

## The Forgotten Fifth?

By Erik R. Pages

### UNDERSTANDING AND SUPPORTING YOUR COMMUNITY'S INDEPENDENT WORKFORCE

The independent workforce – what we refer to as the 1099 Economy – are a growing part of every local economy. These workers, who operate as free-lancers, consultants, or self-employed entrepreneurs, may comprise as much as 1/5 of the American workforce. Their ranks are likely to continue growing as both employers and workers opt for more flexible work arrangements. Yet, with this flexibility comes many challenges, including less secure career options and a leakier social safety net for 1099ers. This article examines the growing 1099 Economy and explains why economic developers should consider new approaches to supporting and nurturing local 1099ers. Suggested strategies include development of co-work spaces, enhanced networking programs, and targeted business start-up and development programming.

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Most economic developers keep pretty close tabs on government economic data. They tend to pay attention and closely track the unemployment rate and other figures on the size and strength of their local economies. But it's likely that few developers realize that many of these data sources, such as the Quarterly Census of Employment and Wages, omit independent workers who could make up as much as 1/5 of the local workforce. This group of independent workers – or what many refer to as the “1099 Economy” – is a rapidly growing but still poorly understood component of the economic development landscape.

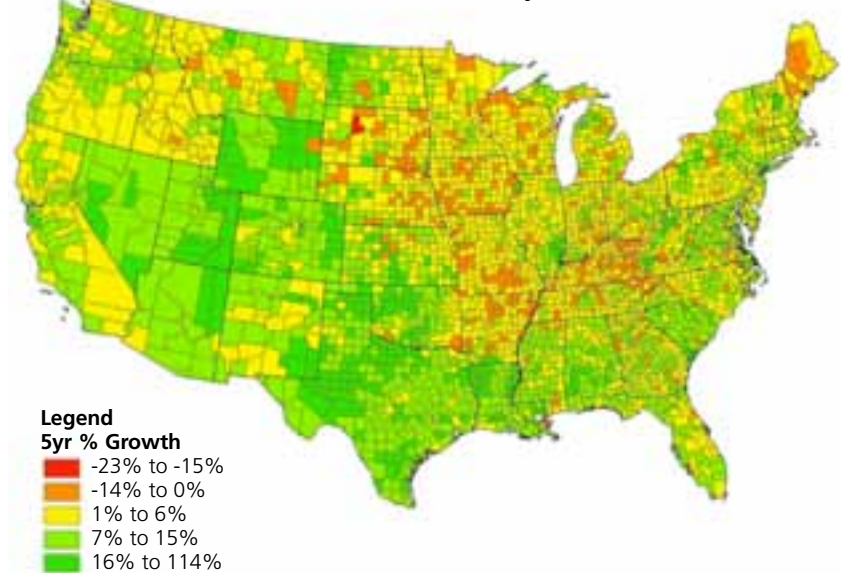
This article takes a look at the growing importance of the US independent workforce. It examines several facets of this “new” economy:

- What is the current size of the 1099 Economy and why is it growing?
- What do independent workers look like and what do they seek in a supportive community?
- How can economic development professionals support this underappreciated part of the local economy?

## WHAT IS THE 1099 ECONOMY?

We used to call it “Free Agent Nation.” Now, many observers are referring to the independent workforce as “The 1099 Economy.” While the names may change, they all point to a phenomenon of rising importance – the growing number of Americans who don't have a “regular job” but instead work on individual contracts with employers or customers. These folks don't get the traditional

Job Growth in the 1099 Economy (2006 to 2011)



W-2 paystub at the end of the year; they report their taxes with the IRS' form 1099.

The 1099ers are a growing part of our economy. There are a number of ways to slice the data. If you look at US Census Bureau figures on the self-employed, we find 21.1 million self-employed Americans in 2009. Recent data from Economic Modeling Specialists International (EMSI), a Moscow, Idaho-based economic analysis and data provider, suggests that the figures might be even higher. Tracking workers who are not covered by unemployment insurance, EMSI researchers suggest that more than 40 million Americans operate in the 1099 Economy. This represents about 1/5 of the total US workforce.

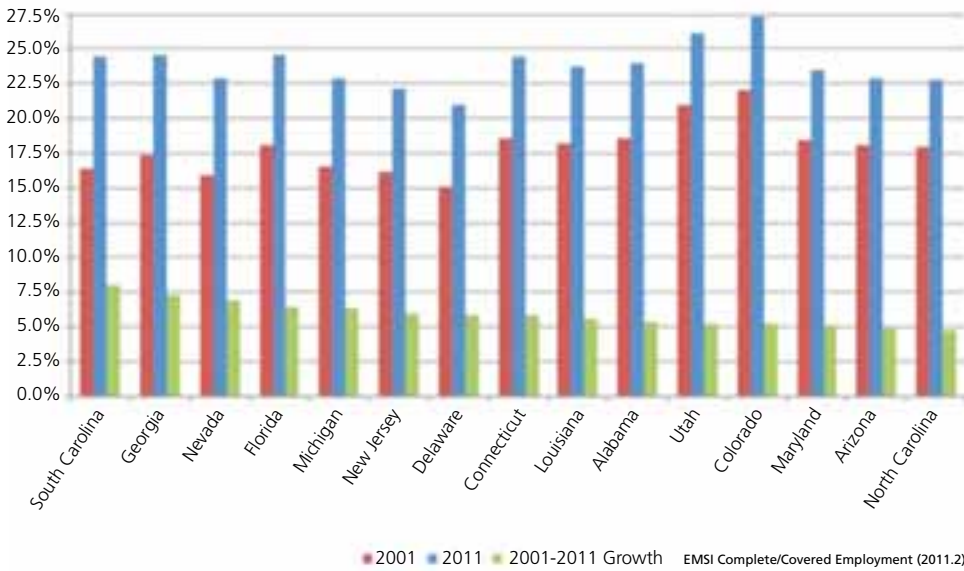
The independent workforce is growing across the US. Over the last decade, every state – with the exceptions of Alaska and North Dakota – has seen a

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### States with Largest Growth in 1099 Workers (2001-2011)



rise in both the absolute number and relative proportion of independent workers. Traditionally, the concentration of independent workers has been highest in more rural Western states with large energy sectors, such as Montana, Idaho, and Oklahoma. Not surprisingly, Washington, DC and Virginia, both homes to large government facilities, have the lowest concentrations of these workers.

In recent years, the fastest growth in the 1099 Economy has generally occurred outside of the West. Between 2001 and 2011, states with the fastest growth of independent workers were (in order): South Carolina, Georgia, Nevada, Florida, and Michigan.

This growth is expected to continue and perhaps even accelerate in coming years. The 2011 Independent Workforce Index, produced by MBO Partners, a provider of consulting services and support to independent contractors, suggests that the US economy could see a net increase of 4.3 million more independent workers by 2013. MBO's CEO Gene Zaino has suggested that independent workers will form a majority of the private sector workforce as soon as 2020.

### WHY DOES THE 1099 ECONOMY MATTER?

The 1099 Economy is growing for a variety of reasons. On the plus side, many workers choose this status for its many benefits: more flexibility, more opportunities for unique and creative work, and more control over one's work circumstances. And, 1099 status can be profitable. Many fast growing ventures operate as sole proprietorships. For example, in 2008, the Inc. 500 list looked at the ownership

structures of firms on this list of US's fast growing companies. The largest sole proprietorship, Milwaukee's Service Financial, had \$11 million in revenue, but only one employee – its owner.

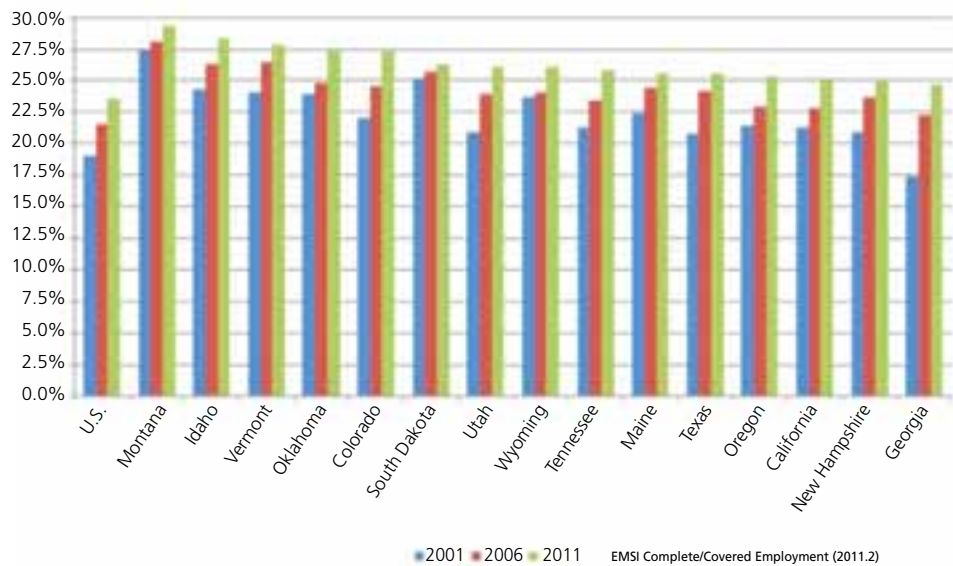
Some recent surveys find that independent status is indeed a choice. The 2011 Independent Workforce Index found that most independent workers are very happy with their current work status, and that most of them (55 percent) proactively chose to become freelancers.

While the freedom of operating in Free Agent Nation can be tempting, there are downsides. The data also suggests

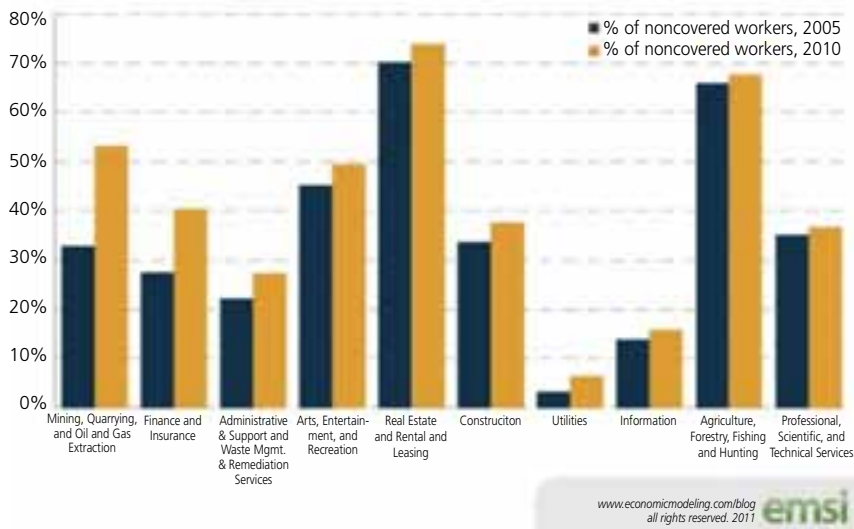
that, for many people, operating in the 1099 Economy may not be their first choice. The EMSI research cited here found that the number of non-covered jobs in the US grew by 4 million between 2005 and 2009. The fastest growth occurred in the mining, quarrying, and oil/gas extraction sectors where more than half of all workers are now non-covered. Other areas with high concentrations of 1099 workers are in real estate (74 percent of workers are non-covered) and agriculture/forestry (74 percent). This non-covered status creates a more flexible labor market, but it also creates potential challenges for these workers operating in notoriously unstable industries.

The 1099 Economy has emerged somewhat below the radar over the past decade. Few economic development organizations have devoted much thought or research to the needs of this segment of the economy. And, that's not a good thing if 20 percent of the local workforce is invisible to community leaders.

### States with Largest Share of 1099 (Non-Covered) Workers



## The Growth of Independent Contractors & Other 'Noncovered' Workers



### WHAT DOES THE INDEPENDENT WORKFORCE LOOK LIKE?

There are several segments within the broad category of the 1099 Economy: the reluctant 1099ers, the entrepreneurial 1099ers, and the “gig economy” workforce. Key segments of the 1099 Economy – the “gig economy” workforce and the entrepreneurial 1099ers – serve as both a key local talent base and as a region’s entrepreneurial “bench strength.” An important source of high growth businesses can often be found within a region’s base of self-employed entrepreneurs. Meanwhile, the reluctant 1099ers may need supports and other services to assist them in returning to traditional employment status or to provide a more robust social safety net.

**The Reluctant 1099ers:** This group includes those who operate in the 1099 Economy because they have no choice. This group includes those sectors that have previously operated with traditional employment contracts but have now shifted to the new structures. Examples include mining, utilities, finance and insurance, and some administrative fields. While individuals in these specific jobs may be happy with their circumstances, the workers, in a collective sense, face a more uncertain, and probably less profitable, work situation as 1099 contractors.

**The Entrepreneurial 1099ers:** Many budding entrepreneurs operate in the 1099 Economy. Sole proprietorships and LLCs/LLPs may have numerous workers under contract, yet appear in government statistics as a self-employment venture. This portion of the 1099 Economy has declined slightly during the Great Recession but generally accounts for roughly 20-22 million Americans. Most sole proprietorships are quite small and generate limited revenue. In 2009, average annual revenues were only \$39,000. However, a sizable portion does generate significant incomes and may be poised for rapid revenue and job growth. These individuals and their firms are the invisible portion of many local entrepreneurial ecosystems.

Self-employment ventures operate in nearly every industry and sector. They are especially common in the

categories of construction, retail trade, real estate, and professional, scientific, and technical services. In recent years, the downturn has led to an overall decline in self-employment ventures. Yet, even as overall numbers drop, certain sectors continue to grow. For example, in 2009, real estate saw a huge drop in the number of firms. Meanwhile, sectors such as child care and personal care services (e.g. barber shops and beauty salons) continued to grow.

**The “Gig Economy” Workforce:** Last but not least, the gig economy workforce refers to those who operate in industries that traditionally operate on a project or “gig” basis. Perhaps the best known example is film-making where crews come together for a film and then break up for other projects. Other examples include the arts, theatre, writing, web design, and construction. Salaries for this work can vary wildly – from the high salaries of successful artists and musicians to the paltry wages of the proverbial “starving artist.”

These sectors have a long history of operating via these structures. It is clear that more industries are moving in this direction as well. In response, a host of new kinds of support organizations, such as New York’s Freelancer’s Union, are emerging. If current trends continue, we can expect to see similar groups arising across the US.

### WHAT DO INDEPENDENT WORKERS NEED?

#### *New Benefit Structures*

Regardless of how one classifies these workers, they remain largely invisible to policy makers and to economic and workforce developers. That needs to change. In addition to recognizing the importance of this part of the workforce, we also need to develop a more nuanced understanding of their concerns and needs. At a minimum, providing a stronger safety net makes sense. A number of advocacy organizations, such as the Freelancer’s Union and the National Association for the Self-Employed (NASE) are actively working in these issue areas.

The Freelancer’s Union has been particularly effective in developing new resources and services for independent workers. Started in 1995 as Working Today, the Freelancer’s Union now represents more than 100,000

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members across the US. It offers a variety of services, including health insurance, retirement benefits, a jobs board, and a host of networking and community building activities.

NASE has been operating since 1981 and has more than 250,000 members. NASE members receive services such as access to insurance, buying pools, and various member discounts on products and services. In addition, NASE manages an active advocacy program to support new rules and laws to help the self-employed.

These health and retirement benefits are likely the most pressing needs facing the independent workforce, and the discussion around these benefits will be greatly affected by the debate over new health care reforms in coming years. Freelancers also need assistance in dealing with increasingly complex rules and tax policies affecting independent work. A number of promising pilot projects are underway in this area as well.

For example, the Corporation for Enterprise Development's (CFED) Self-Employment Tax Initiative (SETI) targets tax preparation and support services to the self-employed and to the owners of small microenterprises. It is based on the recognition that tax preparation poses a big challenge to many 1099 workers. Many of these workers file an annual Schedule C form, which can be a daunting proposition for those new to the business world. By focusing on aiding new business owners with tax preparation, SETI also hopes to introduce microenterprise owners to other services, such as training and consulting, and to help them qualify for other benefits and support, such as the Earned Income Tax Credit.

### New Work Spaces

Independent workers also work in different kinds of spaces. Home-based employment is growing, but tax rules and other regulations have not kept up with this trend. At the same time, communities should develop new work spaces that support the 1099ers. Here, the recent growth in co-work spaces is a positive trend.

Co-working spaces are exactly what they sound like – locations where individual entrepreneurs or freelancers can come together for work. They can build collaborations at the sites or simply use the co-working space as another place to do business. Co-working spaces take multiple forms, but they generally emerge from an entrepreneur or group of entrepreneurs who seek an alterna-



*Affinity Lab in Washington DC is one of the oldest co-working programs in the US. Operating since 2001, the Affinity Lab now hosts more than 50 companies at two locations in downtown Washington.*

tive to working in coffee shops or other public spaces. They desire a location where they can regularly do business, and, most importantly, interact with other talented people and businesses. And, in keeping with the “alternative” ethos of many co-working spaces, most of them seem to have cool or funky names, like the Gangplank (Arizona), WeWork (New York City), or the Affinity Lab (Washington, DC).

These spaces operate with similar structures and business models. Washington's Affinity Lab is fairly typical. The lab operates a 24-7, 5,000-square-foot facility with all the basics needed for freelancers: high speed internet access, meeting rooms, desks, white boards, a shared kitchen etc. Affinity Lab members can opt for various membership levels which range from access to one's own desk and work area, to a virtual membership where one has access to any shared space, but no dedicated space or services. In an effort to build a stronger local network, Affinity Lab also sponsors regular programming which can range from a regular happy hour to MeetUps to formal training sessions and workshops.

These co-working spaces differ from earlier models, such as business incubators, because building collaboration is their primary function. Many of the tools and resources provided by incubators are now digitized and can be stored in the cloud or individual computers. The need for dedicated office space – a primary benefit of traditional incubators – thus becomes less pressing for many budding entrepreneurs.

Because of the informal nature of co-working, these locations are also much less expensive to create and manage. In many cases, it is as simple as finding an empty space, filling it with desks, and ensuring good broad-

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Co-work spaces are not just for large urban centers. Many smaller communities are also creating these facilities. In Radford, VA, the Virginia TeleWorkforce Connections and Training Center (VATC2) opened for business on Main Street in late 2011.

band access. As such, the development of co-working spaces makes great sense for communities seeking to nurture new business owners and to build strong local collaborative networks.

Co-working is booming across the US. In fact, a whole new set of web sites and services, such as Liquid Space, Loose Cubes, and Shared Desks, now help independent workers find co-working space in any city. New spaces are emerging in rural communities as well.

### ***Specialized Networks and Supports***

Communities need to develop new kinds of support and services for the 1099ers. These might include traditional training in business development, but other supports, such as networking or peer-to-peer lending or on-line tools to find customers and partners should also be part of the mix. Many co-working spaces have had success in using the facilities as a gathering place where other business services, such as counseling from a local Small Business Development Center or other training, can be provided.

Independent consultants also have a strong interest in identifying new business opportunities. A number of web sites and consulting agencies do provide matching services and support to help freelancers make connections to new projects or customers. The Freelancer's Union provides this service, as do other independent websites such as guru.com or Freelancers Outpost or the International Freelancers Academy. These sites serve as on-line matchmaking services, where freelancers can post their resumes and other work-related products as part of an effort to land new projects or gigs. At the same time, employers or project directors use these sites to find outside consultants and freelancers.

There are also huge untapped opportunities in connecting the local independent workforce with growing movements around buying local and the newly emerging shared economy. New tools and websites such as Etsy (an arts and crafts marketplace), Kickstarter and Prosper (online funding tools), and Connect.me and LinkedIn (online networking) are all ideally suited to serve and support independent workers.

Kickstarter is gaining a great deal of attention as a platform for arts and creative projects. Typically, an entrepreneur or artist posts an idea for a project, a business, or an artwork and specifies his or her financial needs and plans for using the funds. Interested parties can then opt to invest in a given project or business ideas. Thousands of new projects have already been funded in areas such as technology, dance, photography, publishing, and theatre. As a recent *Business Week* article put it, "With Kickstarter's help, a musician or a guy with an idea for a better bottle opener can raise startup cash in exchange for a copy of the completed album or one of the first bottle openers to roll off the line."

Recent enactment of the JOBS Act is likely to revolutionize and expand the crowdfunding marketplace. Among other things, this bill eliminated several regulatory barriers that limited the amount and types of investments that could be made via crowdfunding sites. In the past few months since the JOBS Act's passage, we have seen the emergence of dozens of new crowdfunding platforms and websites as well as the formation of two new associations competing to serve this new industry.

### ***Better Data***

Finally, economic developers need better data on what's happening with the 1099 Economy. At present, there is no one single source where one can capture a complete picture of a region's independent workforce. As we have done in this article, researchers must instead cull from a variety of sources to get a rough estimate of the independent workforce.

Useful data sources include fee for service analyses (from firms like EMSI and others) and free sources that include government data (the Census Bureau's Nonem-

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ployer Statistics) and other private sources such as the Edward Lowe Foundation's Youreconomy.org site that provides data on self-employment and firm growth patterns over time. While these sources are helpful, they do not provide a complete or comprehensive picture.

### **Freelancer-Friendly Business Development Support**

The 1099ers, especially those with an entrepreneurial bent, have business development needs that are not much different from more traditional small businesses. They need access to capital, technical assistance, access to networks, and the like. Many of the traditional services provided by economic development and small business support organizations are well suited for this purpose. But, they may need to be delivered in new ways and via new media.

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change the content of existing services but simply need to rethink and redesign how services and programs are marketed and delivered.

### **CONCLUDING THOUGHTS**

It's time to recognize that the 1099 Economy is here to stay and will be an important part of every community's workforce for decades to come. In fact, this new employment status is likely to become the norm rather than the exception. As such, the economic development community needs to rethink its current tool kit and update it to support what the world of work really looks like in the 21st century. ☎

*(Charts, map, and data provided courtesy of Economic Modeling Specialists International (EMSI). To learn more, visit [www.economicmodeling.com](http://www.economicmodeling.com).)*



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