

‘We know what we are, but know not what we may be’¹: Nonemployers and Future Employment Growth

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- Despite the fact that they only employ their owner, there seems to exist a link between nonemployer activity and future changes in the number of *employer* establishments
- Nonemployers might become employer establishments themselves – and/or inspire other establishments to set up shop
- A 10-percentage point increase in the growth rate of nonemployers is associated with a 2- to 4- percentage point uptick in the growth of employer establishments.

As previous [REDI reports](#) have addressed, alternative work arrangements, notably in the form of the nonemployer establishment, have increased dramatically over the past two decades in the United States. A nonemployer establishment is a business unit defined by the US Census Bureau as having no paid employees, reporting approximately \$1,000 or more in annual receipts, and is subject to federal income taxes. The majority of nonemployer establishments, referred to as nonemployers hereafter, are unincorporated businesses operated by self-employed individuals where the establishment may or may not be their primary source of income. These business units are not scaled down employer establishments; rather, nonemployers are their own unique business units, small in individual size, operating in myriad organizational forms, and earning smaller receipts relative to the average employer establishment.

Following the Great Recession, the net increases of nonemployers has outpaced that of employer establishments. In fact, from 2010-2015, the growth of nonemployer establishments outpaced the growth of traditional employer establishments by a factor of 8:1. That is, for every new employer establishment, eight nonemployers were established. Most of this growth came in industries relating to Transportation and Warehousing, Personal Care services, Real Estate, Professional, Scientific, and Technical Services, and Arts, Entertainment, and Recreation, as shown by Figure 1, which discloses the net change in the number of nonemployer establishments in well-defined industries from 2010-2015.

REDI@CSU research on nonemployers, themselves powerful venues through which entrepreneurs can learn and disseminate information to future businesses or business expansion while providing supplemental and flexible work options, identifies them as key drivers of future employer growth. Although making the transition from nonemployer to employer is a major step for entrepreneurs and considering the fact that the majority of nonemployers never become employer establishments, those who start hiring employees usually do so in the first three years of their existence as an establishment. REDI@CSU’s findings that up to one-third of nonemployers eventually hire is consistent with previous work showing that up to 20% of nonemployers become employer establishments. Fully one-third of new job growth in the US comes from small start-up employment establishments, 94% of which hire less than 10 employees. These findings suggest a connection between nonemployer establishments and future job growth, since a new employer establishment necessarily means at least one new job has been created. Therefore, job growth resulting from start-up employer establishments might stem in part from the pervasiveness of nonemployers, signaling a successful enterprise that requires workers beyond just the owners.

¹ William Shakespeare, *Hamlet*, Act 4 Scene 5

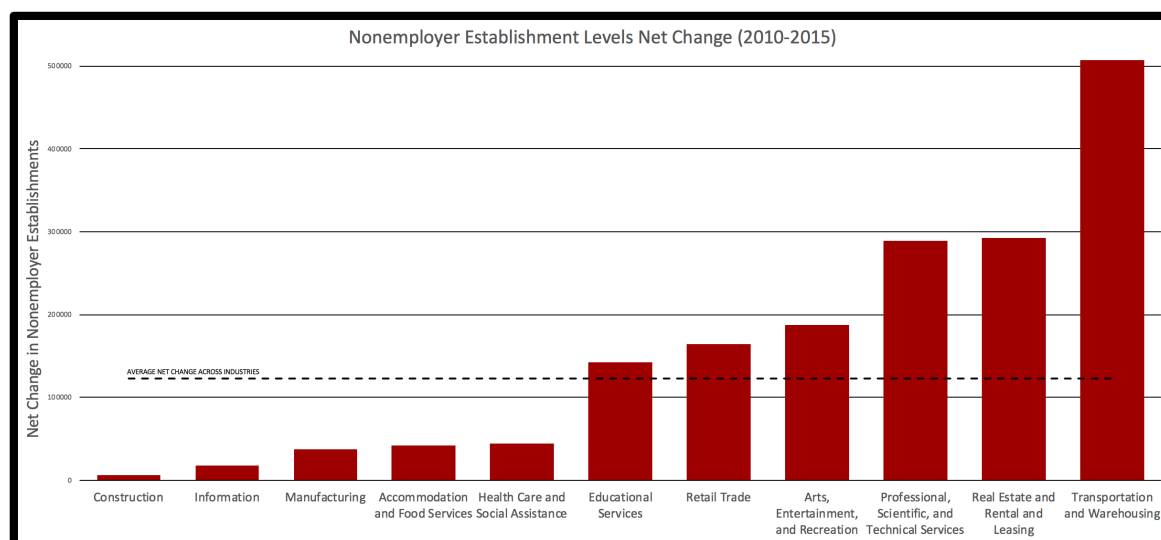


Figure 1

Indeed, we find that positive increases in the number of nonemployers in a given year increases the growth in employer establishments over the next three years. Specifically, a 10 percentage-point increase nonemployer establishment growth results in 2-4 percentage point increase in future employer establishment growth. An average US county with 1000 new nonemployers creates approximately 350 new employer establishments in the following three years. And again, since the formation of an employer establishment necessarily means at least one new job has been added to the economy, the additional 1000 nonemployers can be seen as generating *at least* 350 jobs. If all of these new employer establishments are nonemployers that became employers, this translates to the noted up to one-third of job growth due to nonemployers beginning to hire employees

This job-creating relationship transcends different regional classifications. The US Census Bureau ranks counties according to the population of their largest urban cluster. A metropolitan county is a county in which the largest urban cluster contains more than 50,000 people. A micropolitan county is one in which the largest urban cluster contains between 10,000 and 50,000 residents. A rural, or non-core, county has a core city of less than 10,000 residents. The positive effect of nonemployers on future employers is most pronounced among metropolitan counties, yet still significant and only slightly smaller in rural and micropolitan counties – where even a small handful of enterprises can have a distinct impact on the local economy.

However, while nonemployers spur future employer establishment growth regardless of a county's size, the average non-metropolitan county has seen zero or negative growth in the number of nonemployer establishments in the post-recession era. While nonemployers can help establish future employers, if there are no nonemployers to begin with, this powerful transition cannot take place.

The growth of nonemployers has been dramatic [in the past twenty years](#). As such, greater attention is needed to investigate the changing dynamics of the labor market and the implications of a workforce deviating from traditional wage-salary employment. Nonemployers seem to spur future job growth in counties across the United States, metropolitan or non-metropolitan. Yet, as is the case with micropolitan and rural counties, if nonemployers are not there, their future growth effects cannot be realized.