

**Impact case study (REF3b)**

<p><b>Institution:</b> University of Essex</p>
<p><b>Unit of Assessment:</b> 23 – Sociology</p>
<p><b>Title of case study:</b> Informing the Labour Party’s policy on false self-employment</p>
<p><b>1. Summary of the impact</b></p> <p>Essex research on false self-employment in the construction industry has informed the Labour Party’s policy on this issue, both in government and opposition. Professor Mark Harvey’s 2008 report, <i>The evasion economy</i>, commissioned by the Union of Construction, Allied Trades and Technicians (UCATT), informed the Prosperity and Work section of the second ‘Warwick Agreement’, formed by the TUC and the Labour Government. The Labour Government’s budget of 2009 made explicit reference to eradicating false self-employment, which led to the circulation of a consultation document that cited Harvey’s report. Whilst in opposition, the Party has taken measures to prevent false self-employment and two members of the Shadow Cabinet have explicitly acknowledged Harvey’s research.</p> <p><b>2. Underpinning research</b></p> <p>Sociology at Essex has a long tradition of research on structured inequality, labour market dynamics, and social class, all of which now falls under the Centre for Research in Economic Sociology and Innovation (CRESI) – the Director of which is Mark Harvey. Harvey’s work on false self-employment has developed themes tackled in Lydia Morris’ <i>Social divisions</i> (1995), which focused on the effects of industrial decline. <i>Social divisions</i> focuses on the way sub-contracting, in the context of economic decline, produced broken work histories and intermittent unemployment to which traditional social classifications were insufficiently sensitive. In addition, research by Rose and Pevalin (2002) on ‘The National Statistics Socio-economic Classification’ (NS-SEC) has been concerned to design a system of social classification that is more sensitive to differing employment relations, and better able to accommodate periods of unemployment and some groups outside the labour force.</p> <p>Harvey’s work on false self-employment in the construction industry is thus located within a broader tradition of work that seeks to address the terms and conditions of employment as related to definitions of social class. Harvey’s research into labour markets and fiscal and legal regimes in the UK construction industry had a specific policy focus. His initial report, <i>The evasion economy: Illegal self-employment in the UK construction industry</i> (2008), was commissioned by the Institute of Employment Rights and the Union of Construction, Allied Trades and Technicians. A further report, <i>Self-employment and bogus self-employment in the construction industry in the United Kingdom</i> (2008), was produced as part of a European Federation of Building and Woodworkers project, partly funded by the European Commission.</p> <p>The research for <i>The evasion economy</i> entailed quantitative and comparative analysis of labour force statistics in four European countries, and detailed analysis of trends in the UK, demonstrating that the UK has uniquely high levels of self-employment, 2 or 3 times the proportion of any other advanced economy, including the flexible markets of the USA. Interviews were conducted with key informants in HMRC, construction contractors, the Construction Confederation, labour law experts, and building workers. Furthermore, the research undertook detailed analysis of the development of case law on self-employment, and of changes in the fiscal regime that were peculiar to the construction industry. Inconsistencies between legal and fiscal regimes then helped in identifying false self-employment and tax evasion.</p>

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The quantitative analysis was related to changes in legal and fiscal regulation, which provided the most coherent explanation of the rapid growth of self-employment unique to the construction industry, much of it illegal. A conflict between legal and fiscal regulation of employment status revealed a tension between legal and fiscal evolution of self-employment tax status unique to the construction industry. Impacts on migration and skill formation and training were also analysed, including the extent of the skills gap resulting from high levels of false self-employment and the decline of apprenticeship within bona fide firms.

The quantitative analysis of labour supply permitted an estimate of the level of false self-employment, which entailed systemic evasion of national insurance payments by employers (the largest portion), and tax and national insurance evasion by the bogus self-employed. This formed the basis of calculations of losses to the UK Treasury ranging from £1.2 to £1.7 billion per annum.

**Key researchers:**

Professor Mark Harvey, Research Professor

Felix Behling, Research Officer, at Essex January 2007 – August 2008

**3. References to the research**

Morris, L. (1995) *Social divisions: Economic decline and social structural change*. London: UCL Press. ISBN 1857282027

Rose, D. and D. J. Pevalin (2002) The National Statistics Socio-economic Classification: Unifying official and sociological approaches to the conceptualisation and measurement of social class in the United Kingdom. *Sociétés Contemporaines*, 45: 75-106. DOI: 10.3917/soco.045.0075

Harvey M. and F. Behling (2008) *The evasion economy: Illegal self-employment in the UK construction industry*, London: UCATT  
[http://www.sbconsulting.co.uk/storage/Evasion\\_economy.pdf](http://www.sbconsulting.co.uk/storage/Evasion_economy.pdf)

Harvey, M. and F. Behling (2009) *Self-employment and bogus self-employment in the construction industry in the United Kingdom*. European Federation of Building and Woodworkers.  
<http://www.efbww.org/pdfs/Annex%2020%20-%20Final%20report%20UK.pdf>

**4. Details of the impact**

The major impacts of Harvey's work have come about through *The evasion economy* report influencing the policy of the Labour Party, with false self-employment becoming a concern of ministers, and subsequently shadow ministers, following the 2010 General Election.

*The evasion economy* report was presented to the Annual Delegate Conference, Union of Construction, Allied Trades and Technicians, Perth, May 2008 - a conference at which Angela Eagle, the then Treasury Minister, spoke at length about the problem of false self-employment. Following the publication of the report, Harvey attended a series of meetings with Angela Eagle, HMRC, and Treasury officials.

In July 2008 the TUC and the Labour Government formed the second 'Warwick Agreement' at its National Policy Forum, which included a commitment to eradicate false self-employment in the construction industry. The agreement outlined the commitments that would have formed government policy, had the Labour Party gained a fourth term in office. The agreement was published in the 2008 National Policy Forum Report and the section on Prosperity and Work includes the statement:

"We have acted to protect agency workers but we recognise the damaging effects that false self-employment status can have and will work to eradicate false self-employment: we will put in place a series of measures that will ensure no one is falsely classified self-employed, these will include using procurement rules on all publicly-funded projects. The HMRC enforcement regime will be applied vigorously and proactively in eradicating false employment" (p. 175) [corroborating source 1].

The references to false self-employment within the document came about as a result of amendments put forward by UCATT. A senior figure at UCATT has confirmed that "Mark Harvey's research most certainly assisted UCATT in the formation of the amendments the union submitted to the Prosperity and Work Policy document" [corroborating source 2].

Labour's 2009 budget stated that "The Government remains committed to addressing false self-employment in the construction industry. The Government will consult with a view to future legislation to ensure that construction workers and those they work for are taxed appropriately" (5.114; p. 111) [3]. This led to, in July 2009, the Treasury and HMRC circulating a consultation document, *False self-employment in construction: taxation of workers*, to all stakeholders. The consultation document referred to *The evasion economy* as its sole academic source. The document states that whilst the Government does not agree with Harvey's figure of 400,000 workers affected by false self-employment, the figure had been revised upwards by 50% to 300,000 (p. 12) [4].

The most recent Labour Government budget (March 2010), included provisions to change the tax regime with the aim of eliminating false self-employment in the construction industry: "The Government published a summary of responses to the consultation on false self-employment in construction on 9 March 2010. The Government is committed to addressing this problem and will continue to work with stakeholders to develop a legislative solution" (5.94; p. 83) [5]. Whilst we cannot demonstrate conclusively that the inclusion of false self-employment in this budget was the result of Harvey's work, we do know that the TUC Executive Committee's 2010 *Budget Submission* made direct reference to *The evasion economy* (pp. 58-59) [6].

More recently, with Labour in opposition, Shadow Chancellor Ed Balls' speech to the TUC in September 2012 promised to crack down on bogus self-employment. Balls asked Rachel Reeves, the Shadow Treasury Secretary, to look into the issue [7]. In 2013, a member of the Shadow Cabinet revealed to us that *The evasion economy* "has been fed into the work we've been doing on this subject so it has been relevant and useful" [8]. Labour MP for Streatham, Chuka Umunna, spoke at length about false self-employment in the House of Commons on 4 March, 2011 and explicitly mentioned the University of Essex's research [9]. Later in 2011 he was promoted to Shadow Secretary of State for Business, Skills & Innovation and has continued to speak on false self-employment, including a Commons debate on 23 January 2013 [10].

In addition to parliamentary debate, between 2008 and 2010, three Early Day Motions were submitted on the subject of false self-employment, and all three mentioned Mark Harvey by name [11]. The first of these (1669; 02.06.08) was signed by 72 MPs, from not only the Labour Party but also Liberal Democrats, Plaid Cymru, and an independent member. In addition, a House of Commons Standard Note (SN/BT/196; 20.04.10) sets out historically the issue of false self-employment and cites Harvey's work (p. 7) [12].

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**5. Sources to corroborate the impact**

All documents are available from HEI on request.

[1] Labour (2008) *National Policy Forum Report*.

[2] National Political Officer, UCATT

[3] *Budget 2009: Building Britain's Future*. London: The Stationery Office. See 5.114 (p. 111) on false self-employment.

[http://webarchive.nationalarchives.gov.uk/20130129110402/http://www.hm-treasury.gov.uk/d/bud09\\_complereport\\_2520.pdf](http://webarchive.nationalarchives.gov.uk/20130129110402/http://www.hm-treasury.gov.uk/d/bud09_complereport_2520.pdf)

[4] HMRC and HM Treasury, 2009. *False self-employment in construction: taxation of workers*. See 3.7 (p. 12).

[http://webarchive.nationalarchives.gov.uk/+http://www.hm-treasury.gov.uk/consult\\_false\\_selfemployment\\_construction.htm](http://webarchive.nationalarchives.gov.uk/+http://www.hm-treasury.gov.uk/consult_false_selfemployment_construction.htm)

[5] *Budget 2010: Securing the Recovery*. London: The Stationery Office. See 5.94 (p. 83) on false self-employment.

[http://www.direct.gov.uk/prod\\_consum\\_dg/groups/dg\\_digitalassets/@dg/@en/documents/digitalasset/dg\\_186437.pdf](http://www.direct.gov.uk/prod_consum_dg/groups/dg_digitalassets/@dg/@en/documents/digitalasset/dg_186437.pdf)

[6] TUC Executive Committee (2010) *TUC Budget Submission*. See pp. 58-59.

<http://www.tuc.org.uk/extras/budgetsubmission10.pdf>

[7] Ed Balls' speech to TUC Congress: Shadow Chancellor's address to the TUC. Brighton, Tuesday 11th September 2012: [http://www.tuc.org.uk/the\\_tuc/tuc-21408-f0.cfm](http://www.tuc.org.uk/the_tuc/tuc-21408-f0.cfm)

[8] Member of the Shadow Cabinet.

[9] Hansard: 4 March 2011: Column 614.

<http://www.publications.parliament.uk/pa/cm201011/cmhansrd/cm110304/debtext/110304-0002.htm#11030451000007>

[10] Hansard: 23 January 2013: Column 340.

<http://www.publications.parliament.uk/pa/cm201213/cmhansrd/cm130123/debtext/130123-0001.htm#13012356000001>

[11] Early Day Motions:

Early Day Motion 1669, 02.06.08 "Self-Employment in the UK Construction Industry" signed by 72 MPs (Labour, Lib Dem, Plaid Cymru & Independent):

<http://www.parliament.uk/edm/2007-08/1669>

Early Day Motion 2099, 21.07.08 "False Self-employment" signed by 38 MPs:

<http://www.parliament.uk/edm/2007-08/2099>

Early Day Motion 525, 15.07.10 "Self-Employment Practices in the Construction Industry" signed by 35 MPs of all three main parties and mentions Harvey explicitly:

<http://www.parliament.uk/edm/2010-12/525>

[12] Seely, Antony (2010) House of Commons Standard Note: Self-Employment in the Construction Industry. London: House of Commons Library.

Document produced for reference for MPs. Cites Harvey's work on p. 7. Date of document: 20 April 2010. Standard Note SN/BT/196.

<http://www.parliament.uk/briefing-papers/SN00196/self-employment-in-the-construction-industry>