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## To Boost the Economy, Help the Self-Employed

Despite their importance to our economic health, we impede nearly one-third of our workforce by making so-called freelancers, contractors, and consultants play by outdated rules

By [Richard Greenwald](#)

Noelle Stary's two-year-old marketing consultancy will see revenues of nearly \$100,000 this year, yet she's worried about the firm's survival. Stary works from a shared office in central New Jersey, where she faces typical start-up hurdles such as tightfisted bankers and slow-paying customers. A bigger problem, though, is that she can't tap resources such as tax incentives or labor laws that benefit larger businesses. "Every new step of growth is almost always more complicated than the step before," says Stary, 29, a former manager at a small ad agency in Manhattan.

Stary is one of over 40 million self-employed—31 percent of the U.S. labor force—who form an increasingly important part of the economy. The Great Recession is accelerating the trend. In December, an American Staffing Assn. survey of 10,000 employers showed that the number of temporary workers assigned to companies by agencies such as Manpower ([MAN](#)) and Kelly Services ([KELYA](#)) has jumped 19 percent over the past year. By 2019, the self-employed will account for 40 percent of all American workers, according to the U.S. Bureau of Labor Statistics.

Despite their increasing importance to the economy, the growth of these freelancers' businesses is stymied by our tax and labor codes. The American employment-based benefits system dates to World War II, when wage freezes made it hard for large companies to attract quality workers. To retain employees—especially skilled men—corporations such as General Motors ([GM](#)) and U.S. Steel ([X](#)) began to subsidize health-care coverage, retirement plans, and vacations. The strategy expanded after the war as unions locked in benefits with long-term contracts. This system helped U.S. workers until the 1980s, when globalization started to make large employers less dependent on full-time domestic employees.

### FREELANCERS SHOULDER ALL RISKS

Today, the fast-growing freelance workforce is shouldering costs and risks that were formerly borne by companies. The self-employed can't get unemployment insurance or file for workman's compensation. They aren't covered by most federal or state employee labor laws, leaving them little recourse but to spend precious time and money in small claims court when they aren't paid.

Worse, the self-employed are taxed as if they're medium-sized employers, but [they can't deduct health-insurance premiums and other expenses](#) that big companies can deduct. Consultants on average earn about a third less than people in similar jobs at companies, according to the IRS, but they pay both the employer and employee shares of Social Security and Medicare, which totals 15 percent of their income. About three-quarters of self-employed Americans work in cities that tax unincorporated businesses at an average rate of 4 percent of profits.

Health-care coverage may be the biggest roadblock. For years, most freelancers were locked out because they couldn't afford the high premiums. Now, despite its promise, the health-reform law isn't improving access to care for all

Americans. Millions like Stary—who says her health-care strategy is to "hope for a year of good health"—will have only the option of paying into a health-care savings plan. Such a plan means little if the cost of care exceeds the new law's payout ceiling of \$6,000 for individuals or \$11,000 for families. Stary, like most freelancers, still can't afford health insurance.

### **RESTORE FREELANCER PREMIUM DEDUCTIONS**

There are plenty of remedies. To start, Congress should reenact the Small Business Jobs Act of 2010. This piece of the stimulus, which expired at the end of last year, allowed freelancers to fully deduct their health premiums before Social Security and Medicare taxes are assessed. Then federal labor law should be amended to cover nonpayments to consultants, who would then have recourse through the U.S. Labor Dept., rather than have to sue in small claims court. This would level the field by shifting the burden of proof from the freelancer to the company charged with nonpayment. Moreover, let's encourage cities to rethink that unincorporated business tax for freelancers, at least when they're starting up businesses.

Noelle Stary and the millions of self-employed shouldn't have to struggle so hard in our new economy. Since these individuals represent the single greatest source of job creation today—a condition likely to continue in coming decades—supporting them will only strengthen the recovery. Easing their burdens might just help them make the leap from struggling solo businesses to healthy small employers, thereby creating further jobs.

*Richard Greenwald is dean and also serves as a professor of history and social science at St. Joseph's College in Brooklyn, N.Y. His next book is *The Death of 9-5: Permanent Freelancers, Empty Offices and the New Way America Works* (Bloomsbury, 2012).*