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Colorado's New Gig: Colorado Nonemployer Analysis

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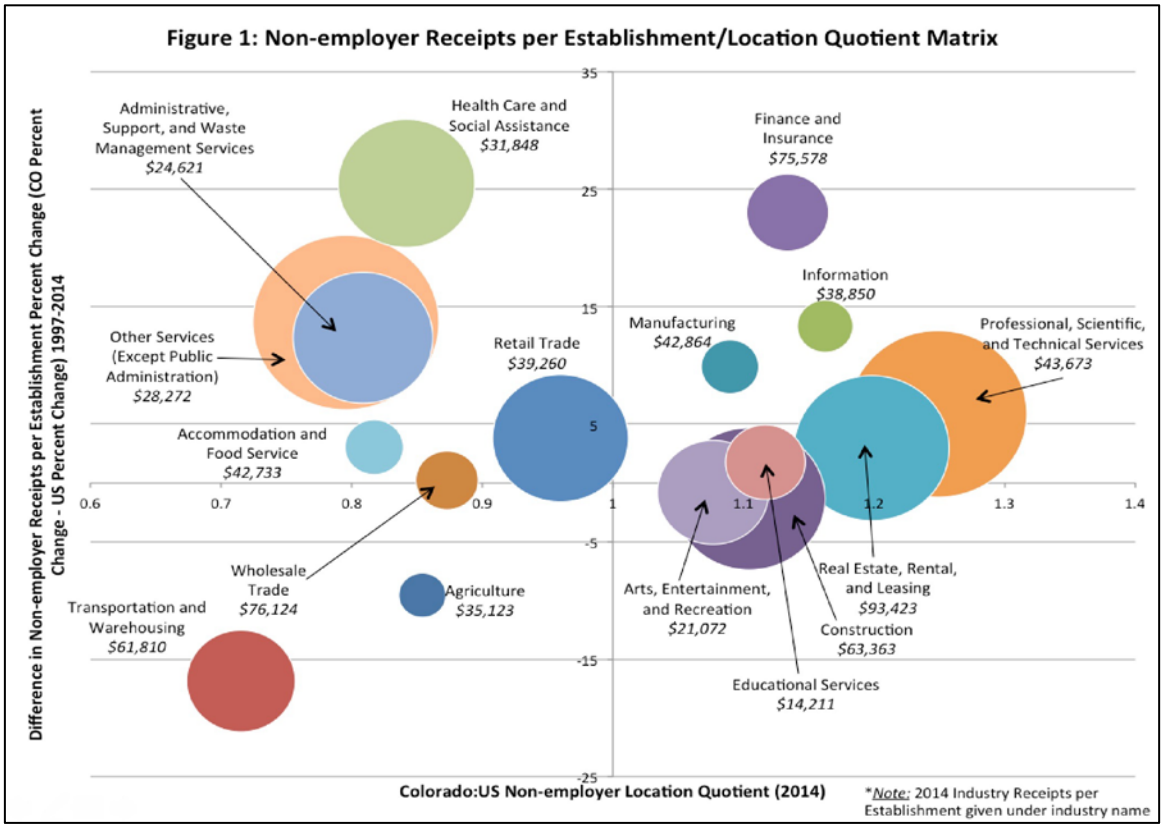
- We construct a "nonemployer location quotient" to measure the industrial concentration of gig nonemployers in Colorado compared to the country as a whole.
- Many industries with a high density of nonemployers in Colorado have seen above-average growth in sales.
- Although nonemployer businesses are beneficial for the greater economy, they may lead to greater financial fragility for those who choose to establish them.

In a previous REDI Report, we analyzed the rise of the "gig economy" in modern labor markets. While the gig economy can be difficult to measure, it can be captured using a nonemployer establishment proxy. Nonemployers are establishments that have no paid employees, have annual receipts of $1,000 or more, and are subject to federal income tax. The nimble nature of nonemployers allows them to quickly fill economic niches, act as spot players in rapidly evolving markets, and support both urban and rural revitalization. Nonemployers are also gateways to broader job growth. 10-20% of nonemployer establishments become start-up employer businesses, which themselves account for ⅓ of job creation nationally. As such, job growth from start-ups can partially be attributed to the prevalence and success of nonemployer firms. The gig and startup jobs generated by these establishments generally occur in "fresh areas" – that is, they do not detract from existing jobs, but rather fill gaps and thus provide net increases in sustainable economic growth. Colorado, like the rest of the US, has experienced an increase in nonemployer firms since the late 1990s, but such increases are not uniform across sectors, revealing potential hints as to the direction and trajectory of future employment growth.

Using data sourced from the US Census Bureau's Nonemployer Statistics data set, Figure 1 below offers an overview of Colorado nonemployer establishments when compared to US nonemployers by industry. Each "bubble" represents a different nonemployer industry. The size of each "bubble" reflects the share of a nonemployer industry in Colorado relative to other industries in terms of the number of establishments active in the industry in 2014.

The horizontal axis measures Colorado's Nonemployer Location Quotient (NLQ) for 2014. The NLQ calculates the concentration of nonemployers for a given sector in Colorado relative to the US. Thus, an NLQ greater than one – to the right of the vertical axis – signifies a sector in which nonemployer activity is relatively more concentrated in Colorado than in the country as a whole. A state could experience a high or low concentration of nonemployers for a variety of reasons that fall beyond the scope of this analysis. But the variation across sectors is significant: there are sectors in which Colorado has 25% more nonemployers than the national average, and sectors in which it has close to 30% less.

The vertical axis measures the growth in Receipts Per Establishment (RPE), the average sales of an establishment in a nonemployer industry, between Colorado and the US by industry from 1997 to 2014. The measure is not identical to profits, since RPE doesn't reflect costs to the establishment. A positive percentage, thus a bubble above the horizontal axis, indicates that a Colorado industry has exceeded the growth of the US industry in terms of average sales.



The vast majority of nonemployer industries in Colorado are outpacing the US in growth of RPE from 1997 to 2014, as evidenced by the fact that most bubbles in Figure 1 fall on or above the horizontal axis. In particular, industries in which Colorado has nonemployer specialization – again, those to the right of the vertical axis – are all at or above the US's RPE percent growth, thus clustered in the upper-right quadrant. Colorado's nonemployer-heavy industries thus had, on average, greater sales growth than their US counterparts. Industries in which Colorado has a lower concentration of nonemployer had a much more variable growth record. However, even the majority of these industries saw greater sales growth in Colorado compared to the US.

Recalling that nonemployers represent at least potential direct and indirect employment growth opportunities, this analysis bodes well for future growth in Colorado among sectors in the upper-right quadrant of this figure. Notably, Real Estate, Finance, and Professional Services all have large and growing numbers of nonemployers in Colorado, and high and growing receipts per nonemployer establishment. If the trend of 10-20% of nonemployers eventually hiring employees holds, these sectors in particular seem primed for growth in Colorado.

The growing trend of nonemployer establishments carries several potential upsides. Self-employment provides additional vocational options to individuals, while benefitting the broader economy through fresh job creation. But nonemployers are by no means a panacea. Compared to traditional wage and salary employment, self-employment may mean less predictable hours and income, and lost access to employer-provided risk-pooled healthcare. Nonemployers may therefore face increased reliance upon spousal income, personal savings, and/or other types of private financial support to bridge personal financial gaps. So, while sectors in which nonemployer establishments are booming may be fertile ground for future growth, they may also be the first to face the labor market uncertainties that come with Colorado's New Gig.