quarterly Labour Force Surveys 1996 and 1997

Entry rates were also marginally higher in wholly rural counties, than they were in either urban or mixed rural/urban areas ⁶ (Table 4.1) This is entirely consistent with the slightly higher levels of self-employment in rural counties. Moreover, both men and women had higher rates of entry in rural areas.

⁵ These analyses use the *Quarterly Labour Force Surveys* and are appropriately filtered to include only those to whom the move is applicable. For example, moves into self-employment have been confined to those not self-employed in the previous quarter, while moves out of self-employment were confined to those in self-employment in the previous quarter.

⁶ The QLFS analysis was undertaken at county level and, as a consequence, counties could not be classified into just rural or urban, as they included some counties that included both types of area.

Table 4.2 The origins of people who become self-employed*Column percentages*

	Rural	Mixed	Urban
Origins – all entering self-employment			
Employees	45	46	43
Unpaid family worker	6	3	4
Unemployed or government training	20	23	25
Inactive	30	28	32
Origins – all men entering self-employment			
Employees	49	50	46
Unpaid family worker	4	3	3
Unemployed or government training	28	30	32
Inactive	19	17	20
Origins – all women entering self-employment			
Employees	39	37	38
Unpaid family worker	8	4	6
Unemployed or government training	8	12	15
Inactive	45	47	41
<i>Base All entering self-employment</i>	520	671	1,007
<i>Base: Men entering self-employment</i>	307	419	629
<i>Base: Women entering self-employment</i>	213	252	378

*Source: Quarterly Labour Force Surveys 1996 and 1997****The origins of people who become self-employed***

Under half of the people who entered self-employment in rural areas (45 per cent) had previously been an employee. Some of these apparent moves from employment to self-employment may, in practice, have resulted from changes in self-description by people who had not changed what they were doing. The construction industry is a good example of this, where workers may be hired on a self-employed basis by a single ‘employer’.

Two in ten entered self-employment from unemployment and around three in ten from economic inactivity (Table 4.2). This suggests that many people are being pushed into self-employment through lack of jobs in rural areas. But the picture may well be exaggerated, as some people might spend a period as unemployed or inactive, while they are making preparations to start their business. There was very little difference between rural and mixed rural/urban counties. But both had slightly larger proportions entering from employment and fewer from unemployment than urban areas.

Men entering self-employment were particularly likely to have previously been either an employee or unemployed; female entrants to self-employment had more commonly been economically inactive (Table 4.2). Again, the differences between rural and urban areas were slight. Marginally fewer men in rural areas entered from unemployment, especially when compared to the wholly urban areas. The differences for women were slightly greater. Compared with women living in urban areas, many fewer rural women became self-employed having previously been unemployed and more of them had been economically inactive. This may well indicate a lack of jobs in rural areas for women wanting to return to work having brought up children.

The impact of becoming self-employed on the risks of entering poverty

It is not clear from this analysis whether people who become self-employed in rural areas face increased or reduced risks of entering poverty. For this we have used data from the *British Household Panel Surveys* to undertake an analysis of income changes associated with such changes in employment.

In fact movement into self-employment had only small effects on the rate of entry to income poverty⁷. It was associated with a slight increase in the risk of entering income poverty on an annual income measure (an odds ratio of 1.55), but had a more impact on a current income poverty basis (2.0) (Table 4.3). This may well be because people entering self-employment may take some time to get an income stream started. There was no clear pattern by age, probably because the numbers in specific age groups were rather small. Similarly, the number of women entering self-employment in rural areas was too small for gender comparisons.

Table 4.3 The impact on poverty dynamics of entering and leaving self-employment in rural areas

	Odds ratio ³ Annual income	Odds ratio ³ Current income
Move into self-employment		
Risk of entering poverty	1.55	2.0
Chances of leaving poverty*	2.9	3.4
Move out of self-employment		
Risk of entering poverty	1.7	1.3
Chances of leaving poverty*	-	0.8

Source: *British Household Panel Surveys 1991-97*

* urban and rural data combined

- risk-neutral effect

So, becoming self-employed does seem to increase the risk of entering poverty in rural areas very slightly, but does it have more, or less, of an effect than in urban areas?

⁷ The increased risk associated with a particular event is expressed as an 'odds ratio', which was calculated as the odds of entering poverty for someone who was affected by an event, divided by the odds of entering poverty by someone who was not affected by it. The annual income threshold for poverty was below 50% of the mean annual income; the current income threshold was below 60% of the median currently weekly income.

This is difficult to judge and can only be tested using statistical modelling⁸. Table 4.4 summarises the results. An odds ratio greater than 1 means that the effect was stronger in rural areas (and weaker in urban ones), while a ratio of less than 1 means that the effect was weaker in rural areas (but stronger in urban areas). In fact the effects were virtually identical in the two types of area (Table 4.4).

Table 4.4 The relative effects on income dynamics of entering and leaving self-employment in rural and urban areas

	Odds ratio
Moves into self-employment	
Relative effect on risk of entering poverty	1.04
Relative effect on chances of leaving poverty	1.58
Moves out of self-employment	
Relative effect on risk of entering poverty	1.29
Relative effect on chances of leaving poverty*	4.49

Source: *British Household Panel Surveys 1991-97*

* statistically significant

The impact of becoming self-employed on the chances of leaving poverty

Unfortunately, there were too few cases to identify the impact of becoming self-employed on the chances of leaving poverty in rural areas. However, from an analysis combining data for urban and rural areas, it was clear that entering self-employment trebled the chances of leaving poverty both on the annual and current income measures (Table 4.3). (This was based on an odds ratio as described in footnote 3.)

In other words, becoming self-employed both increases the risk of entering poverty *and* increases the chances of ceasing to be poor. This apparently contradictory finding can, in part, be explained by the diverse origins of people who enter self-employment. Some people leave employment following redundancy and decide to become self-employed. These people may well run the risk of entering poverty and the fact that the risk is greater on short-term incomes (as measured by current income) would be consistent with this. On the other hand, where self-employment follows a period of unemployment it offers the chance of increased incomes and of leaving poverty.

Again we are interested in whether entering self-employment has a greater or lesser effect on leaving poverty in a rural area than it does in an urban one. As before, we have tested this using a statistical model (see footnote 4). We have used the 60% of current median income measure here, largely because it yields somewhat greater numbers of cases than the annual poverty measure. In fact, becoming self-employed had a slightly greater effect in rural areas but the effect was small (an odds ratio of 1.58) and it did not reach the level of statistical significance (Table 4.4).

⁸ The model was simple and took the form:

$$\text{entry to income poverty} = \text{age} + \text{age-squared} + \text{sex} + (\text{rural/urban} \times \text{entry to self-employment})$$

We controlled for gender and for age (allowing the effect of age to change as people get older). It is the final interaction term, in brackets, which will show whether the trigger has a different impact on leaving poverty, depending on rural or urban area.

Leaving self-employment in rural areas

The overall rate of exit from self-employment was around 5.8 per cent per quarter with, if anything, a marginally lower exit rate in rural counties. It was lower for men and somewhat higher for women (Table 4.5).

Table 4.5 Leaving self-employment

	<i>Column percentages*</i>		
	Rural	Mixed	Urban
Exit rates			
All	5.8	6.6	6.2
Men	5.2	5.9	5.8
Women	7.5	8.4	7.5
Destinations – all leaving self-employment			
Employees	48	51	51
Unpaid family worker	5	3	3
Unemployed or government training	15	15	18
Inactive	32	31	29
Destinations – all men leaving self-employment			
Employees	51	58	55
Unpaid family worker	4	2	2
Unemployed or government training	20	17	21
	25	23	22
Destinations – all women leaving self-employment			
Employees	43	39	41
Unpaid family worker	7	6	5
Unemployed or government training	6	11	11
Inactive	44	44	44
<i>Base All leaving self-employment</i>	<i>515</i>	<i>673</i>	<i>903</i>
<i>Base: Men leaving self-employment</i>	<i>328</i>	<i>436</i>	<i>617</i>
<i>Base: Women leaving self-employment</i>	<i>187</i>	<i>237</i>	<i>286</i>

Source: *Quarterly Labour Force Surveys 1996 and 1997*

* except for the overall percentages leaving self-employment, which are cell percentages of all in sample

The destinations of people leaving self-employment

Only half of people leaving self-employment in rural areas became employees (Table 4.5). Again it should be remembered that there are considerable grey areas between employee and self-employed status, with some people changing their occupational status without changing either who they work for or the nature of the work that they do.

A few people gave up self-employment and became unpaid family workers. Around 15 per cent became unemployed and around 30 per cent became economically inactive (Table 4.5). Compared with women, men were more likely to become either an employee or unemployed on leaving self-employment and less likely to become economically inactive. This reflects the origins of people becoming self-employed (Tables 4.5 and 4.2).

There was hardly any difference between rural counties and other areas in the destinations of people leaving self-employment and, because of the relatively small numbers of people, the results are not statistically significant.

Interestingly, the destinations of people leaving self-employment in rural areas were very similar to rural people who left seasonal jobs (see Kempson and White, forthcoming). This suggests that self-employment does not necessarily offer a secure foot-hold in the labour market.

The impact of leaving self-employment on the risk of entering poverty

People in rural areas who left self-employment were, on average, slightly more likely to enter income poverty than those who remained in self-employment (an odds ratio of 1.7), possibly reflecting business failure as a cause of exit. The effect using the current income poverty measure was lower still (Table 4.3). This contrasts with entry to self-employment, where the current measure was the more sensitive suggesting that leaving self-employment has a longer term effect on people's finances, while becoming self-employed is more likely to lead to short-term poverty.

There was some indication that men were more at risk of income poverty, when leaving self-employment, than were women. This is quite possibly because many more women worked part-time and could well have been the second earner in the household. But, as the numbers of people involved was small, these results should be seen as pointing to the value of further investigation, rather than being conclusive. The numbers in rural areas were too small for age comparisons to be reliable.

As before, statistical models were used to see whether leaving self-employment increases or decreases the risk of entering income poverty in rural areas as compared with the effect in urban areas (see footnote 4). Using the 50% of annual mean income measure, the odds ratio was 1.29 and this was not statistically significant, indicating that there was no real difference in the effect on the entry to poverty between rural and urban areas (Table 4.4).

The impact of leaving self-employment on the chances of leaving poverty

Again there were too few cases to identify the impact of ceasing self-employment on the chances of leaving poverty in rural areas. However, when data for urban and rural areas was combined, leaving self-employment appeared to have no impact at all on the chances of leaving poverty on annual income measure, although it seemed to *decrease* the chances on the current income measure (Table 4.3). A likely explanation of this finding is business failure. Earlier research has shown that people struggle in poverty for some time, trying to save their business and if they are unsuccessful, the effect on their lives and self-esteem is extreme. It takes time for them to get back on their feet (Whyley, 1998).

Although the above analysis could not be undertaken separately for rural and urban areas, it was possible, using statistical modelling (see footnote 4), to assess the effect in rural areas, relative to urban ones. This showed that, compared with urban areas, leaving self-employment had 4.5 times the effect on the chances of leaving income poverty in rural

communities (Table 4.4). Indeed, linked research has shown that it was one of the few triggers for income dynamics that had more of an effect in rural areas (Kempson and White, forthcoming). Further research would be needed to explore this in greater detail.

5 Summary and conclusions

Self-employment is an important aspect of rural labour markets. Around one in ten people aged over 16 were self-employed in their main occupation – equivalent to 16 per cent of all those who were working. In both cases this was a higher proportion than in urban areas.

The typical self-employed person in a rural area was male, aged between 35 and 54, lived as part of a couple and was an owner occupier. Compared with employees in rural areas, many more of them were men, they tended to be older and more of them owned their home outright. They also had more years experience of full-time work – almost certainly because they were older and included more men.

Three quarters of them worked full-time in their businesses and only 7 per cent had two or more jobs. In both cases this was slightly higher than that found among employees. A third of them worked from home and seven in ten had no employees.

Six in ten were white-collar workers; four in ten were in blue-collar work. This was similar to employees, but the self-employed included slightly more people with higher skill levels among both white- and blue-collar workers. Half the self-employed worked in one of three industries: construction, wholesale and retail trades and real estate. Compared with employees, more of them worked in the construction industry, in agriculture and in real estate.

On the whole the personal characteristics of self-employed people in rural areas differed little from their urban counterparts. They included slightly more women, were slightly older and more of them owned their homes outright. They tended to have left school earlier and to have slightly lower levels of educational qualifications and had slightly more years of full-time work experience. There was little difference in either the proportion who worked full-time or the proportion with two or more jobs. Rather more self-employed people in rural areas worked from home, but more of them had employees. They also included a greater proportion of people classified as managers.

Rural areas included greater proportions of self-employed people who worked in agriculture or forestry, the retail trade or hotels and catering; while in urban areas self-employment in the construction industry, transport or real estate was more commonplace.

Incomes of self-employed people in rural areas

It is difficult to collect information about incomes from self-employment in surveys and it is generally considered less reliable than the earnings of employees. It is least reliable for white collar workers and especially those classified as ‘professional’ or ‘employers/managers’. First, compared with employees, more self-employed people fail to give details of their

earnings. Secondly, self-employed people tend to be disproportionately over-represented among those with low incomes – possibly because they are able to charge more of their day-to-day expenses to the business. Thirdly, those with low incomes have a much higher level of expenditure than do employees with similar incomes.

The *Family Resources Survey* shows that one in ten self-employed people draw no income from their businesses – indeed 7 per cent report making a loss. This proportion is roughly the same in rural and urban areas. The average (median) net weekly income drawn by the rural self-employed was £146, which was rather less than the £186 drawn by their urban counterparts. Previous research, however, suggests that this may underestimate their true incomes by a factor of between 1.2 and 1.5.

Because many of the self-employed had other sources of income, their average (median) total net personal incomes were slightly higher: £166 per week in rural areas. This was somewhat lower than either the incomes of rural employees (£196) or of self-employed people living in urban areas (£198). Household net incomes were higher still, as many self-employed lived with a partner who often also had an income. Self-employed people in rural areas had household net incomes that averaged £368. On this measure, too, they were not so well off as either rural employees (£404) or the urban self-employed (£399). They were, however, no more likely to be receiving income-related social security benefits.

Self-employed earnings accounted for about six tenths of the gross mean household incomes of self-employed people living in rural areas; three tenths was income from employment and the remainder was from social security benefits, pensions and other sources, such as savings and investments. Just about all of the difference in gross incomes between the rural and urban self-employed was accounted for by differences in earnings. But only half of the difference was due to lower average (mean) self-employed earnings in rural areas, the other half was because they also had lower average incomes from employment.

Compared with rural employees, a greater proportion of the average gross household incomes of self-employed people was in the form of unearned incomes (social security, pensions or other income) – 18 per cent, compared with 11 per cent. Moreover, while the great majority of the income of employees was income from employment, with only a small contribution from self-employed earnings, self-employed people relied much more on a combination of self-employed earnings and income from employment. This difference persisted, even if self-employed incomes were adjusted for possible under-recording.

The contribution made by self-employed earnings to the rural economy

Self-employment makes an important contribution to the rural economy. For every £100 going into the rural economy about £11 is derived from self-employment. If this is adjusted to take account of possible under-reporting of self-employed incomes, the amount rises to between £13 and £15.

The low-income self-employed in rural areas

A third of self-employed people living in rural areas had self-employed earnings that were less than 60 per cent of the median amount for all self-employed people (excluding those that had no incomes or reported a loss).

These people were disproportionately likely to:

- be women
- be over the age of retirement
- work part-time
- have two or more jobs and to work as self-employed in their second job
- work alone or just with a business partner
- have lower skills levels
- work in the service industries, such as education, health and social services and private households.

Although they earned relatively little from self-employment (£50 a week on average), many had other sources of income. These raised their total personal net income to £88 a week on average (median). Their household net incomes were higher still - £265 a week on average and only 8 per cent of them were claiming income-related benefits.

Despite this, both their total personal incomes and their household incomes were, on average, lower than those received by people with higher levels of self-employed earnings. In other words, low-paid self-employment does not necessarily lead to poverty but it certainly increases the chance of it.

The low-paid self-employed relied far more on income from employment and on unearned income (social security benefits, pensions, and income from savings and investment for example) than did people who earned larger amounts from their businesses. Only three tenths of their income came from self-employment – less than half the proportion among the better-paid self-employed.

In summary, then the low-paid self-employed seem to be fairly diverse. On the one hand, they include people for whom self-employed earnings are their main (if not their sole) source of income. These people clearly live in poverty. About 8 per cent of all those working as self-employed in rural areas not only had low incomes from self-employment but had net household incomes of £150 or less.

On the other hand, there are others who earn little, perhaps because they work only part-time, and their self-employed income makes only a minor contribution to their overall household income, which is quite high. In most cases this is because they have high levels of income from employment – either their own, or a partner's. About 9 per cent of the self-employed in rural areas had household net incomes of more than £400 a week, despite having low earnings from self-employment.

In between these extremes, about 17 per cent of self-employed people in rural areas supplement low self-employed earnings by piecing together an income from a number of sources but fail to achieve more than a modest net household income of between £150 and £400.

Self-employed people in rural areas whose businesses make a loss or do not provide them with an income

On the whole similar groups of people were over-represented among those whose businesses made a loss or did not provide them with an income – but to a lesser extent than is the case among the low-paid self-employed. But there were some important differences. Compared with the low-paid, they included greater proportions of people:

- with two or more jobs
- with employees
- who were classified managers
- working in the agricultural sector.

Conversely, construction workers were under-represented among them.

Some of them were quite clearly facing financial difficulties, while others had income from employment (their own or their partner's) or other sources that meant that they were slightly better-off overall.

So, while none of them had any income coming in from their businesses, only 44 per cent said that they had no personal income and 21 per cent said that they had no income coming into their household at all.

It is clear, therefore, that people whose businesses made a loss or did not provide them with an income were also quite a diverse group. At one extreme some seemed to be in real financial difficulty with net household incomes that were below £50 a week and, therefore, below the single person's payment of Income Support or Jobseeker's Allowance. They represented about 3 per cent of all self-employed people in rural areas. While, at the other extreme, a quarter of them were relatively well-off and had net household incomes of more than £400 a week. They, too, represented about 3 per cent of all self-employed people in rural areas.

Moves in and out of self-employment

Each quarter just under 1 per cent of adults in rural areas, who were not self-employed, set up in business. Fewer than half of them had previously been employed; three in ten had been economically inactive and two in ten unemployed.

The entry rates for men were double those for women and they were much more likely to have been either in employment or unemployed prior to becoming self-employed. In contrast, nearly half of the women in rural areas who became self-employed had previously been economically inactive. The differences between rural and urban areas were slight.

Becoming self-employed slightly increased the risk of entering income poverty and had more effect in the short-term (doubling the risks) than it did over longer periods of time. At the same time, it also trebled the chances of *leaving* poverty. This apparent contradiction is almost certainly explained by the diverse origins of people who become self-employed. There was little difference in the effects of becoming self-employed on income dynamics in rural areas when compared with urban ones.

Around 6 per cent of the rural self-employed give up running their own business each quarter, with women being more likely to do so than men. Employment was the most common destination for these people, although three in ten became economically inactive and 15 per cent unemployed. Men were marginally more likely to enter employment than women and much more likely to become unemployed. Women, in contrast, had a greater propensity to become economically inactive. Again the differences between rural and urban areas were slight.

Leaving self-employment slightly increased the chances of entering poverty and, in contrast to entering poverty, had more of an effect in the longer term. This is almost certainly the effect of business failure. Men seemed to face a higher risk than women and this is an area that would merit further investigation.

On the other hand, it seems that leaving unemployment might decrease the chances of leaving poverty – at least in the short-term. Small sample sizes meant that this analysis could not be carried out separately for rural and urban areas, but it did seem that in rural areas leaving self-employment might possibly have a small effect in the opposite direction and increase the chances of escaping poverty. This, too, merits further investigation.

In conclusion

Self-employment undoubtedly plays an important part in rural economies, but it does not guarantee an adequate income for all who decide to set up on their own.

Becoming self-employed trebles the chances of leaving poverty – especially for those who were previously unemployed. On the other hand, it can take time for an income stream to get going and, as a consequence, people entering self-employment from employment face an increased risk of entering poverty.

It is also clear that there is a wide dispersion of income among self-employed people, both in terms of the amounts they earn from their businesses and their total household income. Bringing together the analysis of incomes reported above, we find that 44 per cent of self-employed people in rural areas were either low-paid or made nothing from their businesses. Of these:

- 4 per cent seemed to be in real financial difficulty and had net household incomes of less than £50 a week - which is about the amount that would have been payable to a single person claiming Income Support or Jobseeker's Allowance at the time of the survey;
- 8 per cent had very low net household incomes of between £50 and £150 a week;
- 19 per cent pieced together a net household income of between £150 and £400 a week;
- 12 per cent were relatively well-off, with net household incomes of more than £400 a week.

If, as earlier research has suggested, self-employed incomes tend to be under-reported, then the proportions with low or very low net household incomes may well be over-stated. But the proportion of people in financial difficulty does not seem exceptionally high when we consider that each quarter 3 per cent of people give up self-employment and become either

unemployed or economically inactive. Moreover, those in real difficulty were disproportionately men and would be more likely to be the main wage earner in the household.

Leaving self-employment almost doubled the chances of entering poverty and actually reduced the chances of a self-employed person, who was poor, escaping poverty. As other research has shown, the consequences of business failure can be quite severe (Whyley, 1998).

This lends a great deal of weight to the need for small business support services for self-employed people in rural areas – both at the time when they are entering self-employment and also at times when they hit financial difficulties. In particular, it shows that the micro-finance schemes and small business advice services that have been developed in urban areas are needed every bit as much in rural localities too.

In policy terms, the other main issue to arise from this research is the importance of self-employment as a route for women wishing to return to the labour market in rural areas. But entry rates for women are about half those for men, while exit rates are about double and many women return to economic inactivity. Moreover, women are greatly over-represented among those who have low levels of self-employed earnings. In other words, self-employment appears to be a much less satisfactory option for women than it is for men. This clearly merits further research but does suggest that more should be done to encourage and support women who wish to become self-employed.

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