



Report

Rise of the Freelance Economy

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Introduction

John Arensmeyer, Founder & CEO, Small Business Majority

Entrepreneurs create more jobs than any other sector of the economy, and they are in the vanguard of an evolving 21st century economy that is shaping America's new employment landscape—one where brick-and-mortar storefronts are being replaced by online retailers, and freelancers and contractors are the new version of the 9-to-5 office worker. The rise of the digital nomad and the freelance economy is here, and small businesses and the self-employed are leading this movement. In fact, independent workers now represent more than one in three working Americans.

This new freelance economy is providing the self-employed with unprecedented freedom to work on their own terms, while also stimulating innovation and entrepreneurship in a way that has never been available before. It's emerging technologies that are the driving force behind this movement.

While more people than ever are accessing the broadband Internet they need to work for themselves, that access is unevenly distributed and many Americans are being underserved. Additionally, many lack education about how to use these emerging technologies, reducing their ability to participate. In order to ensure equal access to much-needed technologies, access to high speed Internet needs to be improved, and entrepreneurs need more education on how to enter and succeed in this new, tech-savvy workforce. Doing so will lead to more jobs and a flourishing of innovation.

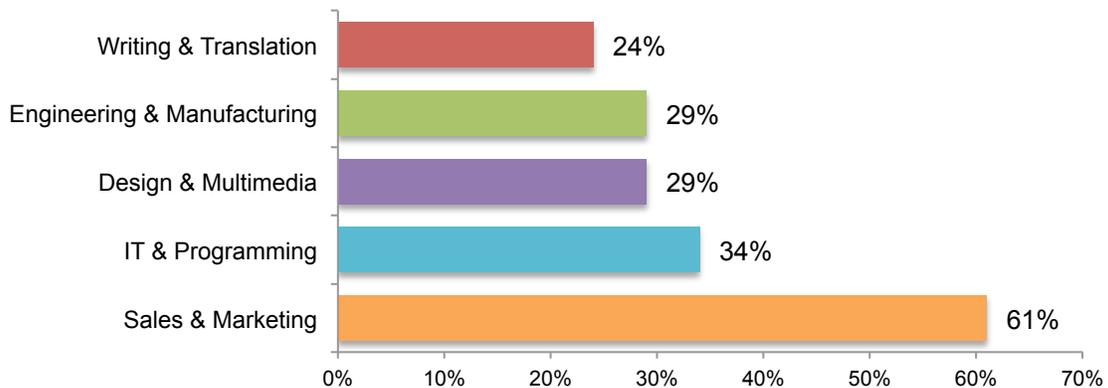
In this paper, we will examine the impact of freelancers on the economy, how emerging technologies are paving the way for more people to work for themselves and how the U.S. can update broadband policies that address the needs of this new workforce.

The growing freelance workforce

Many Americans have become disenchanted with the traditional 9-to-5 office setting, and even more struggled to find meaningful work during the Great Recession. Workers are increasingly striking out on their own to work for themselves, and they are thriving in this new environment. There are an estimated 17 million full-employed freelancers, up from 10.3 million workers in 2005.ⁱ And Freelancers Union, a non-profit advocacy organization, recently found this number jumps to a vast 53 million—34 percent of the entire workforce— when temps, part-time freelancers, moonlighters, contractors and freelance business owners are included in the definition.ⁱⁱ These numbers are expected to keep rising, and the self-employed are projected to outnumber traditional full-time workers within the next decade. The new marketplaces created by the Affordable Care Act will add to this boom by ending “job lock,” where a prospective entrepreneur who has a preexisting medical condition cannot leave their job, launch a new company or help grow the economy because they are locked in their job for health benefits. The Robert Wood Johnson Foundation found 1.5 million more people will launch their own business and become self-employed now that they can find affordable health insurance through the new health insurance marketplaces.ⁱⁱⁱ

But who are these digital nomads and what industries do they represent? Freelancers identify themselves as contractors, consultants, temps, solo entrepreneurs and micro-business owners.^{iv} They work as writers, graphic designers, IT consultants—the list runs the gamut.

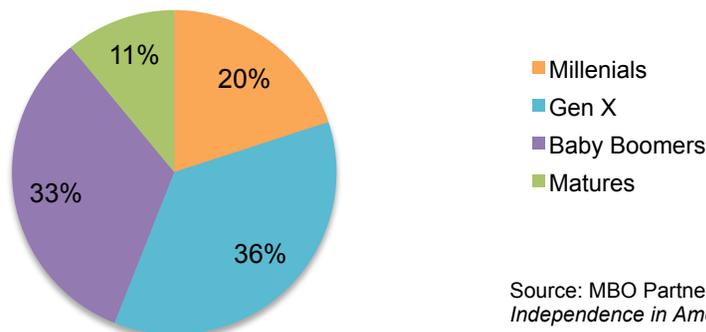
Figure 1: Top 5 Freelance Sectors



Source: Tower Lane Consulting, *Surveying the New World of Work*

They are evenly split between men and women, and they represent all age groups.

Figure 2: Freelancers Represent All Age Groups



Source: MBO Partners, *The State of Independence in America*



“Working as freelancer gives me much more flexibility. It gives me the freedom to pursue my other interests, such as working on film projects. By working as an independent contractor in real estate, I’m able to do more of the things I want while still making a living.”
–Lukas Pearson, real estate agent

While some were forced into contract work due to job loss during the economic downturn, many chose this path due to the greater flexibility it offers. Freelancers enjoy choosing where and when they want to work, and what specific types of projects they want to take on. In fact, research shows the majority (64 percent) of freelancers are highly satisfied with their chosen career path.^v And whether or not independent contractors voluntarily chose to leave the workforce and freelance, a mere 13 percent say they would go back to traditional employment.

As more Americans realize the benefits of working for themselves, the new freelance economy will continue to become more entrenched in the workforce, and in turn, the U.S. economy.

Economic impact of the new freelance environment

With independent workers comprising such a significant portion of the workforce and the business community, it should come as no surprise that they are major drivers of our economic recovery. MBO Partners, a business services firm based in Herndon, Va., providing support for the self-employed for more than 25 years, found freelancers generated nearly \$1.2 trillion in total income last year—a 20 percent increase from 2012.^{vi} And Freelancers Union recently found they contribute more than \$715 billion to the national economy.^{vii} What’s more, in 2013, freelancers spent a vast \$150 billion on non-payroll and contractor expenses, and they earned \$43 billion in income from overseas. Clearly this often-overlooked sector of our workforce is playing a large part in boosting the U.S. economy.

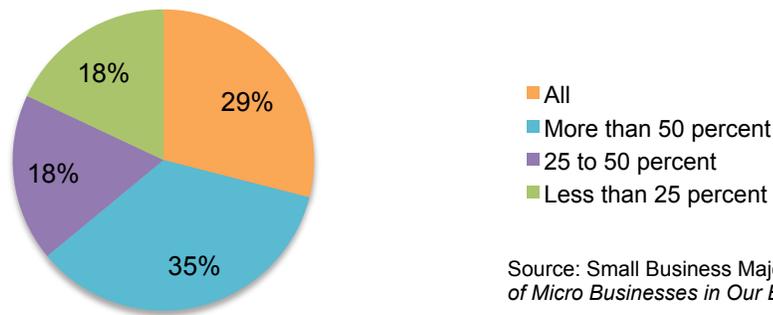
Freelancers are also contributing to economic growth as job creators. In 2013, one in four freelancers hired other contractors, spending an estimated \$96 billion on payroll and employing the equivalent of 2.3 million full-time workers.^{viii} What’s more, these job creators plan to expand their businesses and create more jobs. Research shows nearly 2.5 million freelancers expect to launch bigger businesses.^{ix}

Microbusiness owners, many of whom represent part of the freelance economy, are also growing and expanding their hiring. Small Business Majority’s polling found more than half of microbusiness owners—those with fewer than 10 employees—employed a contractor or 1099 employee in the past year, and nearly a third hired a full-time employee. These aren’t just part-time, low-paid workers they are hiring: more than six in 10 spent more than \$50,000 in payroll and 54 percent reported spending more than \$10,000 annually on non-payroll expenses such as equipment, computers, office supplies and more.^x These businesses are stimulating their local economies, as well, with nearly three-quarters reporting that at least some, if not all of their customers are local.

Larger businesses are increasing their hiring of freelancers, as well. Work Market, a marketplace and platform that manages freelance labor for enterprise clients, found that as of August 2013, the average business of 50 employees or more was spending \$52,000 a month on freelance services through the platform, with these firms using the same freelancer for an average of nine jobs per year. What’s more, Tower Lane Consulting found that 60 percent of enterprises plan to increase freelance hiring in 2014.^{xi}

Freelance work is also contributing in a large way towards entrepreneurs’ family incomes. Small Business Majority’s poll of self-employed and microbusiness owners found nearly one-third say the whole of their income comprises their family income, and 35 percent say it represents more than half.

Figure 3: Contribution to Total Family Income



Source: Small Business Majority, *The Role of Micro Businesses in Our Economy*

These numbers show that not only are freelancers here to stay, but they are giving a boost to our recovering economy. As more working adults discover the benefits of utilizing emerging technologies to start their own businesses, we can expect this sector of the workforce to help drive the economy even further.

Emerging technologies: paving the way for the freelance economy

Access to high speed Internet and high-powered mobile computing tools are making it easier than ever for people to leave the traditional office environment and work wherever and whenever they want. In fact, nearly seven in 10 freelancers report technology has made it easier for them to find work.^{xii} And as more people say goodbye to the traditional workplace, we see an ever-growing list of applications and programs that make it easier for the self-employed to garner income.

While many freelancers continue to find work through traditional contracting arrangements, a growing number are using online outsourcing marketplaces, such as oDesk, Elance, and Freelancer.com, which connect freelancers to firms seeking to fill their business needs through contract work.

Online freelance platforms such as these are part of a growing market of online contract professional services, with more than 1 million workers earning \$1-2 billion over the past 10 years.^{xiii} The U.S. Bureau of Labor Statistics predicts these employment services that are contributing to the growth of the freelance economy will continue their rapid growth, and the Bureau has estimated these platforms will add 637,000 jobs in the next 10 years.

Small and large businesses alike are hiring freelancers because it is a cost-effective practice that allows them to fulfill short-term projects without having to hire a full-time employee. Utilizing freelancers also allows businesses to find someone with a specific skill set to help with their particular business needs. This type of work arrangement benefits businesses and freelancers, as companies can hire on an as-needed basis while giving contractors the flexibility they desire.

Freelance platforms Elance and oDesk found businesses will spend an estimated \$930 million on hiring remote independent workers globally in 2014, with U.S. freelancers receiving \$500 million in income.^{xiv}

While this new workforce is innovative and savvy, these entrepreneurs experience many traditional barriers to small business success. Access to credit and business resources are preventing many of these new entrepreneurs from taking the freelance economy even further.

"It takes a certain amount of self-control to make yourself work certain hours. There's not much oversight, and for some people that might be too much freedom. And since you're dependent on securing your own work and income, you're not guaranteed a steady paycheck every week."

—Lukas Pearson, real estate agent

Alternative financing options

Traditional access to credit is a long-standing problem for small business owners, and while the Small Business Administration is offering more loans to entrepreneurs than before the Great Recession, many are still having a hard time finding the credit they need. Small Business Majority's scientific opinion polling reveals 90 percent of small business owners believe the availability of credit is a problem.^{xv}

Entrepreneurs are looking beyond traditional lending to identify ways to move forward with a business idea or grow their current enterprises. Crowdfunding is becoming a popular way for entrepreneurs to address credit problems by allowing them to raise capital via the Internet. Sites like Kickstarter and Indiegogo enable entrepreneurs to promote and raise funding for their start-up businesses. These sites allow users to set a funding goal, and entrepreneurs typically offer rewards or incentives for their backers.

The signing of the Jumpstart our Business Startups Act (JOBS) in 2012 officially opened up crowdfunding as a source of financing for small companies and startups. Small business owners can now raise as much as \$1 million a year without having to do a public offering.

And for those entrepreneurs seeking a higher level of investment for their start-ups, direct offerings may help them find the capital they need. Direct offerings are becoming an attractive option for entrepreneurs who need a substantial amount of capital—typically between \$500,000 and \$5 million. Direct offerings provide an alternative financing option for entrepreneurs by allowing them to raise money from the public without the expense of having to hire an investment bank.

While these new financing options are helping address some barriers to entrepreneurship, many are unable to go to work for themselves, not due to a lack of capital, but simply because of where they live.

Solutions to Technological Barriers

While sites like Odesk and Elance are making it easier for people to work for themselves, these programs are not equally available to everyone who wants to become a freelancer.

A vast 88 million households in the U.S. (nearly three-fourths of all homes) have high-speed Internet. However this means millions of Americans in rural and underserved communities lack crucial access to broadband, which is preventing adults from working from home and children from utilizing it for educational purposes. Some states and municipalities are seeking to address this problem by ensuring reasonable broadband is more widely available, but many rural and underserved areas are still in need.

To help address this problem, Rep. Derek Kilmer (D-WA) introduced the Promoting Rural Broadband Act of 2014. This bill seeks to amend the Communications Act of 1934 to require the Federal Communications Commission to promote the expansion of spectrum-based services to exceptionally hard-to-serve populations in unserved and underserved locations.

Private-sector and non-profit initiatives are also helping to expand access. The Pinchot Collaborative Center for Inclusive Entrepreneurship is one such program seeking to address technological barriers of underserved communities. The Center offers accessible and affordable “first step” entrepreneurship training, one-on-one consulting and other support for people in low-wealth and underserved communities. Programs at the Center give priority to people with barriers to financial self-sufficiency and with limited access to mainstream entrepreneurship and business support resources.

What's more, business incubators like the Kick incubator hubs help startups through education and outreach, guidance and peer mentorship programs.

Comcast's Internet Essentials program is an example of the private sector seeking to expand access to underserved populations. The program offers low-income families broadband service for \$9.95 a month, along with the option to purchase an Internet-ready computer for less than \$150 and free digital literacy training. In its first three years of operation, the program has provided affordable broadband service to more than 350,000 households, or 1.4 million low-income Americans.

Local SCORE chapters and Small Business Development Centers (SBDCs) can also provide technical assistance and free entrepreneurship advice to small businesses and the self-employed. SCORE and SBDCs offer free or low-cost professional business advising, training and other specialized services.

While the self-employed face several hurdles to successfully working for themselves, it's important for them to know there may be technical assistance or low-cost options in their area. And it's crucial for policymakers to continue to pursue the advancement of affordable broadband to the millions of Americans in rural and underserved areas of the country. Expanding broadband follows in the footsteps of major U.S. infrastructure projects, such as the electrification project and the building of the national highway system. Like those projects, broadband expansion could lead to a flood of business opportunities, innovation and entrepreneurship.

Conclusion

Although it's estimated 40 percent of our workforce has performed freelance work, independent workers still face many hurdles to sustaining self-employment. With half of the workforce expected to join the ranks of the freelance economy, it's time for the U.S. to update policies that reflect this evolving workforce. It's clear the rise of this new workforce is being driven by access to broadband and emerging technologies. In order to ensure all Americans have access to the technologies that they need to succeed in the workplace, affordable and reasonable broadband needs to be provided to underserved areas.

ⁱ *The State of Independence in America*. MBO Partners (September 2013).

http://info.mbopartners.com/rs/mbo/images/2013MBO_Partners_State_of_Independence_Report.pdf

ⁱⁱ *Freelancing in America: A National Survey of the New Workforce*. Freelancers Union & Elance-oDesk (September 2014). <https://www.freelancersunion.org/blog/dispatches/2014/09/04/53million/>

ⁱⁱⁱ *The Affordable Care Act: Improving Incentives for Entrepreneurship and Self-Employment*. Robert Wood Johnson Foundation (May 2013). http://www.rwjf.org/content/dam/farm/reports/issue_briefs/2013/rwjf406367

^{iv} *The State of Independence in America*.

^v Ibid.

^{vi} Ibid.

^{vii} *Freelancing in America: A National Survey of the New Workforce*.

^{viii} *The State of Independence in America*.

^{ix} Ibid.

^x *The Role of Microbusiness in our Economy*. Association for Enterprise Opportunity, National Association for the Self-Employed and Small Business Majority (October 9, 2012). <http://www.smallbusinessmajority.org/small-business-research/downloads/100912-micro-business-report.pdf>

^{xi} Faust, Jocelyn. *Surveying the New World of Work*. Tower Lane Consulting (2013). <https://www.elance.com/q/sites/default/files/docs/ptc/Tower-Lane-Elance.pdf>

^{xii} *Freelancing in America: A National Survey of the New Workforce*.

^{xiii} Cantrell, Susan M., Farley, Catherine, et al. (2013). *Trends Reshaping the Future of HR: The Rise of the Extended Workforce*. Accenture Institute for High Performance (2013).

<http://www.accenture.com/SiteCollectionDocuments/PDF/Accenture-Future-of-HR-Rise-Extended-Workforce.pdf>

^{xiv} *Global Online Work Report*. Elance-oDesk (2014). http://elance-odesk.com/sites/default/files/media_coverage/reports/global-online-work-report-2014-ytd.pdf

^{xv} *Small Business Credit Still a Problem*. R Street and Small Business Majority (September 12, 2012). http://www.smallbusinessmajority.org/small-business-research/downloads/MBL_Report_091212.pdf