Business owners and the self-employed: thirty-three million (and counting!)[1]

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Extended Abstract

The number of U.S. nonemployer business entities has surged in recent decades. Such businesses include self-employment by independent contract (1099) workers, gig workers, freelancers, and business owners without employees—in other words, work that is not wage and salary employment (NWS) (Abraham et al., 2019 and 2021). Nonemployers are a unique type of economic activity because of their dual nature. They are both a type of job and a type of business, albeit sometimes a very loosely defined one. While tens of millions of people in the U.S. receive income from this type of work, they are often missing from statistics on the U.S. workforce, especially ones that describe labor market and business dynamics.[3]

This gap represents a growing blind spot in our capacity to monitor the health and vitality of the labor market and the ability of the economy to support the formation of new businesses. With current public statistics, it is not possible to know, for example, what share of these informal jobs are held by an isolated set of workers persistently operating outside of conventional wage and salary work nor how this share changes over time. Similarly, current statistics do not reveal across-time flows of workers between wage and salary work and self-employment, between non-working and self-employment, and they do not shed light on across-time changes in the pool of wage and salary workers moonlighting as gig workers. Research conducted using restricted-access microdata at Census suggests that these dynamics are quite large with nearly half of self-employment beginning and nearly half ending in each year (Hyatt et al., 2021). Current public nonemployer statistics also do not measure how many of these businesses grow and eventually hire employees. Research using Census data and focused specifically on startups has found that around 3% of nonemployer startups hire employees within seven years—roughly 11% of those surviving that long (Fairlie et al., 2023).

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[3] Currently the main public data products on self-employment published by the U.S. Census Bureau are the Nonemployer Statistics (NES) and Nonemployer Statistics by Demographics (NES-D). These estimates are point-in-time reports and do not contain any measures of change.

This paper documents efforts at the U.S. Census Bureau to develop a comprehensive, longitudinally linked database of NWS/self-employment jobs and associated business entities (first outlined in Goetz et al., 2017) to create measures of change over time. These dynamics are unique because they involve decisions by individuals to change their employment arrangements in a way that may also change the composition of operating businesses. To fully capture the impact of these decisions, we will link these records with existing longitudinal administrative databases of wage and salary jobs and employer businesses. These linkages will enable us to produce two new sets of statistics. The first captures workforce dynamics (i.e., hires, separations, persistence) of NWS workers and jobs, expanding the definitions in Hyatt et al. (2021) to capture transitions between non-work, wage and salary work and-self employment, as well as moonlighting. The second set of statistics tracks nonemployer business survival over time and nonemployer-to-employer transitions that occur when businesses grow and formally hire workers.

To achieve these goals, we build upon decades-long efforts at the Census Bureau to use administrative records to produce detailed statistics characterizing workforce and business dynamics including the Quarterly Workforce Indicators (QWI) and the Business Dynamics Statistics (BDS). The production of these statistical data products was made possible by the development of data infrastructures for Unemployment Insurance (UI) wage records and the Longitudinal Business Database (LBD), respectively. We augment this data infrastructure that covers wage and salary jobs and their associated employer businesses with Census datasets that are currently only available for internal use. These data include a newly developed infrastructure on wage and salary jobs derived from both UI and W-2 records. We also make use of rich administrative data originating from business tax filings. Information on self-employment/business ownership jobs for sole proprietors is derived from filings of 1040 Schedule C (profit or loss from sole proprietorships), and Schedule SE (self-employment tax). Job and business information associated with owning a partnership is derived from Form 1065 (return of partnership income) and Schedule K-1 (partner's share of income). Finally, self-employment information for owners of S-corporations originates from Form 1120-S (U.S. tax return for an S-corporation) and Schedule K-1. We also refine a nonemployer firm identifier established in the Integrated Longitudinal Business Database (ILBD) by Davis et al. (2009) for longitudinal linkages of nonemployer businesses over time, as well as build on the efforts of Davis et al. (2009) to link the universe of nonemployer businesses to that of employer businesses.

Nonemployer businesses are necessarily composed of self-employed individuals, and linking wage and salary data to business income data allows us to track the dynamics of individuals across wage and salary employment, NWS/self-employment jobs, and the outcomes of their associated business entities. Furthermore, we are able to produce statistics—and inform the development of future federal statistical products—that can answer important questions about both work and business transitions, as well as further our understanding of the changing nature of work and evolving patterns of business start-up and survival in the U.S. economy.

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