REDI@CSU
Regional Economic Development Institute

Inside the Rise of the Gig Economy

Nicholas Kacher and Stephan Weiler
REDI Report - April 2017

- We propose the use of nonemployer establishment data as an approximation of the "gig economy."
- The Great Recession that began in 2007 made the rise of the gig economy particularly pronounced, as the growth of nonemployer establishments dramatically outpaced traditional employer establishments.
- In contrast, the 2001 recession had little impact on employer establishment growth. Preliminary analysis of establishment openings and closures during these two recessions suggests important structural differences going forward.

Arguably the most talked-about phenomenon in labor markets in recent years has been the birth of the so-called "gig economy." The phrase refers to self-employed workers performing on-demand tasks or "gigs" directly for clients, often on a short-term basis. Some workers work gigs to supplement traditional wage income, while others piece together multiple gigs to make a living.

Economists have struggled to analyze the gig economy due to the difficulties in defining and identifying gigs and gig workers in employment data. But since gig workers are largely self-employed, it is possible to get a sense of the trajectory of the gig economy by looking at nonemployer establishments. The Census Bureau defines a nonemployer establishment as a business that "has no paid employees, has annual business receipts of $1000 or more… and is subject to federal income taxes." A nonemployer establishment can take the form of an individual proprietorship, a partnership, or a corporation, although most are unincorporated. In contrast, an employer establishment refers to a business or branch of a multi-unit business that employs at least one person aside from the owner(s).

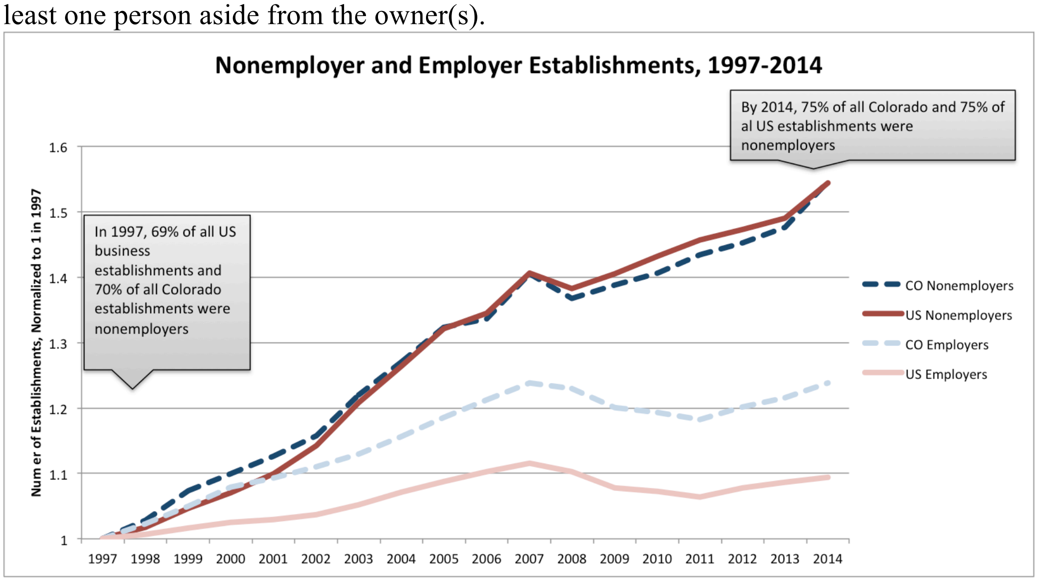

Figure 1

In both Colorado and the US as a whole, the growth in nonemployers has dramatically outpaced the growth in employer establishments. Between 1997 and 2014, the number of nonemployer establishments increased by 54% in Colorado and in the US, while employer establishments increased by 24% in Colorado and 9% nationally. Employer and nonemployer establishment growth rates diverge as early as the late 1990's, and widen further around the Great Recession of 2007-2009. Across the US, there are still fewer employer establishments in 2014 than there were in 2007. In Colorado, by 2014 the number of employer establishments had almost exactly returned to its 2007 peak, but is far short of what it would have been had employer establishment growth continued along its pre-recession trend.

There are a few plausible explanations as to why nonemployers have proliferated. Self-employment tends to increase more quickly than wage and salary jobs during a recovery. In the case of the Great Recession, a particularly large number of people lost their jobs, so there was an even greater pool of potential workers who might tend towards self-employment. In addition, the expansion of the Internet, smartphones, and mobile apps during this time period generated wholly new avenues for self-employment. Finally, during the time period we survey here, the Baby Boomer generation began reaching their fifties and sixties, an age range in which Americans tend to seek more flexible work arrangements. The Great Recession's effects on retirement assets also created incentives for later-year income streams.

Why does the rise of the nonemployer economy matter? For one, nonemployer establishments can be a source of ideas and information. Since nonemployers are not under the management of a broader corporate structure, each nonemployer establishment distinguishes itself by innovating, whether by producing a new good or service, or using different production, delivery or marketing processes. In many ways, each nonemployer establishment is a "micro-entrepreneur," nimbly responding to local economic conditions to fill a particular market niche. And there is reason to believe that whether or not a micro-entrepreneur is ultimately successful, the venture provides information about market conditions to other existing and potential firms and entrepreneurs. So even if a nonemployer establishment fails, it creates valuable informational spillovers that can contribute to economic growth and dynamism. However, gigs also imply uncertain hours and income flows with few benefits, so these micro-entrepreneurs necessarily are also accepting more risk alongside their greater work flexibility.

Roughly 10-20% of nonemployers eventually begin employing their own workers as well, although data on the exact number and nature of nonemployers transitioning to employer status are scarce. Hiring workers is a major leap for a young company, but is a crucial element of job creation in the United States. The Census estimates that startup establishments created over 5 million jobs in 2014, accounting for one of every three jobs created nationally. In that sense, the birth rate of new businesses is one of the most important factors in spurring job growth.

Figure 1 above paints a dramatic picture of the rapid growth of nonemployers compared to employer establishments, but also raises further questions. From 1997 to 2007, the growth rate of both employer and nonemployer establishments appears quite steady. But the Great Recession clearly slowed the growth of employer establishments, with nonemployer gigs blowing past employers. Yet the oft-ignored 2001 recession actually foreshadowed some of the damage to come in particular areas, such as in Colorado. The next report in this series will use establishment openings and closures to more closely examine the different impacts of the 2001 and 2007 recessions in Colorado and the US as a whole. The 2001 recession hit Colorado particularly hard, especially in terms of establishment closures. The Great Recession of 2007, on the other hand, damaged establishment startup rates in a way that no other recession on record has. Given the importance of startups to job creation, these effects are still felt today.