Working Without a Job: Trends in Non-Employer Establishments

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Working Without a Job: Trends in Non-Employer Establishments

This briefing is the first in a series addressing how technology advances and changes in the way we work affect the future of the Washington regional economy. We begin by examining trends in non-employer establishment data, one proxy measure for the broadly-defined "gig economy." [1]

Summary

Work in today's economy is conducted in many different ways. It increasingly does not involve a wage or salary job, a single boss, or employment with a company. We are familiar with anecdotal evidence of this trend, including our own experiences with the gig economy, but it is difficult to quantify using the data that we generally rely upon for economic analysis. Payroll jobs, the traditional measure of employment, may no longer be sufficient to tell us how work is performed or what is being done by whom in our regional economy.

Non-employer establishment statistics are one supplemental source that gives us some more insight into this phenomenon in the Washington region. These data suggest that the gig economy, self-employed and freelance workers, and independent contractors play a sizable role in the Washington regional economy.

- In 2015, there were more than 526,000 non-employer establishments in the Washington region, accounting for about ¾ of all establishments.
- The number of non-employer establishments in the Washington region increased 78% between 1997 and 2015, a faster pace than in the US as a whole.
- Receipts per establishment decreased from $54,000 to $47,000 over this same period.
- The Washington region was in the middle of the pack relative to other major metropolitan areas based on a variety of non-employer statistics.
- The work performed by non-employer establishments broadly mirrored employer establishments in the Washington region in 2015 with two key exceptions: a greater proportion of non-employers among the Offices Real Estate Agents & Brokers sub-sector, who have historically been a large share of the non-employer establishments, and the Taxi & Limousine Services sub-sector, which has had exponential growth since 2013 reflecting the rise of Uber and Lyft services.

As technology enables more non-traditional forms of work, it seems likely that growth in non-employer establishments will continue to outpace traditional wage and salary employment. The traditional measure of jobs will increasingly undercount the economic activity in the Washington region, and in the nation, and may mask shifts in the economic base.

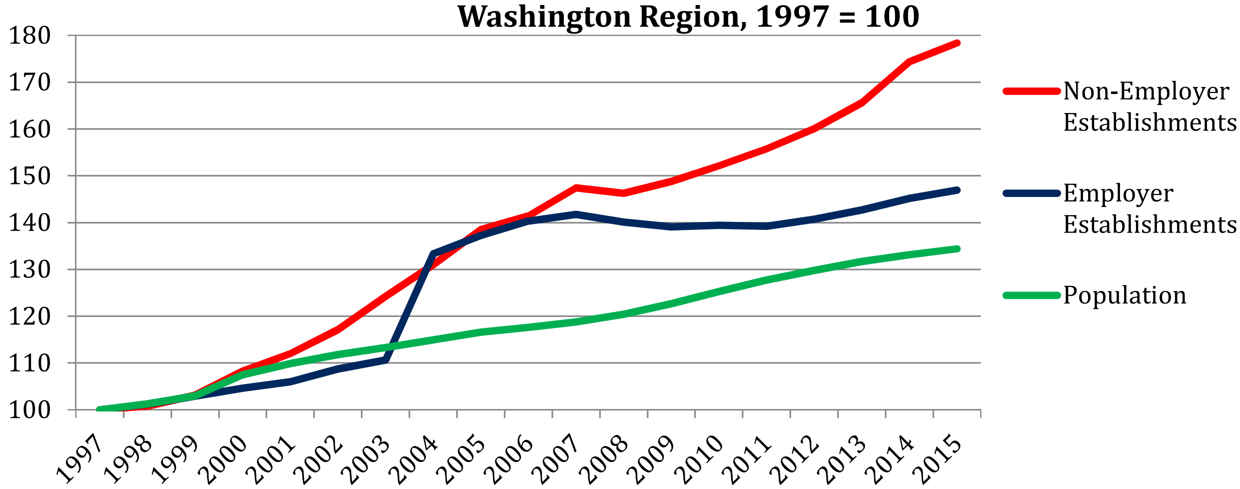
[1] This briefing takes inspiration from Inside the Rise of the Gig Economy, by Nicholas Kacher and Stephan Weiler of the Regional Economic Development Institute (REDI) at Colorado State University.

What's Happening in the Washington Region?

Non-employer establishments have no paid employees, have annual business receipts of at least $1,000, and are subject to federal income tax.[2] Non-employer businesses "include a mix of solopreneurs, freelancers, passive businesses, hobby businesses, and even corporations"[3] as well as some gig economy workers and independent contractors. Statistics on non-employer establishments are drawn from tax return information from the Internal Revenue Service.

The number of these non-employer establishments has been growing rapidly in the Washington region (Figure 1). The number of non-employer establishments increased from 295,000 in 1997 to 526,000 in 2015, a 78.4 percent increase. By comparison, employer establishments, the more traditional measure of wage and salary employers, increased 46.9 percent during the same period. Similarly, non-employer establishments grew more quickly than the Washington region's population, which increased only 34.4 percent between 1997 and 2015.

Figure 1. Growth in Establishments and Population Washington Region, 1997 = 100



Sources: U.S. Census Bureau (Nonemployer Statistics, County Business Patterns, Intercensal and v2016 Population Estimates); The Stephen S. Fuller Instutite at the Schar School, GMU

Since 1997, non-employer establishments have been significantly more numerous than establishments with employees. In 1997, there were 102,000 private sector employer establishments and nearly three (2.9) times as many non-employer establishments. The fast growth in non-employer establishments increased this difference and in 2015 there were 3.5 non-employer establishments for every establishment with employees. Put another way, 77.8 percent of all establishments did not have wage and salary employees in 2015.

While non-employer establishments grew significantly faster than employer establishments, the growth in the number of workers associated with each was more closely matched. Non-employers, by definition, do not have wage and salary employees, so a worker at an establishment is the

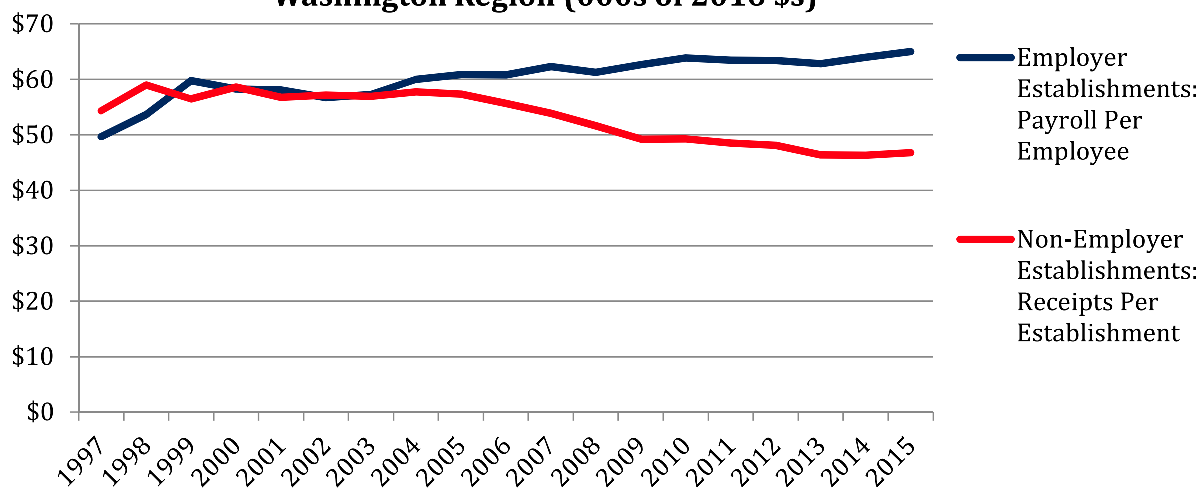
[2] Census Bureau, https://www.census.gov/programs-surveys/nonemployer-statistics/about/glossary.html
[3] Small Business Labs, June 4, 2015. http://www.smallbizlabs.com/2015/06/23-million-nonemployer-businesses-in-2013.html

individual owner/worker, meaning there is one implied worker at each establishment.[4] Jobs in private sector employer establishments are counted directly and increased from 1.6 million to 2.6 million between 1997 and 2015, a 62.8 percent increase. The number of implied workers in non-employer establishments increased at a somewhat faster rate, rising 78.4 percent. Overall, the proportion of non-employers owners to employees at employer establishments has stayed fairly consistent at around 14-17 percent.

Non-employer establishments do not have payrolls and, instead, business receipts are reported. The business receipts reflect the maximum income that the owner/worker of the establishment could earn. Because most establishments will also have expenses – gas and car depreciation value for an Uber or Lyft driver, office space for a full time business consultant – the receipts per establishment over-estimate the likely effective wage for the owner.[5]

Between 1997 and 2003, the receipts per non-employer establishment and the average payroll (i.e. wage) of employees at traditional private sector firms were nearly equal, at around $57,000 in 2016 dollars for most of the period (Figure 2). In 2004, this pattern shifted and the average wage for workers in traditional jobs increased modestly while average non-employer receipts decreased. This divergence may mark a rise in part-time work through non-employer establishments.

Figure 2. Average Non-Employer Receipts and Average Employer Payroll Washington Region (000s of 2016 $s)



Sources: U.S. Census Bureau (Nonemployer Statistics, County Business Patterns); The Stephen S. Fuller Instutite at the Schar School, GMU

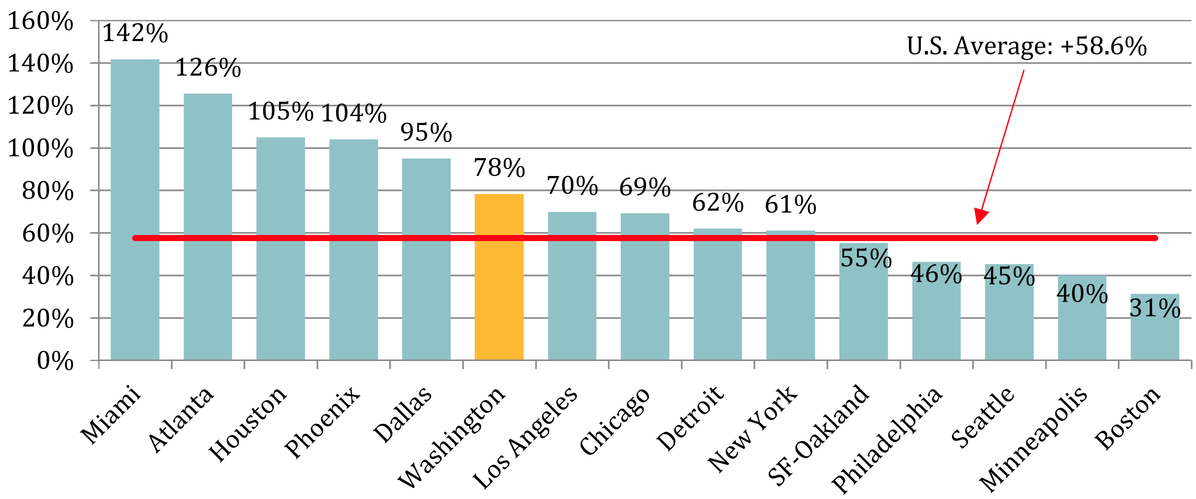
In 2015, the average receipts in a non-employer establishment were $46,770 in 2016 dollars, 20.7 percent lower than its peak in 1998. However, an equal decrease occurred nationally (-20.8%), suggesting a more fundamental change in the types of work conducted using non-employer establishments. The rise of the gig economy, especially during and after the Recession, accelerated the growth in non-employer establishments, but lowered the average receipts.

[4] See About These Data for more.
[5] This over-estimate is likely partially offset by the inclusion of S Corporations, which have no direct owners/workers.

How Does the Washington Region Compare?

The US has also experienced significant growth in non-employer establishments, from 15 million in 1997 to over 24 million in 2015. Still, the Washington region outpaced US growth and that of most of the other large metropolitan areas (Figure 3). Of the 15 largest metros,[6] the Washington region had the sixth largest increase in non-employer establishments between 1997 and 2015. Miami had the fastest growth, rising 141.7 percent and ranking third in terms of total number of non-employer establishments in 2015. Atlanta and Houston ranked second and third in terms of growth, respectively.

Figure 3. Percent Change in Non-Employer Establishments
15 Largest Metros, 1997-2015



Sources: U.S. Census Bureau (Nonemployer Statistics); The Stephen S. Fuller Instutite at the Schar School, GMU

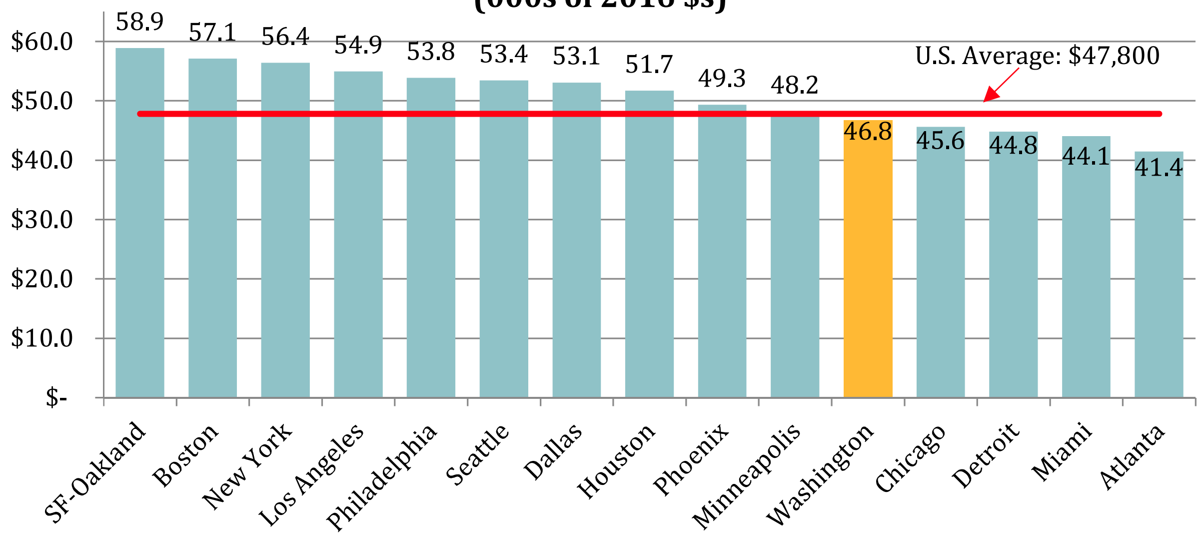
Per establishment non-employer receipts were very similar in the US and the Washington region, with the US generally slightly higher in recent years. In 2015, inflation-adjusted receipts per non-employer establishment in the US were $47,810 compared to $46,770 in the Washington region. The lower average receipts in the Washington region were primarily the result of the industry-mix, as the Washington region had a somewhat smaller proportion of Construction and Real Estate & Rental & Leasing activity than the nation.

There was much greater variation in receipts per non-employer establishments across other large metro areas (Figure 4). Average receipts ranged from $41,400 in Atlanta to $58,900 in the San Francisco-Oakland in 2015. The Washington region ranks 11th among the largest 15 metros by this measure. In 1997, the Washington region ranked 14th in terms of per establishment receipts. It rose to 10th and maintained that ranking from 2005 through 2012. In 2013, the Washington region was surpassed by Minneapolis and ranked 11th between 2013 and 2015.

The metros with the largest increases in non-employer establishments, Miami and Atlanta, had the lowest average receipts. While Miami ranked 11th or lower between 1997 and 2015, Atlanta ranked 4th or 5th early in the period, indicating that the growth in establishments was driven by lower-value establishments.

[6] As measured by Gross Regional Product

Figure 4. Non-Employer Receipts Per Establishment, 2015 (000s of 2016 $s)



Sources: U.S. Census Bureau (Nonemployer Statistics); The Stephen S. Fuller Instutite at the Schar School, GMU

The growth in non-employer establishments in the Washington region has exceeded that in the nation and the majority of the largest metro areas. The receipts per establishment in the Washington region lagged both the national average and the average in most large metro areas. However, the Washington region's average receipts have been relatively low since 1997 and its position has improved somewhat over time.

What Do Non-Employer Establishments Do?

The work performed by non-employer establishments in the Washington region mirrored that of employer establishments in 2015. The distribution of establishments, the value to the worker/owner and the relative concentration was similar for both non-employer and employer establishments. The key differences were the result of sub-sector concentrations that reflect both traditional gig economy work, real estate brokers, and the rise of the new, tech-enabled gig economy worker, especially Uber/Lyft drivers.

As shown in Figure 5, 107,850 non-employer establishments, or 20.5% of the total, were in the Professional, Scientific & Technical Services sector in 2015. Among employer establishments, this sector accounted for about the same share (21.7% of establishments and 20.3% of jobs) of activity. Of non-employer establishments in this sector, the majority of these establishments perform either consulting services or "other" services, the catch-all sub-category for services not defined.[7]

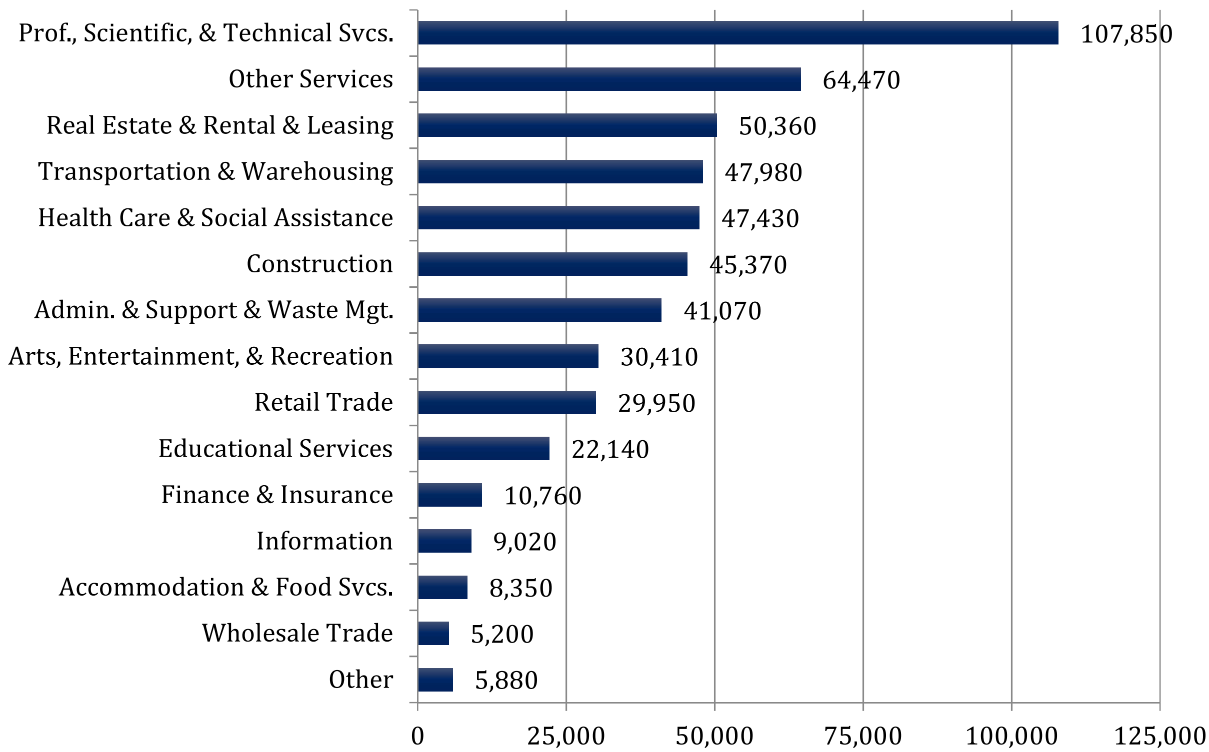
The second most common sector for non-employer establishments was Other Services. This sector includes a wide array of activities ranging from personal care services to national business

[7] Defined Professional & Business Services included Legal Services; Accounting, Tax Preparation, Bookkeeping, & Payroll Services; Specialized Design Services, Computer Systems Design & Related Services; Management, Scientific, & Technical Consulting Services; Scientific Research & Development Services; and Advertising, Public Relations, and Related Services.

associations. Non-employer establishments in the Washington region were most likely to be in the Hair, Nail, & Skin Care Services sub-sector, as over one-third (35.0%) were in 2015. Nearly one-half (47.9%) were unspecified personal care services, which commonly includes personal trainers, nonmedical diet services, and tanning salons. By contrast, employer establishments were more likely to be religious or civic associations. Both non-employer and employer establishments accounted for about the same share of total establishments, at 12.3 percent and 11.2 percent, respectively.

The Real Estate & Rental & Leasing sector was the third largest sector for non-employer establishments in the Washington region in 2015. Nearly all (98.1%) of the establishments in this sector were involved in real estate and 32.3% were in the Offices of Real Estate Agents & Brokers sub-sector in 2015. Residential real estate brokers are frequently not salaried employers and excluded from traditional employment counts. Overall, the Offices of Real Estate Agents & Brokers sub-sector has also been disproportionately represented in the gig economy, accounting for a high of 6.8 percent of all non-employer establishments in 1998. In 2015, this sub-sector accounted for 3.0 percent of all establishments, despite being just 1.4 percent of employer establishments.

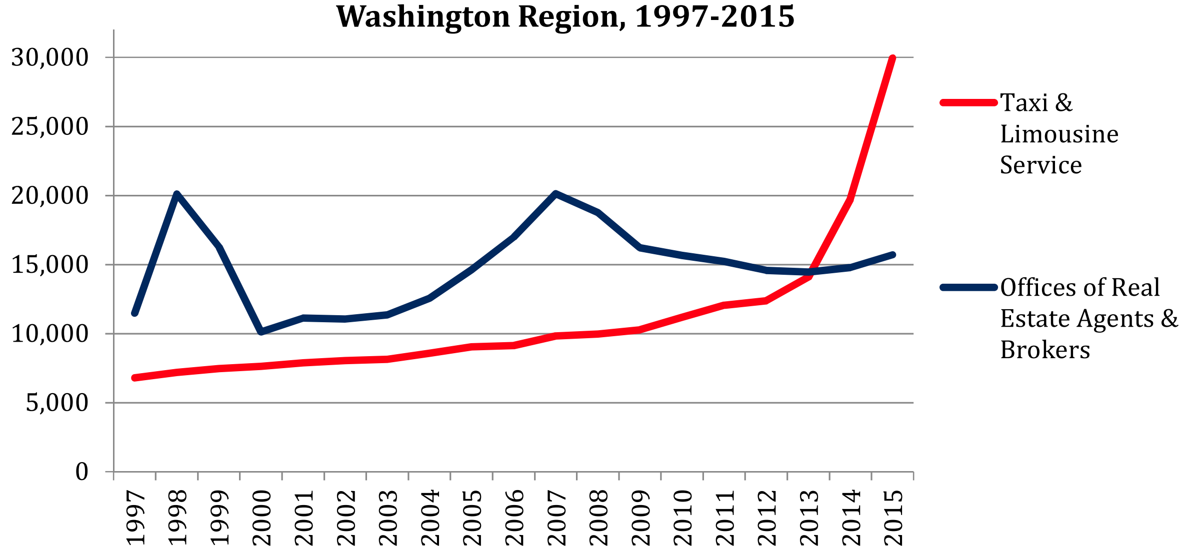
Figure 5. Non-Employer Establishments by Sector Washington Region, 2015



Sources: U.S. Census Bureau (Nonemployer Statistics); The Stephen S. Fuller Instutite at the Schar School, GMU

As shown in Figure 6, real estate brokers, a traditional gig economy workers, were surpassed by a new type of worker in 2013, the Uber/Lyft driver. The number of Taxi & Limousine Service establishments without employees increased exponentially starting in recent years, rising from 11,190 in 2010 to 29,950 in 2015 (+167.7%). This sub-sector accounted for 5.7 percent of all non-employer establishments, more than double its share in 2010 of 2.5 percent. Of establishments with employees, this share was just 0.1 percent in 2015. Gig economy workers were also far more prevalent than their wage and salary counterparts. There were 2,345 payroll jobs in the Taxi & Limousine Services sub-sector and 29,950 non-employer establishments and likely Uber/Lyft drivers in 2015.

Figure 6. Establishments:
Real Estate Brokers and Car Services Sub-Sectors
Washington Region, 1997-2015



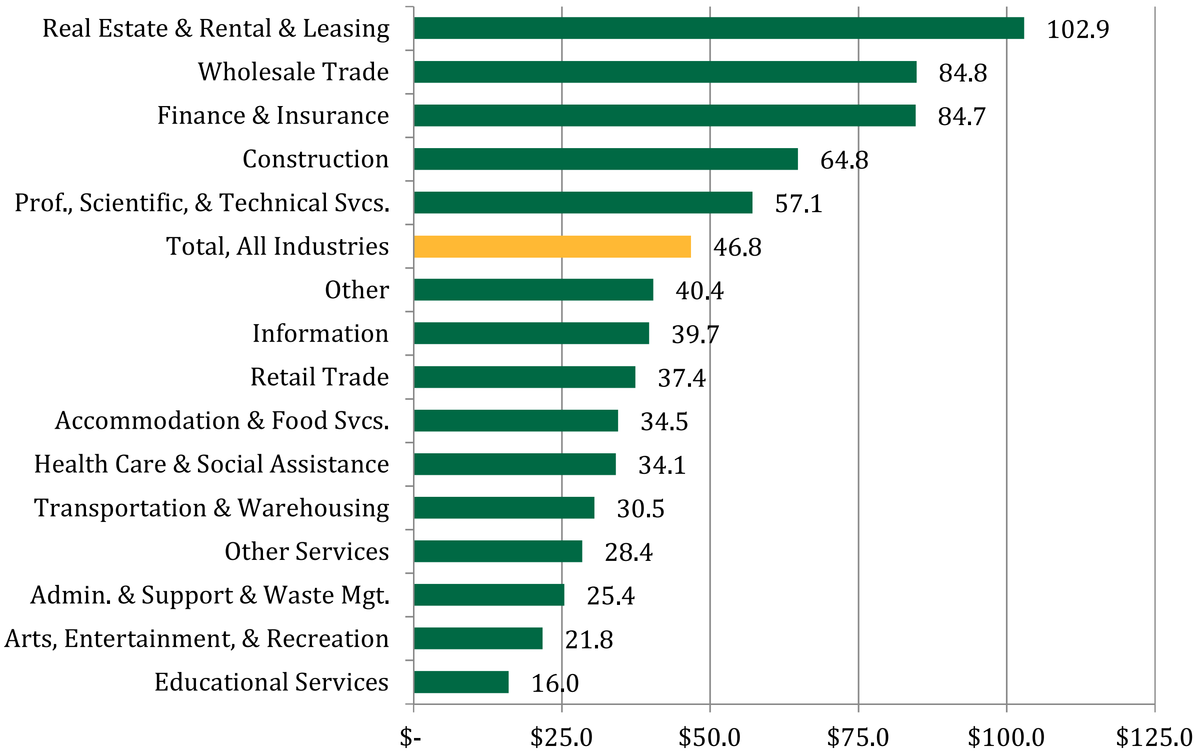
Sources: U.S. Census Bureau (Nonemployer Statistics); The Stephen S. Fuller Instutite at the Schar School, GMU
Note: Taxi & Limosine Services includes estimated establishment counts in counties with non-disclosure.

The receipts per non-employer establishment in the Washington region varied considerably by sector. Real Estate & Rental & Leasing establishments had the highest average receipts ($102,930) in the Washington region in 2015, driven by the large number of real estate brokers who work full time and rely on this type of work for their primary income. The second highest receipts per establishment was the Wholesale Trade sector. Because these receipts exclude expenditures, the effective wage for this sector is likely significantly lower. The Finance & Insurance sector, with the third highest average receipts, includes a large number of investment advisors and insurance brokers. The expenditures for non-employer establishments in this sector are likely to be a smaller share of receipts, so average receipts may better reflect the effective wage.

The largest sector, Professional, Scientific & Technical Services, had average receipts of $57,140 in 2015. While this was higher than the average for all non-employer establishments, it was just over one-half (54.6%) of the average payroll for a traditional employee, suggesting that a significant number of the non-employer establishments are part-time, secondary sources of income for their owners/workers.

The fastest growing sector, Transportation & Warehousing, had significantly lower average receipts ($30,490). Within this sector, the Car & Limousine Service sub-sector (Uber/Lyft drivers) had average receipts of $21,350. The exponential rise of this sub-sector in the Washington region drove a disproportionate share of the overall decrease in average receipts in recent years.

Figure 7. Receipts per Non-Employer Establishment Washington Region, 2015 (000s of 2016 $s)



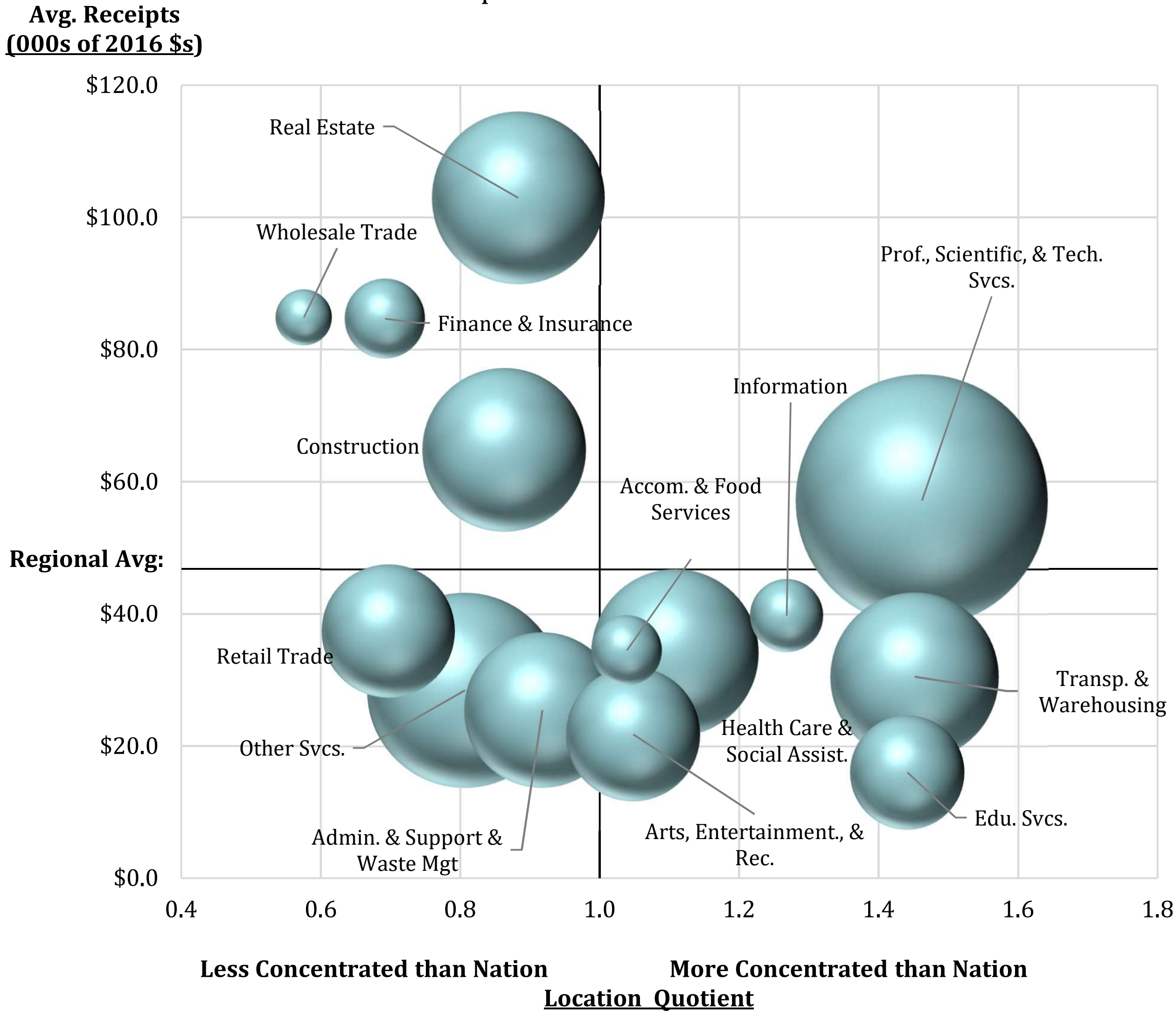
Sources: U.S. Census Bureau (Nonemployer Statistics); The Stephen S. Fuller Instutite at the Schar School, GMU

Figure 8 shows the average receipts and the number of establishments along with a measure comparing the concentration of non-employer establishments with that of the nation. A location quotient compares the Washington region's share of non-employer establishments in a sector relative to the national share. A location quotient (LQ) of 1.0 means that the sector is equally concentrated in the region and in the nation. An LQ greater than 1.0 indicates a higher concentration of that sector in the Washington region compared to the nation, while an LQ less than 1.0 reflects a lower concentration. A high concentration generally suggests a competitive advantage in that sector.

In 2015, the Washington region has one sector that was both over-represented in the region compared to the nation and had higher-than-average receipts: Professional, Scientific, & Technical Services (top right quadrant of Figure 8). Both non-employer and employer establishments in this sector were relatively high-value and highly concentrated, suggesting that a competitive advantage exists for all workers in this sector, regardless of their organizational type.

The Transportation & Warehousing sector had the second highest concentrated of non-employer establishments in the Washington region in 2015. This sector also had lower-than-average receipts (bottom right quadrant in Figure 8). Both the relative concentration and lower receipts were driven by the Taxi & Limousine Services sub-sector. While a similar concentration also existed for employer establishments in the Taxi & Limousine Services sub-sector, this sub-sector accounted for a significantly smaller share of the Transportation & Warehousing sector, overall. The other activities in this sector, especially Truck Transportation, were underrepresented in employer establishments in the Washington region. As a result, employer establishments were less concentrated in the Washington region compared to the nation.

Figure 8. Location Quotient (Relative Concentration) and Non-Employer Receipts Per Establishment by Sector
Washington Region, 2015,
Size of Bubble Represents Number of Establishments



Sources: U.S. Census Bureau (Nonemployer Statistics); The Stephen S. Fuller Instutite at the Schar School, GMU

The private sector Educational Services sector also had a high concentration of non-employer establishments and low average receipts in the Washington region in 2015. Employer establishments in this sector were also highly concentrated in the Washington region. No sub-sector data is available, but this may reflect a large number of tutors in the region.

Overall, the sector-level patterns of non-employer establishments mirrored the patterns of establishments with employees. Both non-employer establishments and employer establishments had high concentrations in three key sectors: Professional, Scientific, & Technical Services; Educational Services; and Information. In the four additional sectors that were highly concentrated for non-employer establishments but not for employer establishments, the difference was typically due to the sub-sector mix, like with Transportation & Warehousing sector. Similar to employer establishments, about one-quarter of non-employer establishments were in one of the Washington region's advanced industrial clusters in 2015.

Conclusion

The rapid growth of non-employer establishments is a notable feature both in the Washington region and throughout the nation. This growth reflects changes in the way work is done and a growing share of activity is being conducted through less traditional employment structures. Non-employer establishments in the Washington region have had faster growth than in the nation and in majority of the largest metros areas.

In the Washington region, non-employer establishments supplement wage and salary work, mirroring the composition of traditional wage and salary establishments with two notable exceptions. Both real estate brokers and Uber/Lyft drivers are more concentrated in non-employer establishments, representing the traditional and new gig economy worker. Despite the differences in concentration, the Washington region has a competitive advantage in the same sectors for both non-employer establishments and traditional wage and salary employment.

As technology enables more non-traditional forms of work, it seems likely that growth in non-employer establishments will continue to outpace traditional wage and salary employment. The traditional measure of jobs will increasingly undercount the economic activity in the Washington region, and in the nation, and may mask shifts in the region's economic base.

About These Data

All non-employer statistics are from the U.S. Census Bureau's Nonemployer Statistics Datasets. Employer statistics are from the U.S. Census Bureau's County Business Patterns. For all metro areas, the 2013 metropolitan statistical definitions were used, aggregating from the county-level files. National data are from the United States files for both the non-employer statistics and county business patterns.

Notes on the associated workforce for non-employers: Altogether, the average implied worker per establishment is likely to be close to one, but there are likely variations resulting from the legal entity type. The vast majority of non-employer establishments are sole proprietors; nationally in 2015, 86 percent were. The implied workforce of the remaining 14 percent of establishments is more mixed, but likely averages to one. About 7 percent of national non-employer establishments in 2015 were partnerships, with 2+ implied workers per establishment. About 5 percent were S Corporations that were pass-through entities, alone, with no workers per establishment. About 2 percent were other types of corporations, with an indeterminate number of implied workers per establishment. Additionally, establishments using contract workers exclusively ("leased workforce") will be included in this analysis. For more information on these data, see https://www.census.gov/programs-surveys/nonemployer-statistics/technical-documentation/methodology.html.