

# Patterns of Self-Employment in Israel and the European Union: Findings from the Field

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**Abstract:** Self-employment is a form of employment in which the person's income comes from his independent business activity, and not from work performed as an employee employed by an employer. Unlike an employee receiving a fixed salary from his employer, the self-employed manages his own business or acts in a legal association (such as a partnership). The self-employed business activities may be conducted in a business (office, shop, workshop, etc.), in the home of the self-employed or on the road. In this study, we explore the determinants for entry into self-employment and the emerging trends in the transition into self-employment in the European Union and in Israel over the last few decades. Although the job of the self-employed depends on his skills to develop the occupation in which he chooses to earn a living, and on the market conditions, and despite the greater economic risk associated with an independent status, many workers choose to become self-employed to make a living. In Israel, the emerging trend in self-employment has driven an increase in the participation rate of workers in the workforce. The proportion of self-employed who do not employ workers especially showed a large increase amongst the female population. In the European Union, the number of self-employed who do not employ workers was shown to increase as the age of the self-employed rises. The COVID-19 pandemic that began in 2020 affected large sectors of the economy with businesses required to close and the education system forced to shut down. A survey conducted in Israel during the COVID-19 pandemic examined the impact of the ensuing economic crisis on the self-employed. Yet, despite the disadvantages associated with self-employment, an increasing number of workers are acknowledging the advantages, driving the transition of workers to self-employment.

**Keywords:** Self-Employment, Labour Market, COVID-19

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## 1. Introduction

Self-employment, in the economic context, is in fact an employment in which the person's income comes from his independent business activity, and not as an employee employed by an employer. Unlike an employee receiving a fixed salary from his employer, the self-employed manages his own business or acts in a legal association (such as a partnership). The self-employed business may be conducted in a business (office, shop, workshop, etc.), in the home of the self-employed or on the road. Despite the greater economic risk associated with the independent status, many choose to do so for a living.

Self-employed income comes from working in one of three main ways - manufacture of products, trading (buying and selling) or providing service. Revenue grows per person also

from assets he owns, which attain for him financial gain, such as real estate, securities, etc. Such income does not derive from work, and the person enjoying them is considered independent only in certain contexts.

Generally, a self-employed person runs his own business, in partnership with other self-employed persons or through employees he employs. In many cases, the freelancer chooses to run his business as part of a limited liability company under his full control. In such cases, he is considered to be a formal employee in the company, but he is essentially an independent earner who earns his living regardless of his employer.

The decision to earn a living involves taking risks, a person who chooses this way takes into account uncertainty associated with two main factors - the likelihood of succeeding in selling his product or service - the correct

economic calculation, and whether the gap between income and expenses will leave him profitable.

It is common to think that the self-employed has more opportunities to earn than an employee, although his job depends on his skills to develop the occupation in which he chose to earn a living, and on the market conditions in which he operates. Many self-employed people who do not properly finance their steps are forced to cease their work, as is the case for business owners who face difficulties due to circumstances beyond their control, such as a security situation, a year of drought, and the like.

## 2. The Emergence of New Entrepreneurs

Various entrepreneurship promotion programs implemented according to the policies of the European labour market, such as incentives or tax cuts, were all designed to increase self-employment rates to cope with unemployment rates. [5] Of the various factors and benefits for the entrepreneur or the self-employed, it can be seen that, first and foremost, for the self-employed, the value of income is higher, influencing the fact that many people believe that their financial benefit will be higher in self-employment or entrepreneurship. One of the factors that can be an obstacle for a person to become an entrepreneur is usually due to lack of capital. [4].

Another point of view that characterized the development of entrepreneurship in Europe is the discussion around human capital, based on entrepreneurial literature. According to various studies done on the subject, it has been found that the expectation is that older or more experienced people will be the ones who will be heading towards the entrepreneurial world, for several reasons; [20].

Most entrepreneurial work requires initial capital, which is usually not found among young people.

- 1) Older people may choose entrepreneurship or self-employment to avoid compulsory retirement benefits, which are often found in paid employment.
- 2) The form of vision of older people is usually more calculated and has a wider "safety net", and therefore the chances of taking risks in the world are higher.

In Europe, economic recovery has changed the notion of entrepreneurial policy, which in fact presents itself based on empirical research, with the development of entrepreneurship policy being an important tool in improving the European economy. [1].

Beginning in 2009, the Institute for Employment and Vocational Training (IEFP), which manages national employment policies, introduced three steps to strengthen entrepreneurship:

- 1) Support for new companies - aimed at unemployed persons registered in the centers of employment who the institute supports, individuals seeking employment aged 18-35, individuals not coded as working or with no work experience, and self-employed who are not formally incorporated. This program will actually help these people create businesses that do not exceed EUR

200,000 investment or include the creation of more than ten jobs. The program includes limited interest rates and support for the development of the various projects.

- 2) The National Microcredit Program - This project focuses on people who have special difficulties when it comes to trying to enter the workforce and may find themselves socially disadvantaged. The terms and benefits of this program are very similar to the plan mentioned above, with the difference being the investment capital, which in this plan cannot exceed EUR 20,000.
- 3) A program that enables unemployed recipients to receive their compensation, in whole or in part, for the immediate establishment of a business. The support provided to individuals is optional.

The Portuguese government initiated a similar program to those noted above in 2011, called the Strategic Program for Entrepreneurship and Innovation. This program is consistent with the Europe 2020 Strategy, which recognizes the development of a governmental focus on promoting entrepreneurship and innovation as the major factors driving action.

The shift in many areas of employment to the form of employment in which self-employed workers provide professional services for predefined tasks has resulted in many changes in the labor market. One of these transformations is the creation of the ever-expanding status of self-employed non-employing employees, with a major client whose relationship with them is often no different from the employee-employer relationship. Sometimes this is even the work done before by a salaried employee and similar wages. [21].

In fact, entrepreneurship is a long process made up of many steps, each of which requires different resources and skills. [16].

Peter Drucker [8] has defined business entrepreneurship as the application of processes, ideas and products while deliberately seeking change and systematic analysis of opportunities that enable innovation. Accordingly, the first three stages of a business initiative are interest detection, opportunity identification, and behaviour that is geared toward taking the actions necessary to set up the venture. [8].

The entrepreneur faces many obstacles in the way of implementing the business idea (the "enterprise") and implementing it, even if it is a successful idea. These difficulties include the process of obtaining financing for the venture, patenting and obtaining regulatory approvals (if necessary), recruiting skilled staff and the like. In the field of technological entrepreneurship, the new venture is called the Start-up Company. Some of these ventures are assisted by consulting firms or business consultants who specialize in escorting and setting up new businesses. [7].

Although there is no one right way in the business process, business schools are teaching different areas of business entrepreneurship, designed to give learners a structured framework for successful entrepreneurship - such as how to

work out the business idea, define a business strategy, write a business plan, raise funding, build a team and more.

The tendency for entrepreneurship varies between different groups of people and factors that influence people's motivation to choose entrepreneurship over work as employees are of great importance to policymakers. This is because they are the ones who need to make decisions about actions and initiatives to promote and develop the entrepreneurial world. Therefore, understanding the factors that influence the choice of the employment path of different people can greatly help in this area. [7].

It can also be seen that another issue that comes up for discussion is how to enter the world of self-employment and entrepreneurship. As noted so far, the entrepreneurial world includes advantages and disadvantages, successes and failures, and political vision which vary according to the government's programs and plans. In order to examine this issue, one must not only discuss "the final product," which we see after a person enters the independent market, but even prior to that to explore the factors that initially determine his entry into independent work,

### 3. The Determinants of Entry into Self-Employment

In general, the decision taken about entry into self-employment is influenced by various and varied factors, including personal factors, economic factors, social or family factors and more. In examining the transition of unemployed people to self-employment, these people appear to have dual disadvantages – both the financial difficulty in financing the transition to self-employment, and also their lower access to commercial loans. [18].

Although the historical development of the Israeli economy has been largely influenced by the unique political, social and cultural aspects of the local reality, the problems it faces in employment have also disturbed and troubled other developed countries. Moreover, other researchers argue that there is a need to embed unemployment coping programs that will include self-employment plans for the unemployed, and in fact will result in high unemployment rates in the belief that self-employment will enable greater innovation and economic growth. [26].

In terms of people moving from self-employment to rent, the reasons observed are mostly different than those of the unemployed, as well as the conditions and factors that determine their entry into the business world.

Also, this transition can be driven by the thought that in self-employment profitability will increase, which is usually a false thought. Many cases of employees transitioning into independent work display a lack of understanding of the economic foundation needed to work independently. In recent decades, according to data from the Organisation for Economic Cooperation and Development (OECD) from 2013, self-employment rates for the OECD appear to be 16.1% and for the EU27, are around 16.6%.

### 4. Self-Employment Trends in European Union

In the past, work was envisioned as being present in an office or factory daily from nine to five and persevering in the same workplace over many years. Currently, global discourse is focusing on the changing nature of what has been considered traditional work. The discourse in the New World is encompassing working in more than one place at one time, frequent changes between jobs and creative and innovative ways of earning a living. These changes are occurring against a background of technological change, which includes an increase in the utilization of online platforms. [23].

The changing forms of employment are characterized, on the one hand, by the weakening of the employee's commitment to the workplace, and in certain instances, the employers' violation of social rights to which workers are entitled, and on the other hand, some forms of employment are allowing the employees greater flexibility, enabling a greater balance between work-life and the personal skills of the employee. [23].

The significant decrease in the percentage of employees fulfilling traditional forms of employment is expected to have widespread effects on employment and social policy, since in the current situation, much of the legislation surrounding employment and the social benefits and rights of employees, like vacation days and sick leave, have been designed for people who are employed in traditional employment. [11].

In a study conducted in Israel, it was found that most of the increase in the proportion of self-employed persons who do not employ employees out of all employed in Israel, in the last decade, was amongst women. Amongst this population, there has been a nearly two-fold increase in the proportion of employment in almost a decade, compared to stagnation in the corresponding figure for men. [23] One can find different explanations for this, one of which is the transition to a labor market characterized by two earners and at least, requiring more flexibility for one spouse. [11].

Engaging in technological developments as an engine for change in the labor market is not new. The great concern that accompanied these developments was about replacing the human worker with a machine or a computer. For, while the introduction of new technologies into the labor market over the years will eliminate many professions, these changes have created new professions and have mainly changed the nature of existing professions. [15].

Frey and Osborne [11] and the Taub Institute's research shows that 47% of professions in the US and 39% of professions in Israel are going to disappear in the coming decades. [17] 41% of the professions in Israel are at low risk for computing and their chances of surviving are high. These are professions that involve complex tasks and a great deal of judgment, and which require highly skilled workers. [11].

These changes do not only affect the type of employment and professions that remain or disappear from the world, but also lead to changes in the perception of the "normal"

employment framework. Over the past decade, we have witnessed a shift in the traditional work structure. More and more employees are doing their job when they are away from the physical structure of the organization in which they are employed. Sometimes, they even do it from another country.

Studies indicate technological developments, social networks, virtual spaces, and the desire to balance work and personal life as key drivers for these changes. [23] Bodies examining the future workforce, and specifically the self-employed workers, point to their increasing contribution to the global economy, however, they also see a need to clearly define their occupational status and examine their unique needs. [23].

The new work patterns signal a trend of change in the traditional definition of the workforce and employee-employer relations. They point to new ways of participating in the labor market and diverse work environments. These new forms of employment challenge the traditional relationship between employee and employer (relationships characterized by linear, long-term, and binding relationships between the two), as they are characterized by prominent elements of flexibility, temporality and lack of commitment.

Studies in the field indicate the contribution of flexible arrangements to employee well-being, productivity, and the employer, but also of the need for the employee to take responsibility for his or her own career management and to act proactively to survive in these employment settings.

Although the self-employment component has shown relative stability over the past decade in EU28, various changes and transformations can be seen across Europe. Self-employment has its advantages and disadvantages, which affects its development throughout Europe.

Looking at the trends of change that have occurred in the employment market in general, and in particular, among self-employed workers, challenges and difficulties exist, which are often due to the lack of services and protective rights that employees were entitled to when they worked for wages. [27].

Those who work for wages enjoy complete protection under all labor laws such as: minimum wages, defined conditions, protection as a result of reducing or reduced office space and more. In contrast, self-employment is not covered by the various labor laws and, moreover, they are rarely (if at all) socially protected. An example of this can be seen in the various health and safety legislation, which in most countries covers hired workers, who usually pay lower benefits, while self-employment can be seen as low value for money. [14].

As noted in Williams & Lapeyre's [27] study, self-employed people across Europe are not entitled to the basic employment rights afforded to employees, such as paid sick leave, maternity leave, days off for personal use and more. All of these lead to greater risk for them, as well as less financial stability. Furthermore, self-employed people tend to pay for private pensions, external insurance, all because of the economic instability and fluctuations that may be reflected in the business.

When discussing the different trends of self-work, existing

self-employment types must be distinguished. In the most basic way, one must first consider whether or not they are self-employed with employees. Among twenty-one countries, out of the twenty-eight EU countries, the number of self-employed persons without workers is less than what can be seen in those who employ them. When considering the distribution of these businesses (self-employed without employees), it can be seen that they are unevenly distributed. As of 2014, self-employed without workers accounted for only 4% of total Union employment, when limited to those aged 18 to 24. At the same time, it could be seen that as the age of the employee rises, the number of self-employed without workers increased, for example, by 13%, among those between 50 and 64 years of age, and when examining the self-employed that reach the age of 65+, the percentage increases to 36%. [13].

In a study by Fondeville et al [10], it was observed that few self-employed people do indeed reach the point where they employ workers, with the majority remaining sole traders. [10], [13]. A change in the average number of hours worked by self-employed workers was also observed. It was found that the number of hours decreased by slightly more than two hours per week, which is more than twice the reduction in the average hours worked by paid employees, with much of this being done involuntarily. [10] Also, six percentage points of self-employed part-time self-employed workers, who were reportedly unable to find full-time work, could also be seen.

In recent decades, although there is still a "gray area" between these two categories legally, there can be a greater shift towards outsourcing and subcontracting, which, along with technological development, has led to the expansion of workers in this "gray area". [3], [12].

The categories of work that are found in the gray area include all disguised labor relations, in which the employer actually refers to an external employee (which eliminates his legal status as a full-time employee), but concurrently the same employee is not found in what is known as "pure self-work," and is still dependent on a recipient. This is indicated, for example, in a report issued in the United Kingdom, which estimates that the difference in costs between an employee's employment under the terms of an employee's employment, compared to that of an independent employee, ranges from 35 to 50%. [14].

In practice, it can be seen that this preference results in the dismissal of many employees who then go on to be contracted as contractors, all in order to do the same work they did earlier as employees.

By hiring an independent employee for those jobs, the employer actually "waives" his obligation to pay according to minimum wage or other method of wage determination, which is enshrined in the law. Furthermore, social security contributions are not paid for the same employee, and there is no obligation to pay compensation after the employment has ended, days off or payment for unpaid sick days from the employer and more.

This type of self-employment, also known as "dependent

self-employment," actually circumvents collective bargaining, labor law, labor tax, and other obligations that exist between employer and employee in any standard employment contract. [27].

In general, it has been observed that most EU countries experienced the same trends following this shift in employment, away from the stable wage model, which was dominant in the 1950s to the late 1970s, applying to a full-time framework provided by a professional presenting worker.

The new discourse and the steps taken to advance the goals of various entrepreneurs and employees to increase their autonomy appear in the Williams & Lapeyre's, [27] regime of accumulation model and was essentially based on significant institutional transformations, which reflected the increase in productivity, innovation, living conditions and better employment for the general population. [27].

With regard to national modernization, one can see that the uniqueness of Fordism was due to the synchronization of mass consumption together with mass production. Accordingly, the Productivity Index rally enabled by the expansion of the mass production sector, which benefited from increased demand for consumer goods, as well as efficient and systematic utilization of size reimbursement and optimal investment programming. As a result, many organizations have reorganized the productive field by using two main strategies, according to Favereau in [27]. The first was the geographical organization of the World Supply Authority's production and development, which aimed to benefit from the overall global differences that led to increased competition through a better business environment (taxation, infrastructure, training, labor law and more). The second strategy included moving beyond the flexible accumulation regime, which is based on seeking maximum flexibility in terms of labor, manufacturing and manufacturing.

Employee employees are "gamblers" in fact because the organization in which they are located will act fairly and that they will enjoy their personal investment in the collective plan, as noted by Reynaud in [27].

In summary, this chapter examines the development of various self-employment trends in Europe, including the nature of jobs, their deployment across the Union, the differences between different countries, and the types of interests that exist in the labor market. To compare with this issue in Europe, in the next chapter, a similar examination of these trends, in relation to the labor market in Israel is presented.

## 5. Self-Employment Trends in Israel

Within the job market it is possible to differentiate between two types of contract work commitments, that of the salaried employees and that of the service providers. The service providers are self-employed and offer services through a company that they establish or through a licensed dealership that they open.

It is usually easy to identify the employee: this is an employee who receives a pay slip from the employer. All employment obligations apply to her employment, and she is entitled to all social rights, as much as any other employee. An employee is entitled to certain conditions as defined by law. These conditions include the wages, overtime pay, vacation pay, travel allowance, recovery allowance, advance notice, severance pay, right to a hearing, pensions, and more. The salaried employees are also covered by special conditions that protect employment, such as the Equal Employment Opportunity Act, the Women's Labor Act, and others. In situations when the employee's rights are violated, the employee may apply to the Labor Court, which possesses the authority to intervene in disputes associated with employment, in those conditions where an employee-employer relationship is in place.

The self-employment trend led to an increase in the participation rate of people in the workforce, along with a decrease in unemployment rates. The unemployed are those people who are interested in working but are not employed. These two trends may not have occurred concurrently. The entry into the workforce by new groups of people may have been driven by the increasing unemployment rates amongst these people facilitating their disconnection from the employee working environment. The increasing rates of self-employment in the State of Israel, alongside a slow economic recovery in the OECD countries following the 2008 crisis, has resulted in a positive gap between the employment rates in the State of Israel and other developed countries [19]. (Ministry of Labor and Social Affairs, 2019).

Concurrently, an additional approach has addressed claims that even if the contract workers are considered "legally detached" from the organization, they, nevertheless, fall within the category of "employees." Therefore, it can be seen that employers who may prefer to be associated with a self-employed contractor receiving self-pay using a monthly invoice over hiring a hired employee are not aware of the fact that despite their formal definition of subcontractors and listing invoices submitted by them as independent service providers in business books, these people are hired. [6].

Yet, this attachment has become more widely accepted and convenient in recent years, due to considerations associated with taxes and the employers' interest in cutting costs, which are associated with the social rights and the liabilities to which the employee is entitled. [6].

In a study by Eran Razin [25] regarding trends and their development within self-employment, the expansion of local entrepreneurship was considered as a possible solution for dealing with the economic challenges faced by the development cities in Israel. The study showed that the failure of the spatial industrialization policy, which was shaped in Israel in the 1950s, to align with the external political and economic changes occurring, and with the decrease in public resources allocated for industrial diversification, facilitated the development of alternative strategies driving local entrepreneurship and bottom-up development.

However, the examination of the development of self-employed trends, in terms of their total workforce, by the size of the geographical location in which they are located, showed that, in fact, economically disadvantaged areas, especially old industrial cities, have suffered from a low rate of business expansions within the industry, such as the development of independent enterprises. The self-employment rate in small, remote cities is low because business in these places suffers from limited local markets and low access to capital and information.

Industry establishments that open in these areas, sometimes with governmental incentives, tend to be large, employing mass production technologies and high barriers to entry, so they do not encourage the acquisition of entrepreneurial skills among employees.

Other factors that affect the self-employed and especially the self-employed in Israel, are the demographics, ethnicity, and socio-economic situation of the population. According to Swirsky & Ophir [24], an increase in the rate of self-employment within the labor force is observed with an increase in age. In all three censuses, the lowest rate of self-employment (6.3% - 7.6%) was found amongst the population with ages between 25 and 29 years. An increase in this rate, reaching 14% - 16% was found in those aged between 40 to 44 years old. No further increase was noted until age 55 years. Thereafter, further growth occurred, with around 25% of the labor force consisting of self-employed aged between 65 and 69 years old. Overall, in 2008, the self-employed made up 13.4% of the workforce in Israel, when considering the employees and self-employed in Israel aged between 25 and 69 years old.

Other trends have been observed when examining the self-employed by gender. Results from Swirsky & Ophir's study [24] indicated that most of the self-employed in Israel are men, however, self-employment amongst the women is on the rise. When examining the weight of the self-employed in the work force by gender in Western countries, across the span of several decades, in 1983, 1995 and 2008, the weight of self-employment among the men remained stable and within the range of 17% - 18% [24].

By contrast, the weight of self-employment among the women increased at a greater rate, especially in certain occupations. In the fields of psychology, economics, and accounting, a 5.8% increase, between the years 1983 to 2008, was observed in the proportion of self-employed men, while the proportion of self-employed women increased by 27.3%. These rates for self-employed journalists and art and sports workers, were 3.7% for the men as compared to 7.8% for the women; for self-employed doctors and veterinarians, the rate increase was 2.7% for the men and 5.4% for the women. While only three decades ago, recent graduates from the university may have aspired to join a large company, attain job promotion and increased pay until their retirement at the designated age, since the early 1990s, a slow but significant change has been occurring in the aspirations of the workers.

In 2016, the proportion of freelancers in Israel reached about 10.9%, showing no significant change from the

proportion in 2015. These proportions are low, when compared to the US freelance rate in 2016 of about 35% and the proportion of freelancers in the US is expected to exceed 40% by 2020. The expectations are that the transition to freelancing in the coming years will occur primarily among the work force aged between 20 and 35 years old, despite findings showing that the average age of self-employed in Israel was 47.3 years in 2016, compared with an average age of 39.5 years among employees. This means that the transition of millennial to freelance work is still in its infancy in Israel, and right now, most of the self-employed are actually over 40.

A comparison between the average income of employees versus that of the self-employed, shows a more significant gap to the advantage of the self-employed. Israeli Central Bureau of Statistics data from 2016 shows that the average monthly gross income of the self-employed in Israel was NIS 11,480, while the average monthly income of an employee was 9,724 NIS. [2].

In the early stages, this could only be seen mainly by high-tech companies. Employees who wanted to move forward and felt stuck mentioned to their peers that in another company they could get a promotion that was a few steps ahead of their current job. Then, slowly, rumours of the New World began to leak outside the high-tech companies' walls. More and more workers born in the 1960s and 1970s began to rebel with unacceptable conventions, seeking quick ways to promote and gain appreciation. These employees began to realize that they had real and significant value and were not afraid to check how much that value was worth in the market- this is how the concept of Generation X was born.

This generation, whose behaviour in the workplace was considered revolutionary at the time, was nicknamed "Generation X" following a book by Douglas Confield. Scholars have characterized the X generation as the tendency to reject conventions and rebel against authority. They did not want to change the world like the "flower children" or the "beautiful" generation that preceded them. They did not seek revolutions and permutations. But at the same time, they did not cling to one job, or one profession.

They swapped jobs easily and quickly, out of proportion to their parents' generation, and organizations began to get used to the fact that recruiting employees who could, with a high probability, leave in no time and move to other companies, sometimes within two years of being recruited. Replacing a profession is also not uncommon in the lives of employees of the X generation and many have made a significant professional change at some point in their lives. On the other hand, employers have taken quite a while to internalize the fact that they have (for organizations) a replacement. [21].

Since then, almost three decades have passed. Meanwhile, members of the Ix generation who left to work in the organizations took up senior management positions, and came to the labor market, born in the 1980s and 1990s, the youngest of whom were nicknamed the Millennial Generation. And now the Z-generation is coming to the job market.

This whole chain of events has resulted in a growing percentage of millennials abandoning the corporate world and starting a freelance business. They still work with the organizations and get paid, but they work on their own terms, the hours they choose, their preferred physical location, and on how many days off they want to take.

However, some disadvantages can be attributed to this method. First, independent freelancers are not provided social security benefits by the employer. With no contributions to Social Security, pension funds or an education fund by the employer, the freelancer must take care of these payments, which could require setting aside the full amount of their income, especially when it is not high. Furthermore, unlike in other Western countries, freelancers are not given paid sick leave, nor paid unemployment benefits during those periods of time when there is no income and no projects. [21].

A second disadvantage is the lack of long-term economic security. It is unknown when the freelancer may experience a slump in the projects offered. Nevertheless, despite all the disadvantages and challenges, the percentage of freelancers seems to be increasing in the global economy. The freelancers may be over 40 driven by the challenges to enter organizations and thus prefer to offer their skills independently, or the younger generation who are found at the bottom of the organizational hierarchy and therefore seek greater control over decisions.

In summary, the developing trends in self-employment in Israel should consider to two main points. The first, is consideration of differences, much like the developing trends in self-employment in Europe, between the dependent or contracting self-employed and the independent self-employed. The second is the difference in trends according to the population section as shown in this subchapter. Consideration should be made of the development of the self-employed trend in Israel as it is influenced by age, gender, and geographical location.

## 6. The Effect of COVID-19 on Self-Employed

Economic crises deepen the gaps between employees and the self-employed which currently characterize the Israeli labour market. While 3.8 million employees are entitled to an immediate security cushion of unemployment benefits and allowances, the other half a million self-employed and small businesses, must wait more than a month to receive any benefits to address the challenges. Furthermore, gaps increase between unionized and non-unionized workers, and among employees in the business sector who are exposed to fluctuations in business turnover.

At the end of December 2019, the Corona virus (SARS-Co-2), which causes COVID-19 disease, broke out in China. From mid-February 2020, the virus began to spread rapidly to other countries, and in early April 2020, it spread to more than 200 countries. The symptoms of the disease usually last

for a period of up to 14 days. During this period the carriers of the virus may infect other people, so the rate of spread of the virus is relatively fast.

The Israeli economy has faced several crises over the past few decades, which included the economic crisis in the early 2000s and the economic crisis in 2008, which was experienced globally. For various reasons, these crises had led to sharp declines in demand in Israel and globally, and thus, the goal of economic policy had been focused on increasing demand.

The situation during the crisis associated with the COVID-19 pandemic has been different, since many of the businesses were closed down or partially operating. Thus, setting the goal as increasing demand would not be useful, but rather the focus was placed on helping the businesses and households survive during the crises.

The current crisis associated with the COVID-19 pandemic resulted from an external force affecting the economic system, with the pandemic affecting health, requiring quarantines and partial or full shutdown of businesses in most areas of operation. These conditions contrast with the crisis in 2008 which was caused by an internal force on the economic systems in various countries. The credit crunch that was initiated in the financial markets of many countries affected the economy, leading to a decline in demand and its affect was felt in Israel, largely due to the sharp decline in world trade.

The economic effects of the pandemic stemmed from high costs to the health system, the closures imposed on the population to control outbreaks of the pandemic, which included the shutdown of factories, service providers and stores, affecting supply chains and global trade and the decline in demand. Furthermore, the government was forced to impose restrictions and quarantines across the country.

These measures also included the shutdown of the education system, from mid-March 2020, and the enforcement of emergency regulations to reduce the scope of work in the economy. The result was hundreds of thousands of jobs being partially or completely shut down, with hundreds of thousands of workers put on unpaid leave.

When dealing with epidemics, a balance must be achieved in the turnover ratio between the strict measures of restricting entry into the country and the imposture of closures and between economic activity. While the imposture of early and drastic measures might decrease economic activity in the short term, these measures should prevent the rapid spread of the pandemic and the economic consequences. Israel enforced strict measures to limit the spread of COVID-19, halting flights from China, which was the initial focus of the disease, on January 30, 2020, and shutting down the education system and enacting emergency regulations to reduce the scope of work, from mid-March 2020. Although these measures significantly affected the economy, it seems that they led to a relatively slow spread of the corona virus in Israel.

The law stipulates that the self-employed are obliged to deposit payments into a pension fund, with a part of the

deposit into the pension fund being allocated for savings for unemployment. When the employee is unemployed, he is eligible to withdraw these funds.

Each country has responded to the crisis in a different way. Some countries have focused on policies designed to assist all businesses, while other countries have focused particularly on small and medium-sized enterprises. These are some of the steps taken to assist businesses in different countries:

- 1) Employment status: measures to help businesses in reducing the number of employees, their working hours, temporary dismissals of employees, and contributions to the payment of sick leave. Some states provide temporary support to businesses and laid off workers to enable the businesses to reduce expenses and to survive.
- 2) Financing tools: measures to alleviate the liquidity limit. Measures include deferral of taxes and social security payments, deferral of debt payments, services and rent, tax relief and advance of state payments to enterprises. In addition, states provide guarantees for loans, shorten the required waiting time for the loan, increase accessibility and ease eligibility.
- 3) Loan provision: public institutions in some countries, directly provide loans, or alternatively, grants or subsidies may be issued, all with the goal of increasing liquidity and as a temporary measure of mediation to reduce the harm caused by a decrease in revenue.
- 4) Structural steps: facilitating the adoption of innovative working methods by businesses, leveraging training, enabling remote work and the targeting of new markets through advanced marketing and sales channels. These changes enable the businesses to continue to operate under the changing conditions as best as possible and are necessary steps to enable future operations of the businesses after emerging from the crisis.
- 5) Monitoring tools: the creation of tools in some countries to monitor the impact of the crisis on small and medium-sized enterprises and to align activities to the specific needs.

Some of the main steps taken by developed countries to support the businesses, self-employed and their citizens, as published in the OECD July 2020 report:

- 1) Assistance to sick or quarantined employees: expansion of possibilities for receiving paid sick leave, in accordance with existing agreements, recognition of infection while working as a work accident, receiving a special allowance from the National Insurance Institute. Additional assistance to employees who are unable to go to work due to the imposed restrictions: increasing the possibilities of working from home, expanding the benefits for parents of young children who are unable to come to work, allowing for paid leave with contributions by the employer and the state.
- 2) Assistance to the self-employed and small businesses: increasing the possibility of receiving unemployment benefits in some countries, entitlement to other social benefits, one-time grants, deferral, and exemption from

various payments, such as VAT and local taxes.

- 3) Financial assistance to enterprises and companies: providing state subsidies to cover workers' wages, participating in the allocation of funds for providing paid sick leave for workers, leveraging the participation in programs aligned to the needs of distressed companies, deferral of various payments, allocating government funds for providing guarantees and direct assistance.

A comprehensive survey was conducted at the height of the COVID-19 pandemic, when large sections of businesses in the economy and the workers were forced to close or reduce activity. The survey was conducted between March 29, 2020, and April 2, 2020, during the week before Passover, and included a representative sample of the working population in Israel. [9].

Amongst the self-employed, 60% had to stop working or close their businesses, although 53% closed temporarily and only 7% closed or stopped working permanently. Approximately 40% of the self-employed continued to work, with 31% continuing to work partially and 9% of the self-employed who were not affected by the crisis continuing to work as usual.

Just under half of the self-employed (48%) who were able to continue to work, worked from home. However, 19% self-employed who worked from home, had worked from home at least partially before the crisis began. Another 17% worked from both home and the business. Of the self-employed working from home, 16% were working from home because of the crisis.

Working from home is possible for the self-employed and freelancers, since 80% do not employ workers. Many of the 60% who reported working from home, had worked from home, sometimes partially, even before the onset of the crisis. Another 14% working from both home and the business, with 12% working from the business.

Results from the survey show a greater impact on the income of the self-employed than on that of the employees. Amongst the employees, 48% expected a decrease in their wages or income in March-April (2020) with a possibility of no income, while 90% of the self-employed expected a similar decrease. In light of the crisis, during March-April 2020, 35% of employees expected a decrease in wages, as opposed to 47% of the self-employed who predict a decrease in income.

With regards to difficulties working from home, 15% of the employees cited difficulties in succeeding in working from home, while 29% of the self-employed addressed such difficulties and lack of success in working from home. Many of the self-employed working from home experience a decline in their economic activity aligning with their reporting of a lack of success or very little success in working from home,

Another factor to take into consideration is the difficulties that employees have in assessing the effectiveness of the work they perform from home. Sixteen percent of employees indicated that they "do not know" the level of effectiveness



of their work as compared to only 2% among the self-employed. These findings indicate a need for employers to formulate effective measures for assessing the outputs of the employees working from home.

The respondents were also asked about liquid assets that they have available to live on without having to dig into their savings. Sixty-six percent of the employees indicated that they had some liquid to live on over a certain period, while about 26% of the employees indicated that they do not have enough liquid assets to live on without dipping into their savings.

The responses of the self-employed reflected their slightly better economic situation. Sixty-eight percent of the self-employed indicated that they had enough liquid assets, and only 20% of the self-employed stated that they do not have enough liquid assets to live on. An additional 9% of respondents were not sure how to respond. Equating figures relating to 26% of employees who did not have enough liquid assets into absolute terms, meant that close to a million people would not have enough liquid assets to survive the crisis. The 20% of self-employed that would not have enough liquid assets, equates to approximately 100,000 people. Therefore, although the impact of the crisis on the self-employed was severe, many more households among the employee population were vulnerable to economic challenges presented by the current crisis.

When relating to the availability of liquid assets to subsist on, out of the respondents that indicated availability of liquid assets, 23% of the self-employed and 17% of the employees reported having liquid assets to enable them to subsist for less than a month. When converted to absolute terms in 2020, 115,000 self-employed and freelancers and another approximately 640,000 employees would not have enough liquid assets to survive for a whole month and would need to dip into savings. A further 36% of the self-employed and 29% of employees would have enough liquid assets to survive for one to two months, while 41% of the self-employed and 54% of employees reported having liquid assets that would support them for more than two months.

To further complicate their economic situation, many respondents also indicated that they had a fixed liability to repay each month, which is in addition to regular living expenses and current payments. A higher percentage of self-employed (91%) than employees (81%) indicated their having a fixed liability for repayment. Thus, only about 9% of the self-employed had no fixed liabilities and approximately double this amount of employees (18%) had no fixed obligations.

Although a loan may assist during economic difficulties, approximately 82% of the respondents had not planned to apply for a loan at the end of March-beginning of April 2020. Only 10% of the respondents were intending to apply for a loan, and approximately 8% had already applied for a loan.

Despite indicating that they do not plan to apply for a loan as of the end of March-beginning of April 2020, of the 82% respondents, approximately 27% expect that there might be a need to apply for a loan after Passover in April, and another 5%

would have to dig into savings or a study fund or provident fund to survive the crisis.

Differences were also found in the percentages of respondents that indicated they held a substantial savings plan. The highest percentage were the freelancers (11%), followed by 7% of the self-employed without workers who had started savings plans. In comparison, only 5% of employees and 3% of the self-employed who employ workers held substantial savings plans. A possible reason is that the prospects of the business of the self-employed is less clear than that of the employees or the self-employed who employs workers.

A loan can be used as a temporary measure to survive during an economic crisis. According to the responses, as of the end of March-beginning of April 2020, the respondents who applied for a loan included approximately 27% of the self-employed who employ workers applying for a loan. Another 20% of the self-employed without workers had applied for a loan to tide them across the crisis, while only 17% of freelancers and 8% of employees had found it necessary to apply for a loan.

Of the respondents that expect a possible need to apply for a loan after Passover, 57% were self-employed who employ workers, 27% of employees, 26% were self-employed without workers, and only 22% were freelancers who had expectation that they would need to apply for a loan.

Some respondents did not expect that they would apply for a loan. Of these respondents, 13.5% were self-employed who employ workers, while in comparison around 7% of the freelancers, self-employed without workers and the employees did not intend to apply for a loan.

Another factor expected to impact the respondents was the reduction in entertainment, cultural, tourism, and sports expenses occurring both in Israel and abroad. Approximately 88% of the respondents expected to experience this decrease.

The term freelancer is usually presented under the concept of "financially dependent independent workers", [9] when this term refers to a person defined as an independent worker who does not employ others and whose income is dependent on a major employer. In 2013, approximately 50% of all dealers (Exemption, Licensed and Company Ltd.) did not employ employees and approximately 50% were employers. Employees are low relative to their share of employers, 5.9% compared to 94.1% respectively. [21].

As can be seen in several other studies, Nathanson, Ghazela & Physism [21] showed that the trends in Europe and the trends in Israel, in general, usually divide the population of employed in the labour market into two main groups, including both the self-employed and the salaried workers. The problem that arises from this divide is the "gray area" that is divided between these two groups where there are employed persons who have characteristics of independent work and also those with characteristics of hired work. [21].

Over the past few years, the structure of the labour market in the world has undergone changes to create a dependency between the independent employees and the employers

(clients) for whom the service is performed. The transition in many areas of employment to the form of employment in which independent workers provide professional services and predefined tasks has created many changes in the labour market.

One of these transformations is the creation of an ever-expanding status of self-employed, non-employing, major customer relations in practice, the relationship between employee and employer is often not different. Sometimes this is even the work done before that by a salaried employee and similar wages. In Israel today, there is no clear definition of this status of workers, but the common nickname for self-employed people with a major "employer" is "freelancer", the term used sometimes also for some of the self-employed who do not employ workers and who do not have a main employer. [21].

In addition, in order to be defined as an economically dependent independent worker, the following cumulative conditions must be met: Does not employ employees under them, does not enter into contracts with a third party for the provision of services, does not provide the same services provided by customer employees, they must provide the necessary materials and tools themselves, for job performance, work progress is made under independent management, they must receive valuable rewards according to job outcomes and personal risk taking.

Another characteristic of an economically dependent self-employed worker is the existence of an independent business account, such as contractors who do not employ additional employees under whom they sell their products or provide services independently under a contract and with limited autonomy. [22].

Another notion of the economically dependent self-employed worker is an Employee-like person, known in several countries, including Austria and Germany. The International Labor Organization has used this term as it applies to a person who performs a job or provides services for another person without a contract of employment, but there is an economic dependency. The criteria for being financially dependent include working for one or a limited number of clients, and no use of self-resources. In Germany, the economic dependence on the employer should be more than 50% of total income.

Accordingly, several of the countries that implement policies for freelance work characteristics are listed below.

In Germany, under German law, employees defined as an Employee-like person, constitute a group derived from the self-employed group. German law provides protective provisions for the group of workers under this definition, and among the various protections can be found the Labor Court Law that gives the Labour Court jurisdiction in litigation regarding these employees when there are disputes between the parties to the contract. In Spain, under the law for self-employed workers, where the status of economically dependent self-employed workers has been recognized, various contractual protections are granted. Furthermore, the contractual agreement is conditional upon the employee's

consent and its length must be embedded in the contract. The additional days cannot exceed 30% of the contracted work duration and the employee is given the right to adjust the schedules for his or her personal and professional life.

When seeking to sever the relationship between the parties, the termination of the contract can be due to one of the following reasons: consent of parties, death, retirement or limitation of the employee, cancellation of the agreement by the employee and non-compliance of the contract by the client (employer).

In the United Kingdom, a non-working freelancer can (under certain conditions) claim a "job seeker's allowance." This allowance is an economic benefit provided to the unemployed and paid by the UK government under the National Insurance System. There are two routes to this allowance: the first depends on the national insurance premium previously paid, the second is based on income and depends on the financial and family circumstances of the unemployed.

A person may apply for one or both tracks, depending on their circumstances. It is a basic annuity and aims to help cover living expenses for those who are actively looking for work. Allowance claimants are asked to sign an agreement requiring them to take specific steps regarding job search, such as stabilization in compulsory courses. The plaintiff must prove that the work was terminated as a result of the market situation and not by choice; proof must be provided that the market conditions have made the trading environment negative. Proof must be provided by submitting financial statements of a 12-month period ending in the year in which the claim was filed. Another condition for filing the claim is that the freelancer must work less than 16 weekly hours. As of April 2009, from the first day of work, all employees are entitled to paid leave of 6.5 weeks per year, depending on the number of working days per week.

Freelancers are often in a position of weakness and helplessness with systems designed for businesses. On the part of employers, the fact that freelancers are not salaried and therefore cannot, apparently, suffer from salary deprivation allows for the payment of a loan. In a situation where a single person faces large, organized bodies, a situation is often created in which he immediately demands various accounts and payments and can even resort to sanctions, but his debts are slowly fulfilled and ineffective, which severely compromises that person's financial security. Therefore, it should be ensured that the relationship that exists between a freelancer and his / her primary employer is recognized as employer-employee relationship and, in addition, ensuring the prevention of wage deprivation for freelancers providing service for performing work similar to that of an employee employed by the same employer.

## 7. Conclusions

In general, both in Israel and in Europe, it is commonly thought that the self-employed have more opportunities to earn than employees, even though the employment is

dependent on their skills to develop the occupation in which they chose to earn a living, and on the market conditions in which they operate. Some of the self-employed who do not adequately finance and plan their steps for transition, are forced to cease their work, as may be the case for business owners who encounter difficulties due to unrelated circumstances, such as unexpected security situations, droughts, or floods, and the like, that affect their activity.

Also, of importance is the path chosen by the workers to enter the world of self-employment and entrepreneurship. The entrepreneurial world encompasses advantages and disadvantages, successes, and failures, and in addition, political influences, which may vary according to governmental policy and regulations. When relating to the challenges, it is possible to not only relate to "the final product," which is a result of the person's entry into the independent market, but beforehand, to examine the factors that determine entry into independent work in the first place.

The conditions and factors that determine entry into self-employment and the reasoning behind entry into self-employment differ from those of the unemployed seeking employment. The transition into self-employment may be leveraged by the notion that profitability will increase, although this may not always be true and many cases of employees transitioning into independent employment involve a lack of understanding of the economic foundation needed to work independently.

In practice, in the European Union countries, the preference more recently has been to dismiss many of the employees who then go on to be contracted as contractors for the organizations, all in order to do the same work they did previously as employees. By hiring an independent employee for these jobs, the employer can waive his obligation to pay according to minimum wage or other method of wage determination, which is embedded in the law. In addition, no social security contributions are paid for the same employee, and there is no obligation from the employer to pay compensation after the employment has ended, days off or payment for unpaid sick leave and more. This type of self-employment, also known as "dependent self-employment," circumvents collective bargaining, labor law, labor tax, and other obligations that exist between employer and employee in any standard employment contract. Differences exist between the dependent or contracting self-employed, and the self-employed.

In general, it has been found that most EU countries have experienced the same trends with this shift away from the stable wage model, which was dominant in the 1950s to the late 1970s, with its full-time framework provided by the professional daily employees. Although generations of workers have entered the corporate world and fulfilled senior management positions, a growing percentage of the new generation of workers entering the job market, are millennials abandoning the corporate world, and starting a freelance business. They still work with the organizations and get paid, but they dictate their own terms, chose the hours they prefer, fix their desired physical location, and

determine the days off that they wish to take.

However, there are disadvantages involved in the independent freelance working method that need to be considered. These workers have no employer to secure social security benefits or contribute to a pension or education fund set up for the future. In Israel, freelancers also do not have unemployment benefits or paid sick leave. Furthermore, economic security is not secured for the freelancer, who may experience slumps in economic activity.

Nevertheless, some workers over the age of 40 find it difficult to secure a suitable position in organizations, while other younger workers at the bottom of the organizations' hierarchy, prefer to take control over their work environment. The self-employed trend in Israel has experienced different trajectories dependent on the age and gender of the workers and their geographical location. Despite all the apparent disadvantages, an increasing percentage of workers are recognizing the advantages in self-employment, causing a shift towards a freelance economy.

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