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# Nonemployer Businesses Are Increasing in Number in Rural America

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The number of nonemployer businesses, those without payroll employees, has increased remarkably. From 2000 to 2021, nonemployer businesses in the United States increased by 72%, from 16.5 million to 28.5 million. This increase is striking compared to employer businesses, which increased by 15% during the same period, from just under 7 million in 2000 to over 8 million in 2021. Nonemployers now make up 78% of all businesses, up from 70% in 2000. In rural areas, the trend is even more striking in that the increase in nonemployer businesses has been accompanied by a decrease in the number of employer businesses.

While nonemployers do not add payroll jobs, they are an important seedbed for employer businesses. Yet business support programs, which are often geared toward employment, may overlook them. Nonemployer businesses are also particularly important when considering underrepresented business owners. Women and people of color are more likely to own nonemployer businesses than their male/White counterparts, making them important for supporting economic opportunities for diverse groups.

In the sections that follow, we describe trends in U.S. business counts in urban and rural counties. The trends indicate a growing role for nonemployer businesses, especially among rural and underrepresented populations. Given these trends, policy makers should consider the importance of nonemployer businesses as sources of income and future jobs in crafting economic policy.

## The Growing Number of Nonemployer Businesses in Rural America

For analysis of rural nonemployer business growth, we use the classifications of metropolitan and nonmetropolitan areas developed by the Office of Management and Budget (OMB). A metropolitan area has an urban core of at least 50,000 people; commuting and shared services connect surrounding areas with the urban core. Counties within metropolitan areas are considered "urban." All remaining, nonmetropolitan counties are considered "rural."

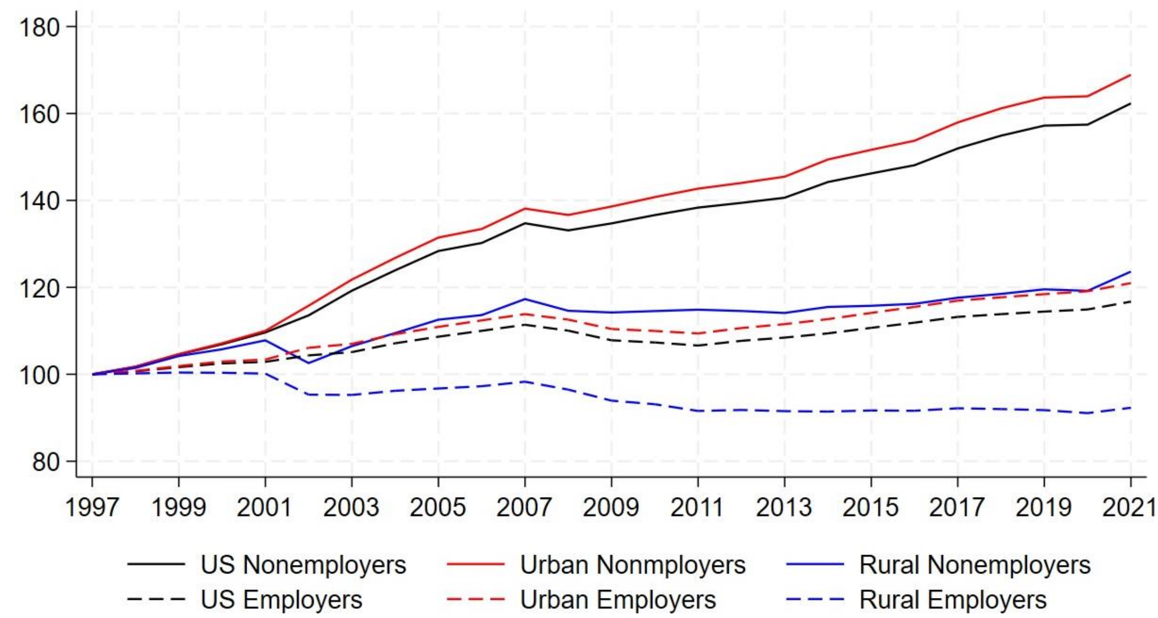
The number of nonemployer businesses has increased faster than employers in both urban and rural areas of the United States (Figure 1). Nonemployers increased by roughly 70% in urban areas between 1997 to 2021, whereas employer businesses increased by over 20% during the same period. In rural areas, the growth of nonemployers was much more modest than in urban areas at nearly 25% but is still significant compared to employer businesses which declined during the same time period. The loss of rural employers is largely driven by a decrease in the number of businesses with one to nine employees (U.S. Census Bureau, 2021a). As of 2021, there were 3.33 million nonemployer businesses in rural areas, compared to 1.05 million employer businesses.

Nonemployer businesses can be found across all sectors and industries. In rural areas, nonemployers are most heavily concentrated in construction (15.54%); other services (10.94%); and professional, scientific, and technical services (10.82%) (U.S. Census Bureau, 2021b). These sectors generally include specialized occupations such as carpenters, hair stylists, and consultants, which are well-suited for sole proprietorship and have low barriers to entry in terms of licensing and capital requirements. Importantly, nonemployers in the agricultural sector are much more common in rural America (2.92%) than in urban America (0.36%) (U.S. Census Bureau, 2021b).

## Are Businesses Getting Smaller?

The increasing number of nonemployers corresponds to a shift in the business composition of communities. In rural areas, the share of nonemployer businesses grew from 69.9% to 76.0% between 1997 and 2021 (Figure 2). This could be part of a larger shift toward smaller businesses. From the late 1990s through the Great

## Figure 1. U.S. Growth of Employer and Nonemployer Businesses




Source: NES-D (1997–2021), County Business Patterns (1997–2021).
Note: Data are summarized by urban and rural counties according to metro and nonmetro status, respectively, determined by the 2013 definition of metropolitan counties from the U.S. Office of Management and Budget.

Recession, workers per employer establishment and per employer firm declined (Choi and Spletzer, 2012), driven by businesses that started and stayed smaller (Reedy and Litan, 2011). Similarly, Bento and Restuccia (2024), analyzing nonemployer and employer firms together, found a 41% increase in number of firms per worker, indicating decreasing firm size, between 1982 and 2014.

Our analysis of average establishment size, measured as the ratio of employment to total employer establishments, by urban/rural classification suggests that there is variation in business size across geography (Figure 3). We observe an urban decrease in establishment size during the early 2000s consistent with the previously mentioned studies, but it was countered by a more recent prepandemic increase in establishment size. The result is little net change in average urban establishment size between 1997 and 2021. In rural areas, average employer establishment size has generally been increasing since at least 1997, suggesting that though employer businesses are declining in number, they are growing larger (Figure 3).

As rural employer businesses have become both fewer and larger, total employment in rural America in 2021 remained relatively unchanged from 2000, after some fluctuation with the business cycle and pandemic. The employment-population ratio, however, was still lower in 2021 than 2000, after having never fully recovered from a significant dip during the Great Recession (Figure 3). Given that rural unemployment has been low in recent years compared to the past (Davis et al., 2023), relatively stagnant employment and a declining employment-population ratio are consistent with labor constraints. For example, it is increasingly difficult to hire skilled professionals in education, social work, and healthcare in rural areas (Burrows, Suh, and Hamann, 2012; Adynski and Morgan, 2021; Carson, et al., 2024). Rural wages also grew overall at an annualized rate of 6.3% in 2021, outpacing inflation and providing further evidence of hiring challenges (CBO, 2021).

Businesses that had previously employed small numbers of workers may be transitioning to nonemployer models to avoid the difficulties associated with hiring employees. A changing preference for leaner businesses could also explain the previously mentioned decrease in the number of businesses with one to nine employees. Thus, while rural employer businesses are not getting smaller on average, there is evidence to suggest a trend toward small businesses becoming even smaller.

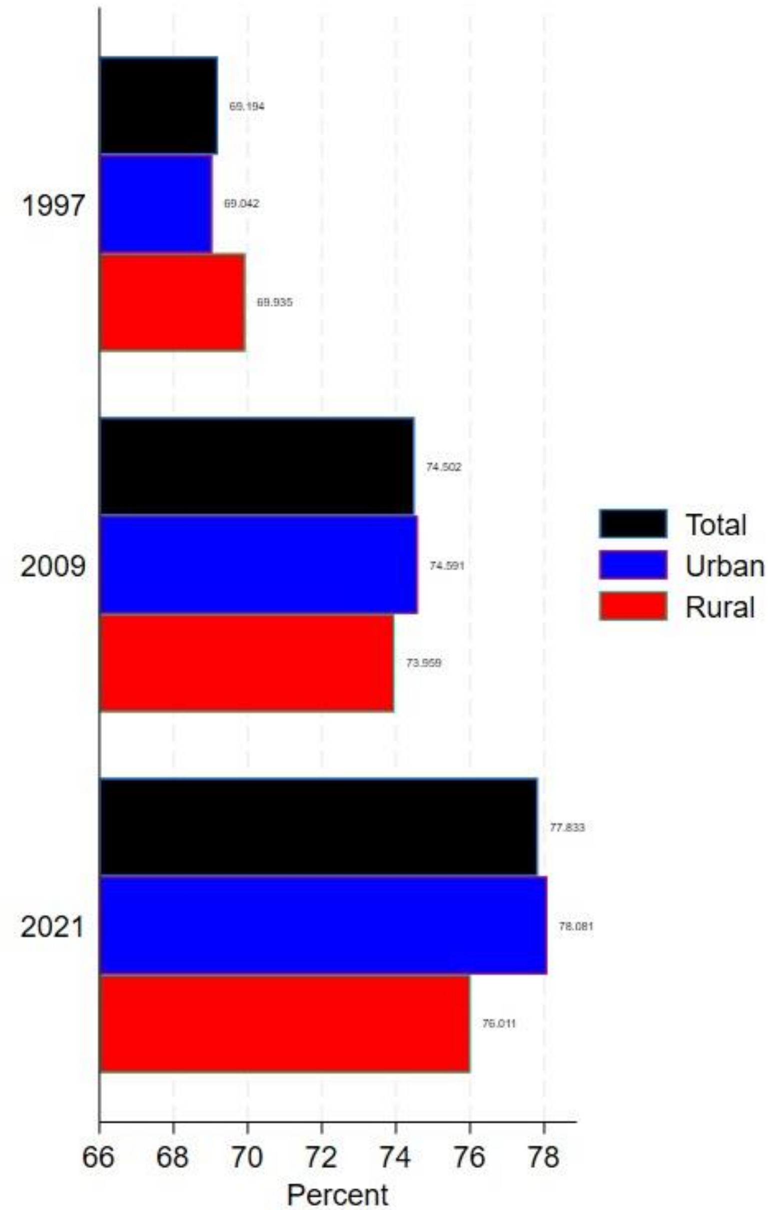
## Implications

Our observations have three key implications.

### *Excluding Nonemployers from Analysis of Businesses and the Labor Force Can Be Misleading*

Including nonemployer businesses in analysis of rural business dynamics reveals that the number of businesses is growing. Focusing instead only on employer businesses would lead to the conclusion that rural businesses have decreased in number. Including nonemployers can similarly shift metrics of net entry and

**Figure 2. Nonemployer Share of Total U.S. Businesses**

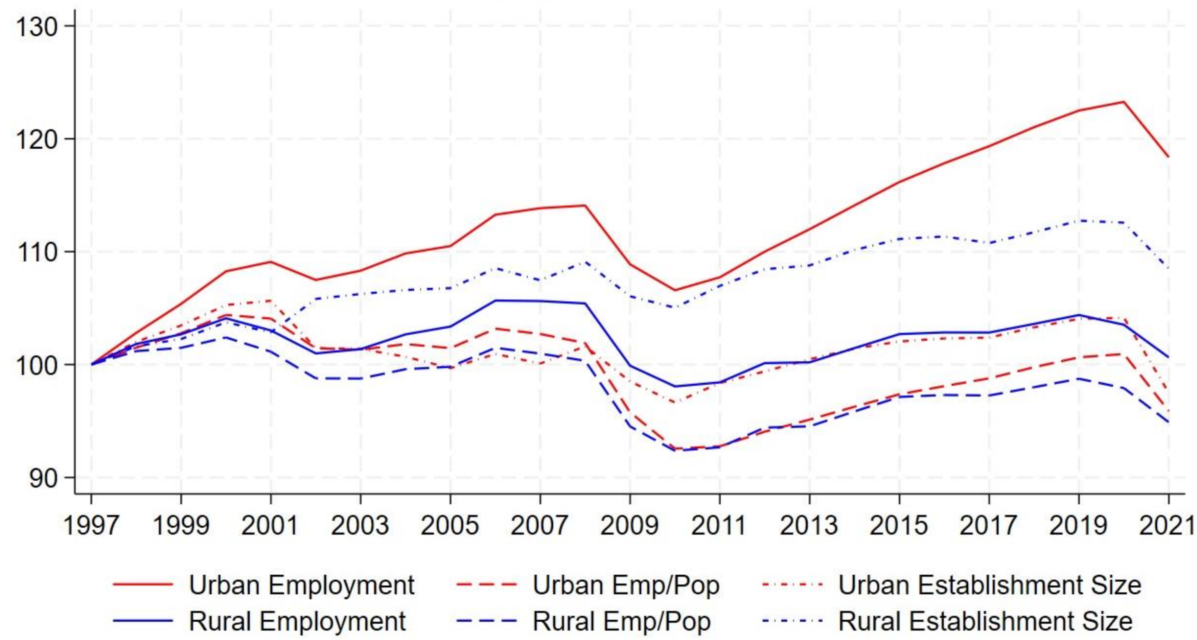



Source: NES-D (1997–2021), County Business Patterns (1997–2021).
Note: Data are summarized by urban and rural counties according to metro and nonmetro status, respectively, determined by the 2013 definition of metropolitan counties from the U.S. Office of Management and Budget.

productivity growth (Bento and Restuccia, 2024). Thus, excluding nonemployers from economic analysis can contribute to a narrative of rural decline.

Focusing only on employer businesses can also bias policy investments in these businesses, neglecting nonemployers and their role in the economy. Many federally supported economic growth and development efforts, such as those facilitated by the Economic Development Administration and USDA Rural Development, emphasize job growth explicitly, with required reporting of the number of jobs created for their initiatives and grants. This can mean that businesses with paid employees are prioritized for resources. In turn, nonemployer businesses can be overlooked, dismissed, or even ineligible for business support programs. With a clearer picture of the importance of nonemployers to rural business communities, policy attention should be redirected from employment alone to include nonemployers and broader metrics of business performance such as income growth, stability, and job quality for business owners.

**Figure 3. U.S. Urban and Rural Average Establishment Size, Employment, and Employment/Population Ratio Growth Indices**




Source: Total employment and population are given is annual average total by county from the Bureau of Economic Analysis Regional Data. Firm size is calculated from County Business Patterns count of employer establishments and total employment.
Note: Data are summarized by urban and rural counties according to metro and nonmetro status, respectively, determined by the 2013 definition of metropolitan counties from the U.S. Office of Management and Budget.

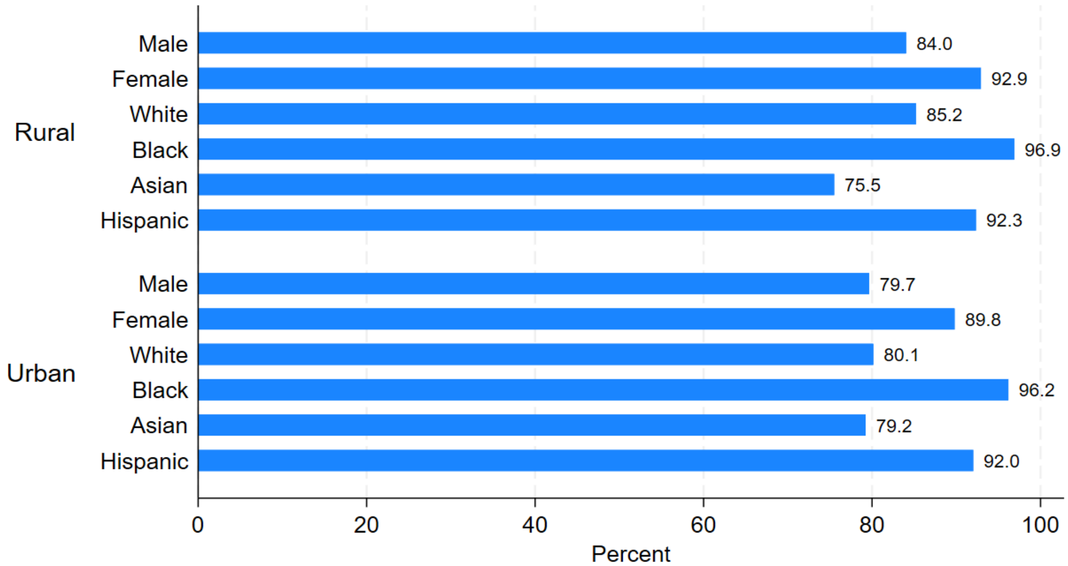
## *Vibrant Rural Economies Depend on Nonemployer Businesses*

In rural America, nonemployers play a pivotal role in the business landscape. They earn 9.0% of total sales compared to 2.7% of total sales in urban America (U.S. Census Bureau, 2021a). They are also an important source of income for owners and a crucial source of future employer business formation. One in four nonemployer businesses intends to grow and hire employees (Federal Reserve Bank, 2019). These nonemployers “are important in creating the stock of businesses from which employers arise; in providing learning opportunities for future businesses or expansions; and in generating flexible work options” (Acs et al., 2009, p. 2). There is also evidence that job- and income-growth increase when the size distribution of businesses skews toward the smallest establishments (Loveridge and Nizalov 2007). Therefore, policy makers should consider nonemployers as a vital source of income as well as incubators for future employer businesses.

While the needs of these businesses may be like other businesses in terms of financing and technical assistance, their situation is often more dire. Compared to employer businesses, nonemployer businesses are more likely to use personal funds in response to financial challenges and less likely to apply for financing, and those who do apply are less likely to be fully approved by their lender (Federal Reserve Bank, 2023). Programs that make lending more accessible can help meet financing needs of nonemployers. Some examples of these programs are local grants, rotating loan funds, and support for small banks and credit unions where nonemployers are more likely to be fully approved for financing (Federal Reserve Bank, 2023).

Technical assistance for nonemployer businesses should respond to their unique characteristics, including industry, particular challenges, and growth goals. For example, training for online marketing and digital sales platforms may be especially useful to these business owners. Infrastructure, in the form of broadband access, is also important to nonemployer businesses (Conroy and Low, 2022). Technical assistance may also need to be tailored to key industries for nonemployers, which vary by rurality. Nonemployer businesses are also more likely to be a high credit risk and may benefit from coaching to improve their credit rating (Federal Reserve Bank, 2023). With many nonemployers intending to hire employees, they could also benefit from technical assistance regarding payroll, employment-related taxes, and benefit programs.

**Figure 4. Nonemployer Share of U.S. Establishments by Race/Ethnicity**




Source: NES-D (2021).
Note: Data are summarized by urban and rural counties according to metro and nonmetro status, respectively, determined by the 2013 definition of metropolitan counties from the U.S. Office of Management and Budget.

### *Nonemployer Businesses Are Especially Important for Equitable Economic Opportunity in Rural Communities*

Excluding nonemployer businesses from support programs disproportionately impacts women and people of color. Similar to Hipple and Hammond (2016), we find that rural Black-owned (96.9%) and Hispanic-owned (92.3%) businesses are much more likely than rural White-owned (85.2%) businesses to be nonemployers. The gap has meaningful implications in terms of employer potential and growth. For example, this distribution means that rural White-owned businesses (14.8%) are nearly five times more likely than rural Black-owned businesses (3.1%) to have employees. A similar gap exists by gender, with 92.9% of women-owned rural businesses having no employees compared to 84.0% of men-owned rural businesses (Figure 4).

The relatively high shares of nonemployer business ownership among women and people of color may reflect challenges in the wage-and-salary labor market that push them toward an alternative. The "disadvantaged worker theory of self-employment" suggests that when workers are unable to find good job opportunities in the wage-and-salary labor market, they choose self-employment as a "last resort" (Patrick, Stephens, and Weinstein, 2016). This theory is especially relevant for some diverse populations. Black and Latino workers have a higher unemployment rate compared to the White population, lower earnings, more challenges with the hiring process and advancement, and are at a greater risk for job loss during a recession (Bertrand and Mullainathan, 2004; Brown, 2020; Cajner, et al., 2017). These challenges to finding good employment lend insight to the appeal of entrepreneurship and relatively high shares of Black- and Hispanic-owned nonemployers.

Supporting nonemployers can be a mechanism for enhancing economic growth across demographic groups. Women and people of color experience similar challenges to other nonemployer business owners but often more acutely. For example, Hispanic- and Black-owned nonemployers were more likely to experience financial challenges, have unmet financial needs, and be a high credit risk relative to other nonemployer business owners (Federal Reserve Bank, 2019). Therefore, financing programs to serve nonemployers may also need a mechanism for reaching audiences of higher need. Additionally, resources need to be available in multiple languages and shared through a variety of institutions that serve diverse communities, such as racial and ethnic business chambers and Community Development Financial Institutions (McDermott, Conroy, and Kures, 2024).

## Conclusion

Nonemployer businesses have dramatically increased in number in rural America. At the same time, employer businesses have declined. As a result, nonemployer businesses are an increasingly important component of rural economies. These findings highlight the need to include nonemployer businesses in economic and policy analysis. Support for these businesses is essential to rural thriving because they are a key source of income for the owners, and many have the potential and intention to eventually hire employees. Last, because these businesses are more commonly owned by women and people of color, focusing on nonemployer businesses is an opportunity to support economic opportunity for diverse audiences.

## Box 1: What Is a Nonemployer Business?

A nonemployer business is subject to federal income taxes but has no paid employees, composed only of owner-managers and unpaid/informal workers. To be included in federal datasets, a nonemployer business must have annual sales of $1,000 or more (with few exceptions). These micro-businesses can look like professionals contracting out their services for various clients, an entrepreneur operating an online retail store, a family-owned business with only unpaid family members as workers, or an individual working as a “contractor” for a larger company, for example. It can also include small farms with no payroll employees.

Nonemployer business owners are generally counted as self-employed and may also be counted as “gig workers,” depending on the nature of their work. Gig work refers to individuals who work part time, temporary jobs either to supplement their main income or as their full income. Gig workers who own their own business and have no paid employees would be categorized as nonemployer businesses. For example, contracting work for larger companies, which includes drivers for ride-sharing apps like Uber and Lyft, is one of the fastest growing segments of nonemployers (Katz and Krueger, 2019). Other types of gig workers, such as temporary employees, do not take on an ownership or management role in their work and are not counted as nonemployer business owners.

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