University of Nebraska - Lincoln
DigitalCommons@University of Nebraska - Lincoln

Rural Initiative Publications and Reports | Rural Initiative

5-1-2008

Non-Farm Proprietors and the Nebraska Economy: 1997-2006

Randolph L. Cantrell
Nebraska Rural Initiative, University of Nebraska-Lincoln, rcantrell1@unl.edu

Follow this and additional works at: http://digitalcommons.unl.edu/ruralinitiativepubs

Part of the Agricultural and Resource Economics Commons

Cantrell, Randolph L., "Non-Farm Proprietors and the Nebraska Economy: 1997-2006" (2008). *Rural Initiative Publications and Reports*. Paper 5.
http://digitalcommons.unl.edu/ruralinitiativepubs/5

This Article is brought to you for free and open access by the Rural Initiative at DigitalCommons@University of Nebraska - Lincoln. It has been accepted for inclusion in Rural Initiative Publications and Reports by an authorized administrator of DigitalCommons@University of Nebraska - Lincoln.

Business in Nebraska

VOLUME 63 NO. 690 PRESENTED BY THE UNL BUREAU OF BUSINESS RESEARCH (BBR) MAY 2008

Non-Farm Proprietors and the Nebraska Economy: 1997-2006

By Randy Cantrell – University of Nebraska Rural Initiative

Non-farm proprietors are of growing importance in the Nebraska economy. This paper utilizes recently released data from the U.S. Department of Commerce's Bureau of Economic Analysis (BEA) to further explore this important class of workers, and to identify trends in their distribution and impact across Nebraska's 93 counties. These data demonstrate that growth in non-farm proprietor jobs has not been matched by growth in income for those jobs, and that the discrepancy between jobs and income is most pronounced in rural portions of the state.

A Growing Share of the Labor Market

Government statistics classify job holders as either wage and salary workers, who work for others, or as proprietors, who are self employed. Proprietors, which can include both sole proprietors and partnerships, are further classified as being farm proprietors or non-farm proprietors. All income earners fall into at least one of these classifications, and frequently report their incomes in two or even all three areas. For instance, a farm proprietor may work some portion of the year in a traditional wage and salary job and may operate a small business such as a trucking firm or seed distributorship as well. Such reporting of multiple income sources is a partial explanation of why we often observe more jobs than workers in a given location.

The BEA monitors the number of jobs in all three categories for states and counties, and reports those numbers annually through their Regional Economic Reporting System (REIS). The REIS reports are based on an algorithm that utilizes IRS tax filings by employers, employees and proprietors. REIS data have been reported since 1969, with the latest reporting year being 2006 (released in April, 2008). All data for this paper were retrieved from that source.

REIS reported that in 2006 the Nebraska economy supported 983,446 wage and salary jobs and 256,753 proprietors, of which 210,371 were non-farm and 46,382 were farm proprietors. Non-farm proprietors in 2006 accounted for 17.0% of all Nebraska jobs in the REIS data base. Wage and salary workers comprised the dominant job group at 79.3% of all jobs, while farm proprietors accounted for the remaining 3.7%.

According to REIS, while farm proprietors have generally been declining in number (Nebraska reportedly lost 7,011 between 1997 and 2006) non-farm proprietors have been on the increase. Over the ten-year period 1997 through 2006, Nebraska saw non-farm proprietor numbers increase by 31.3% (50,132 jobs), replacing the state's loss of farm proprietors seven times over. Through the same ten years, wage and salary job numbers increased by 8.8% (79,404 jobs).

The importance of non-farm proprietors for the economy increases as one looks at more rural areas. Within the state's nine metropolitan counties, non-farm proprietors account for 14.8% of all jobs, but within the 84 non-metropolitan counties, non-farm proprietors account for 22.3% of all jobs, up from 19% ten years earlier.

Table 1 – Jobs by Type: 1997 - 2006

	Percent of All Jobs					
	Nonfarm Proprietors		Wage and Salary Workers		Farm Proprietors	
County Group (# Counties)	1997	2006	1997	2006	1997	2006
Nebraska (93)	14.3%	17.0%	80.9%	79.3%	4.8%	3.7%
Metropolitan (9)	12.3%	14.8%	86.6%	84.4%	1.1%	0.8%
Non-Metropolitan (84)	19.0%	22.3%	65.9%	65.1%	15.1%	12.6%
Large Trade Center (13)	14.8%	17.5%	81.1%	79.2%	4.1%	3.3%
Small Trade Center (21)	18.9%	21.2%	68.2%	68.3%	12.9%	10.5%
Small Town (22)	20.7%	24.7%	60.0%	58.9%	19.3%	16.4%
Frontier (28)	21.4%	27.0%	56.0%	53.4%	22.6%	19.6%

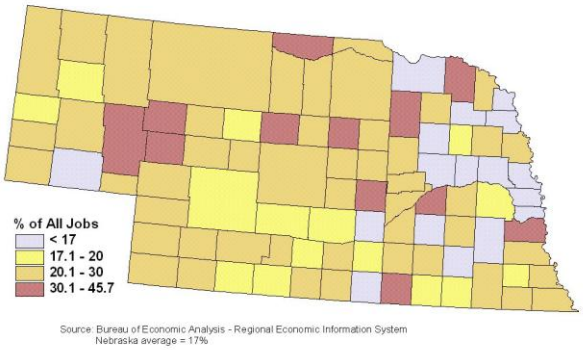
Source: U.S. Department of Commerce, Regional Economic Information System

In this paper, non-metropolitan counties have been further classified according to the size of their largest community and population density. "Large trade center counties" include all of those with a population center of 7,500 or more. "Small trade center counties" contain a population center of 2,500 to 7,499. "Small town counties" contain no population center as large as 2,500, and "frontier counties" not only have no such population center but have an average population density of fewer than 6 persons per square mile (the traditional definition of the "frontier").

As seen in Table 1, Nebraska's more rural county groups are characterized by a higher proportion of their labor force being found in the non-farm proprietor category, offset by smaller percentages of wage and salary jobs. Farm proprietors are of course also more frequently found in more rural counties, but as we have seen their numbers are decreasing.

In general the relative importance of non-farm proprietors is increasing in all parts of the state while the relative importance of wage and salary and farm proprietor jobs slowly declines, with that trend being most pronounced in the most rural areas of the state. This pattern is seen again in Figure 1, which depicts the relative distribution of non-farm proprietor jobs in map form.

Figure 1
Non-farm Proprietorships as a Percent of All Jobs
Nebraska Counties: 2006



Growth in Total Earnings is Considerably Slower

While non-farm proprietor jobs may be growing more quickly than wage and salary jobs, the same can not be said for their earnings. As reported by REIS, earnings per job in Nebraska increased by 35% between 1997 and 2006 in nominal (not inflation adjusted) dollars. During the same period, earnings per non-farm proprietor job grew by 20.3% while earnings per wage and salary job increased by 42.5%. Farm proprietor incomes are generally too volatile for such comparisons (and in fact showed an actual decline when comparing 1997 to 2006), and are not included in this part of the analysis.

As seen in Table 2, despite growth in the non-farm proprietor share of the total labor market, non-farm proprietor income declined as a percentage of total income between 1997 and 2006 in all but Nebraska's Metropolitan counties. During the same period the share of total earnings generated by wage and salary jobs increased across all non-metropolitan county types, decreasing only in the metropolitan counties. Part of this change is an artifact of reported declines in farm income between those two time periods, but for this analysis it is the relative magnitude and direction of change for non-farm proprietor and wage and salary jobs that matters.

Table 2 – Percent of Total Earnings by Type of Employment

County Group (# Counties)	% of Total Earnings: Nonfarm Proprietors 1997	Nonfarm Proprietors 2006	Wage and Salary Workers 1997	Wage and Salary Workers 2006
Nebraska (93)	9.8%	10.4%	85.3%	88.3%
Metropolitan (9)	9.2%	10.8%	89.9%	88.9%
Non-Metropolitan (84)	11.0%	9.3%	76.8%	86.8%
Large Trade Center (13)	9.2%	8.1%	85.0%	90.3%
Small Trade Center (21)	12.6%	10.1%	69.0%	83.2%
Small Town (22)	13.6%	12.3%	60.0%	76.2%
Frontier (28)	16.3%	15.0%	68.7%	86.6%

Source: U.S. Department of Commerce, Regional Economic Information System

Earnings per Job Declining

The problem with growth in non-farm proprietor employment outside of Nebraska's Metropolitan counties is that earnings per non-farm proprietor job have actually declined since 1997. Moreover, that decrease in average earnings is relatively greater in the most rural portions of the state where the trend is least likely to be offset by growth in the higher earnings of the wage and salary labor force.

This phenomenon is clearly portrayed in Table 3, where it can be seen that in the most rural portions of the state the rapidly growing non-farm proprietor labor force has been characterized by declining earnings per job, while the slower growing or even shrinking wage and salary labor force has been characterized by an increase in the earnings of the average job holder.

Making this scenario even more problematic is the fact that these statistics are based on nominal dollars. Had we corrected for inflationary factors the rate of decline in non-farm proprietor earnings would be even more dramatic.

Not Keeping Pace with Wage and Salary Growth

Non-farm proprietor earnings declined as a proportion of wage and salary earnings statewide between 1997 and 2006. In 1997, the average non-farm proprietor reported earnings equal to 64.9% of the average wage and salary worker. By 2006, the average non-farm proprietor reported earnings equal to 54.8% of the average wage and salary worker.

Table 3 – Percent Change in Jobs and Earnings Per Job: 1997 – 2006

County Group (# Counties)	% Change: 1997 - 2006 Nonfarm Proprietors Jobs (# of Jobs)	Nonfarm Proprietors Average Earnings*	Wage and Salary Workers Jobs (# of Jobs)	Wage and Salary Workers Average Earnings*
Nebraska (93)	31.3% (+50,132)	20.3%	8.8% (+79,404)	42.5%
Metropolitan (9)	37.5% (+29,698)	35.9%	11.0% (+61,106)	41.4%
Non-Metropolitan (84)	22.5% (+20,434)	-13.4%	3.2% (+17,798)	47.5%
Large Trade Center (13)	29.7% (+11,183)	-4.4%	6.6% (+13,611)	41.1%
Small Trade Center (21)	19.0% (+4,102)	-13.0%	6.2% (+4,778)	47.0%
Small Town (22)	22.2% (+3,198)	-14.5%	0.5% (+194)	46.6%
Frontier (28)	26.7% (+1,951)	-17.7%	-4.1% (-785)	49.3%

* NOT constant dollars
Source: U.S. Department of Commerce, Regional Economic Information System

For rural portions of Nebraska, poor growth in non-farm proprietor earnings in comparison to wage and salary earning is especially apparent. As seen in Table 4, among Nebraska's most rural counties (frontier counties), the average non-farm proprietor's earnings declined from 62% of average wage and salary earnings in 1997 to only 34.2% of average wage and salary earnings in 2006.

Table 4 – Average Earnings of Non-farm Proprietors as a Percentage of Average Wage and Salary Earnings

County Group (# Counties)	Non-farm Proprietor Earnings/Wage and Salary Earnings 1997	2006
Nebraska (93)	64.9%	54.8%
Metropolitan (9)	71.9%	69.2%
Non-Metropolitan (84)	61.1%	38.6%
Large Trade Center (13)	59.6%	40.4%
Small Trade Center (21)	66.0%	39.1%
Small Town (22)	65.8%	38.4%
Frontier (28)	62.0%	34.2%

Source: U.S. Department of Commerce, Regional Economic Information System

What is Being Measured

According to data from REIS, the 71 most rural counties in Nebraska added a total of 1,732 jobs to their combined economies between 2005 and 2006. This growth in jobs was comprised of 2,624 new non-farm proprietor jobs coupled with losses among both farm proprietor jobs (-381) and wage and salary jobs (-511). Thus, the total net growth in jobs for those counties was entirely accounted for by growth in non-farm proprietor employment. In fact, the increase in non-farm proprietor jobs was equal to 151% of total job growth. As demonstrated in Table 5, this is the case for all but the Metropolitan and large trade center county groups.

Between 1997 and 2006, a total of 39 Nebraska counties experienced declines in wage and salary employment, accompanied by growth in non-farm proprietor employment. During the same period, only eight counties experienced the opposite pattern, with wage and salary employment growing while non-farm proprietor numbers declined. Five counties saw declines in both.

Table 5 – Change in Non-farm Proprietorships as a Percentage of Change in Total Jobs

County Group (# Counties)	% of Total Change 2005 - 2006
Nebraska (93)	54.3%
Metropolitan (9)	43.5%
Non-Metropolitan (84)	134.8%
Large Trade Center (13)	48.6%
Small Trade Center (21)	174.8%
Small Town (22)	118.4%
Frontier (28)	181.2%

Source: U.S. Department of Commerce, Regional Economic Information System

Historically, we have looked at non-farm proprietorships as an indicator of entrepreneurial activity, which it undoubtedly is. In rural places, growth in non-farm proprietor numbers has been explained in two ways. First, we have seen non-farm proprietor growth as an entrepreneurial activity in which rural residents seek to augment their incomes through the creation of small businesses. Second, we have seen such growth as an adaptation to declining farm numbers and a response to the desire among displaced farm proprietors and their offspring to remain in their home communities.

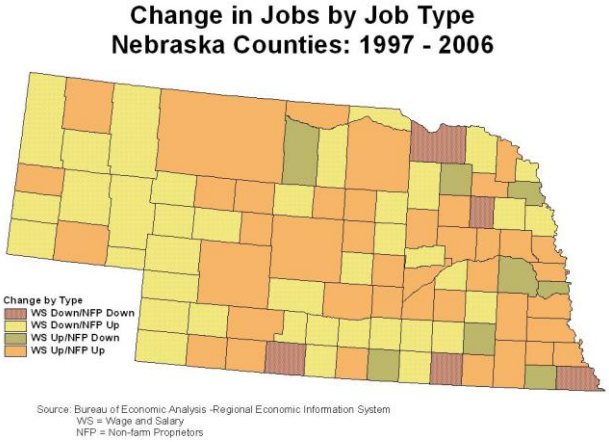
However, these data also suggest that we may be looking at a fundamental change in the relationship between employers and employees. This explanation is rooted in the way in which one becomes classified as a non-farm proprietor in the first place. Essentially, anyone who files a Federal IRS Schedule C fits the definition of a sole proprietor. But, in this case, sole proprietor and business owner are not necessarily synonymous. In 2006, of the 121,593 Nebraskans who filed such returns, 80% claimed wage, salary and tip income through self employment, accounting for 63% of all sole proprietor income. This represents a 1% increase over 1997 in both filing and income percentages.

It is likely that some percentage of these self employed wage and salary earners do not fit the common definition of small business owners, but rather are “independent contractors” who are indeed working for a paycheck, but not as traditional employees. These workers receive a W2 form which identifies them as “statutory employees.” Such jobs, in which payments for social security along with health and other benefits are the exclusive obligation of employees, are in fact fairly common. They would, for instance, describe many if not most home based telemarketing and information processing jobs. These data suggest the possibility that growth in such jobs is having an effect in Nebraska, and especially in rural portions of the state.

These data do not necessarily demonstrate a “problem” in replacing traditional wage and salary jobs with self employment and contracts. Indeed, the availability of such jobs certainly serves to mitigate (at least partially) the economic and demographic effects of declines among the

farm proprietor population. However, students of Nebraska's labor force should be cautious in assuming that all non-farm proprietors represent conventional entrepreneurs. At the least it is unlikely that all of these individuals are, will become or even intend to become employers in their own right, as a traditional reading of non-farm proprietor numbers would optimistically suggest.

Figure 2



Having said that, it is also the case that those individuals who comprise the non-farm proprietor population are certainly in some way entrepreneurial, regardless of how they are remunerated. They have chosen to base their future on their own productivity rather than tie it to the productivity of specific employer, and their numbers are growing.

If non-farm proprietors in fact include significant numbers of independent contractors, then educational programs aimed at small businesses might well be beneficially expanded to include the general population of self employed persons. If that population is to continue growing, it makes good sense to invest in the skills that will ensure their success. Fortunately, several programs exist within Nebraska state agencies and the University of Nebraska that either currently fit or could be adapted to fit the requirements of independent contractors as well as small businesses. Knowing more about the motivations and aspirations of independent contractors would strengthen our ability to encourage their economic success.

Whether they are seen or even see themselves as small business owners or independent contractors, the growing importance of non-farm proprietors in Nebraska's economy and especially in our rural economy merits additional attention.

References

U.S. Bureau of Economic Analysis, Regional Economic Information System. County Income and Employment Summary, 1997 – 2006. Retrieved in April, 2007 from http://www.bea.gov

Bureau of Business Research [BBR]
Specializes in …

- ➔ Studies of economic competitiveness
- ➔ Economic modeling and forecasting
- ➔ Labor market analysis
- ➔ Fiscal analysis
- ➔ Policy analysis

For more information on how BBR can assist you or your organization, contact us (402) 472-3318; send email to: ethompson2@unl.edu; or visit the website at: http://www.bbr.unl.edu

Copyright 2007 by Bureau of Business Research, University of Nebraska-Lincoln. Business in Nebraska is published in four issues per year by the Bureau of Business Research. Inquiries should be directed to Bureau of Business Research, 347 CBA, University of Nebraska–Lincoln 68588-0406. See the latest edition of Business in Nebraska at http://www.bbr.unl.edu

The University of Nebraska-Lincoln does not discriminate based on gender, age, disability, race, color, religion, marital status, veteran's status, national or ethnic origin, or sexual orientation.

Our Thanks …

The Bureau of Business Research is grateful for the help of the Nebraska Business Forecast Council. Serving this session were

- John Austin, Department of Economics, UNL;
- Chris Decker, Department of Economics, UNO;
- Tom Doering, Nebraska Department of Economic Development;
- Ernie Goss, Department of Economics, Creighton University;
- Bruce Johnson, Department of Agricultural Economics, UNL;
- Lisa Johnson, Lincoln Partnership for Economic Development;
- Ken Lemke, Nebraska Public Power District;
- Franz Schwarz, Nebraska Department of Revenue;
- Scott Strain, Greater Omaha Chamber of Commerce
- Eric Thompson, Bureau of Business Research UNL;
- Keith Turner, Department of Economics, UNO (emeritus)

University of Nebraska Lincoln
BUREAU OF BUSINESS RESEARCH
347 CBA
LINCOLN NE 68588-0406
http://www.bbr.unl.edu

Nonprofit
U.S. Postage
PAID
Permit No. 46
Lincoln, Nebraska