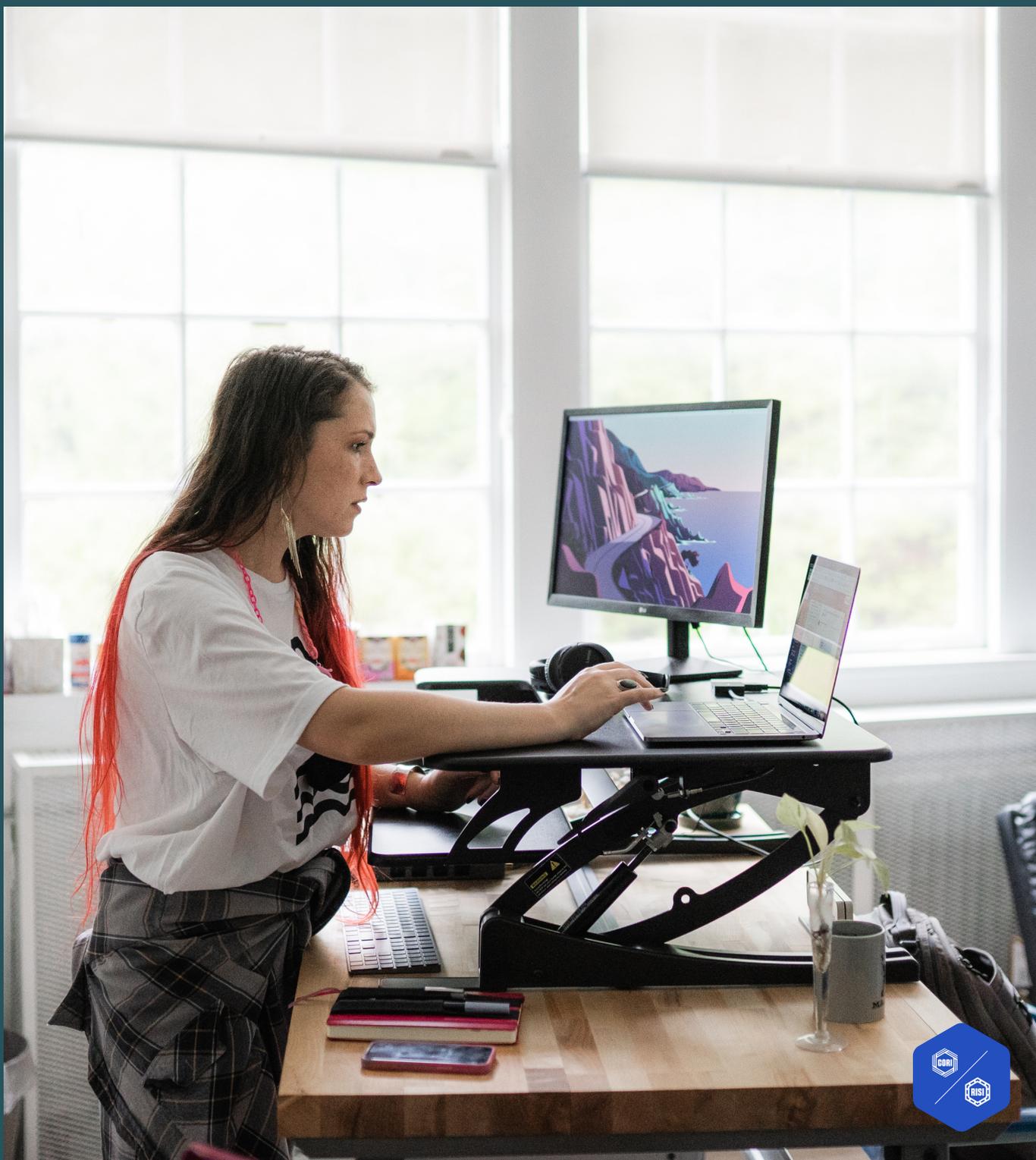


THE GROWING GIG ECONOMY IN RURAL AMERICA

A REPORT BY THE CENTER ON RURAL INNOVATION
AND RURAL INNOVATION STRATEGIES, INC.



BUILDING INNOVATION IN RURAL AMERICA
FROM THE GROUND UP

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(Kyle and Shannon James; Portsmouth, Ohio; courtesy of the Center on Rural Innovation)

INTRODUCTION

Wage and salary employment has been the historic backbone of the U.S. economy, an arrangement in which workers are employed by a business or organization, and receive a wage or salary and often benefits like healthcare. Yet, within the economy there are also workers who engage in independent contracting, which is typically work that is project- or task-specific, time-limited, and does not come with a long-term commitment to future employment. Traditionally, independent contractors have been concentrated in industries like construction, professional services, and healthcare. For some, independent contracting is the primary source of employment, while for others it is used as a way of increasing income alongside wage and salary employment.

Across the country and rural America, independent contracting and self-employment is growing at a much faster rate than traditional wage and salary employment. This growth has corresponded with the rise of technologies that have dramatically reduced the costs of connecting independent workers with buyers looking to employ their services. These technologies enable workers and businesses to engage in short-term, project-based, contractual employment at increasing scale. In recent years, there has been increased interest in and concern about this trend, which is often referred to as the freelance or gig economy. Current trends suggest that gig employment is likely to continue to grow and could be a central feature of the future of work.

Economic development leaders — including those in rural America — tend to focus on wage and salary employment alone. Doing so overlooks a significant part of rural economies and the growing trend of gig-based work facilitated by technology platforms. The following brief explores the growth of gig and independent work, considers its implications for rural America, and shares recommendations that we hope rural economic and workforce development leaders will consider when developing economic and workforce development programs and strategies. While we do not recommend that rural areas build economic development strategies based solely on gig- and contract-based work, we do argue that it is critical to incorporate these dynamics into future planning. Our recommendations in the brief are suggestive, not prescriptive. The future is still unknown, which means strategies need to be adaptable, and leaders need to be focused on recognizing trends on the horizon so that they are in a position to respond proactively.



TECHNOLOGY, INDEPENDENT WORK, AND THE GIG ECONOMY

As an emerging trend, there are many definitions of what constitutes the gig economy. For the purposes of this brief, we consider the gig economy as representing the economic activity facilitated by technology platforms that enable individuals to leverage personal assets and resources to generate value and income through independent work. Personal assets used in the gig economy can include physical assets like cars (e.g., Uber or Lyft), homes (e.g., AirBnB), products (e.g., Etsy), as well as human capital like specialized skills (e.g., Upwork).

Gig economy platforms are powerful because they shift the costs associated with a buyer purchasing a good or service from an independent seller. To understand technology's effect, it is useful to consider the case of a business. When a business needs additional staff to complete a project or task, it can consider two employment options: independent workers, or wage and salary employees. Often, the decision on which structure to pursue for a given project or task comes down to differences in costs and benefits.

Independent workers offer several benefits to businesses compared to wage and salary employment. For example, this type of work arrangement offers greater flexibility, enabling businesses to increase or decrease their staffing to match the market demands, or the needs of a specific project. This can reduce long-term risks or financial obligations for businesses. Independent contractors can also be brought on to provide outside expertise, complete a highly specific task, or offer a unique skill set required at a given time. Yet, utilizing contract work can have high transaction costs. A business – or individual – that wants to utilize independent workers for a project-based time-limited project has to find potential workers, vet their quality, assess the estimate of the costs, negotiate on the scope of work, and be prepared to take action to enforce the contract if there is disagreement.

Technology platforms are shifting this equation by lowering the transaction costs for buyers to utilize independent workers, driving the growth of the gig economy. While we have used a business as an example, it is important to note that many individual consumers also engage with the gig economy to purchase products or services, and the same dynamics apply.



(Courtesy Unsplash)



There are four key ways that technology platforms are reducing transaction costs around engaging independent workers:

- Reducing search costs: One of the biggest costs to utilizing contract workers is searching for a contractor or independent workers when you need them. For example, imagine searching for potential contractors without using the internet. One would have to work through personal networks, or use a phone book, reaching out to each one by phone to check availability. This search would be time intensive, and if the need relates to a specialized skill the search might not yield results if a qualified contractor is available in the local market. Gig economy platforms aim to reduce these costs to meet the needs of buyers on-demand by building vast networks of sellers and using search tools and algorithms to connect them with buyers. For example, the e-commerce platform Etsy connects buyers with a network of more than 4.3 million sellers, many of whom produce customized, on-demand products. By allowing buyers to quickly search for and hire producers, Etsy significantly reduces the search costs, expanding demand for these services and opportunities for sellers.
- Standardizing and breaking down tasks into component parts: Gig work is conducive to jobs that can be standardized into a set of tasks. Yet, it can be costly and time-consuming to break down or standardize a project, making it difficult for a buyer to utilize gig workers. Gig economy platforms streamline the process of taking a task and breaking it down into smaller, discrete tasks that can be completed by gig workers. For example, the Amazon Mechanical Turk platform helps users outsource projects that require many discrete tasks to a network of remote contract workers. Suppose that a community nonprofit wanted to invite leaders from 100 businesses in its area to an event, but it did not have the businesses' addresses. Collecting all of the addresses could be a time-intensive project for one person to complete, but the Amazon Mechanical Turk crowdworking platform could help get the job done quickly by outsourcing the work to a network of gig workers. The nonprofit would submit its list of business names to Amazon Mechanical Turk which would break them into a set of small, discrete tasks – in this case, searching for the business address – and then distribute the tasks to dozens of workers who are paid for each business address they find and enter it into a spreadsheet, dramatically reducing the time to complete the project.
- Assessing the quality and fit of potential gig workers: One of the most significant costs to hiring or contracting with any worker are the costs associated with determining quality and fit. For wage and salary workers, there is a one-time cost associated with the interview process in which the candidate and employer can mutually assess each other's qualities and the fit between candidate and job. This cost is spread over the tenure of the employee, and generally encompasses a small share of their total costs. These costs are also present with contract workers, but



given the short-term nature of the work arrangement, they constitute a much larger share of the contract's total cost. Gig economy platforms seek to reduce the recruiting costs by assessing and surfacing insights on quality, qualifications, and fit. For example, on the freelancing platform Upwork, clients and freelancers rate and share feedback based on their work experience. This data is used to create a "Job Success Score" for each freelancer which appears on their profile describing their qualifications, helping clients quickly assess quality and qualification. Feedback left by freelancers for clients is public, as well as the feedback clients leave for freelancers they have worked with in the past. This data helps a freelancer assess the fit of working with a particular client.

- Facilitating transactions and settling disputes: A risk for contract workers is that they will not be paid, and a risk for buyers is that the finished product will not meet the specifications of the contract. Enforcement of a contract can be costly for both sides. Gig ecosystem platforms seek to reduce these costs by facilitating transactions and settling disputes. For example, the freelancing platform Fiverr requires buyers to pay Fiverr in advance for a project. When the project is marked as completed, payment funds are assigned to the freelancer's Fiverr account, with a 14-day holding period to ensure buyer satisfaction. When there are disputes between buyers and freelancers, Fiverr offers recommended steps for resolving disputes. If those are not successful, customer service representatives become involved and resolve disputes.

THE GROWING GIG ECONOMY

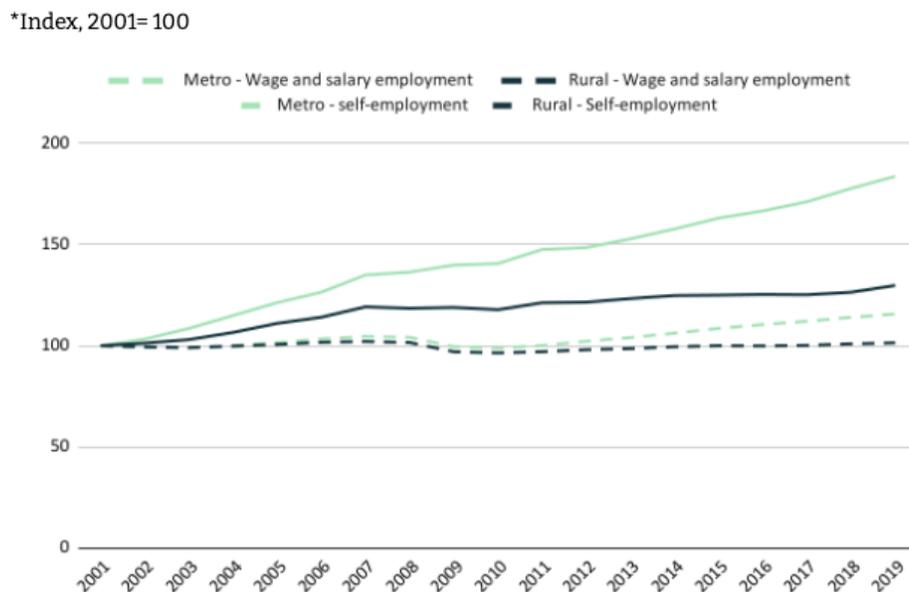
Technology platforms are changing the costs of engaging short-term, project-based, contract work — creating opportunities for both buyers and contractors — leading to establishment and growth of the gig economy. Given that this is still an emerging work arrangement, data on gig employment facilitated by technology platforms is highly limited. On the high end, industry leader Upwork estimated that as much as 36% of workers engaged in freelance work in 2020, although their definition is broad and is not limited just to work facilitated by tech platforms. On the low end, the Bureau of Labor Statistics (BLS) estimated in 2018 that gig workers who use tech platforms to find work account for just 1% of the workforce, although this estimate has been disputed by the U.S. Government Accountability Office which has since requested that the BLS redo their analysis, highlighting the challenges in measuring this segment of the economy.

What we do know is that self-employment — a proxy for the gig economy — has been rising both nationally and across rural America. Self-employment includes full-time and part-time workers identified as self-employed, independent contractors, freelancers, and gig workers. In 2019, self-employment accounted for 22% of employment in rural America, compared to 18% in 2001 (BEA).



Figure 1 shows a comparison between metro and non-metro wage and salary employment and self-employment from 2001-2019. During this span, self-employment in rural areas increased by 30%. Over that same period, traditional wage and salary employment grew by just 1%. This remarkable difference illustrates the growing role of self-employment in rural areas. This rise in rural self-employment likely reflects both an increase in necessity-based self-employment to offset lagging wage and salary employment opportunities, and an increase in opportunistic self-employment as workers expand their options through part-time and full-time contract work. The contrast between the growth of rural self-employment and rural wage and salary employment emphasizes the need for rural economic development leaders to incorporate self-employment, contract, and gig work into regional strategies.

**FIGURE 1:
METRO AND RURAL WAGE AND SALARY EMPLOYMENT AND NON-FARM
SELF-EMPLOYMENT (2001-2019)**



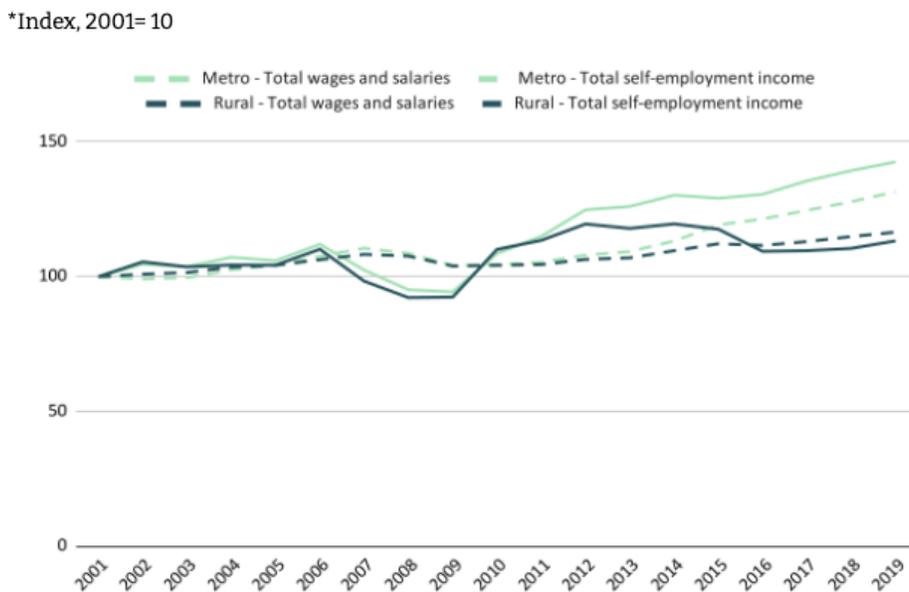
(Source: Bureau of Economic Analysis)

In metro areas, the growth in self-employment has been even more dramatic. Between 2001 and 2019, self-employment grew by 84% in metro counties, compared to just 15% growth in wage and salary employment. While the growth of self-employment in metro areas exceeded that of rural areas from the beginning of the period, there is a notable divergence which begins in 2007. This roughly corresponds with the launch of several key gig economy platforms, like Grubhub (2004), AirBnB (2008), Uber (2009), and Fiverr (2010). Gig economy platforms are generally founded as tech startups, and are thus under pressure to scale their user base rapidly. To do so, they often launch in large metro areas. As a result, rural workers often learn about and adopt gig economy platforms later than metro workers, or they can be excluded entirely by the platforms if they involve location-based work.



While self-employment was much more stable than wage and salary employment during the Great Recession, income from self-employment was quite volatile. From 2006 to 2009, total self-employment income fell by 18% in both rural and metro areas (Figure 2). This corresponds with differences in how workers and businesses respond to recessions. From a worker perspective, some existing contract workers stop work during a recession due to loss of business, while wage and salary workers who have lost a job become contractors to offset lost wages and salaries. This would explain the positive growth observed in self-employment during this period. From a business perspective, one advantage of utilizing contract workers is that it offers staffing flexibility, allowing them to retain more employees during a recession. Thus, businesses are likely to cut spending on contractors during a recession, causing total self-employment income to fall. The opposite of these dynamics explains the quick recovery of self-employment earnings at the end of the Great Recession – as businesses recover from an economic downturn, utilizing contract workers can be a faster and more flexible way of scaling up the workforce compared to hiring wage and salary workers. Over the whole period of 2001 to 2019, total self-employment income in rural America grew by 13% and accounted for 12% of total non-farm work-related income in 2019.

**FIGURE 2:
NON-METRO AND METRO WAGE AND SALARIES AND NON-FARM SELF-EMPLOYED
INCOME (ADJUSTED FOR INFLATION, 2019 DOLLARS)**



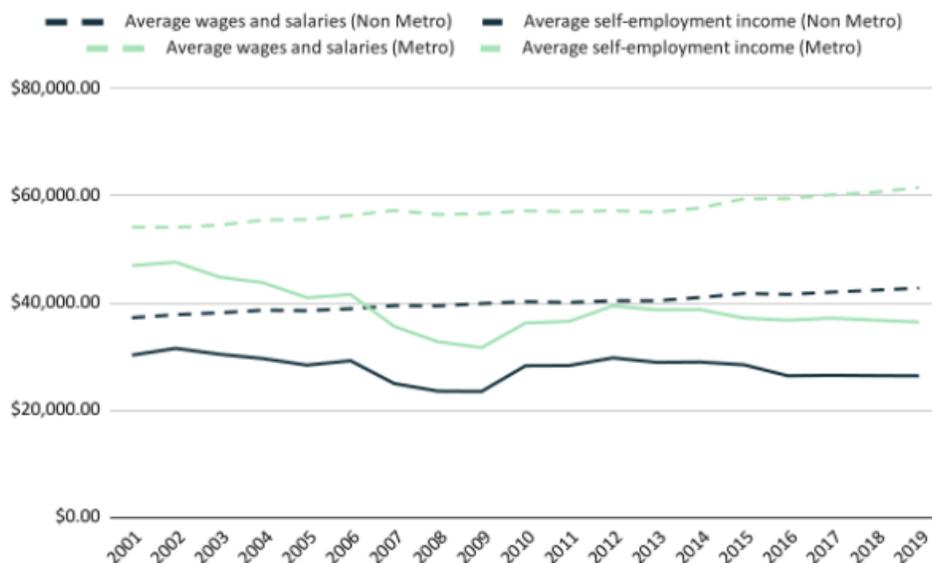
(Source: Bureau of Economic Analysis)

Considering the growth in rural self-employment and self-employment income together suggests the possibility that there are an increasing number of rural workers engaging in part-time contract work. This is apparent when considering average income from self-employment (Figure 3). Since 2001, average income from self-employment has fallen in both rural and metro areas. It could be tempting to interpret the decline in average income from self-employment data as suggesting that self-employment is becoming a less lucrative employment option.



We would caution against this interpretation, as the data is also consistent with the growth of gig economy platforms that aim to attract independent and contract workers who are interested in flexible, part-time work. It is possible that the income earned by full-time contract, freelance, and gig workers is stable or growing as an influx of part-time gig workers drives down the average.

**FIGURE 3:
METRO AND NON-METRO AVERAGE NON-FARM SELF-EMPLOYMENT INCOME AND
AVERAGE WAGES AND SALARIES (ADJUSTED FOR INFLATION, 2019 DOLLARS)**



(Source: Bureau of Economic Analysis)

While we do not yet have the detailed data we need to get a full picture of the gig economy in rural America, a few things are clear:

- Self-employment, which includes contract, freelance, and gig work, is growing at faster pace than wage and salary employment and becoming a larger part of the rural economy. Yet, this segment of the economy is often overlooked and not considered in rural development strategies.
- Gig economy platforms are growing in rural areas, with the e-commerce platform Etsy providing some perspective into this trend. The platform has grown rapidly from just over 1 million sellers in 2013 to more than 4.4 million in 2020, of which more than 75% combine income from Etsy with other sources. This growth has been disproportionately driven by rural areas. In 2013, there were 150,000 rural sellers on the platform, accounting for 15% of all sellers. By 2020, there were more than 626,000 rural sellers, accounting for 24% of all sellers – exceeding the share of the population living in rural areas. Etsy demonstrates that the growth of economy platforms can reach rural users, and speaks to the need for better data to understand the underlying dynamics of the gig economy in rural America.



- In the limited research that has been conducted on rural freelancing, data suggests that when rural workers do utilize gig economy platforms to engage with freelance employment, they are more highly skilled, complete more projects, and earn more than their metro counterparts. Many rural workers accessing gig economy platforms are drawn to this form of labor participation because it expands the market for their specialized skills beyond their local economy.

THE OPPORTUNITY AND RISKS OF GIG WORK



The growth in self-employment suggests that workers are increasingly seeking out the benefits of this work arrangement. One of the most commonly cited benefits is flexibility. This flexibility could include working outside of a full-time wage and salary job to earn extra money, or the flexibility to earn income part-time while balancing other priorities like going to school or caregiving. One study found that over 75% of freelancers said that freelancing offers them the flexibility to serve as a family caregiver, and over 65% said it gives them the flexibility required for their personal, mental, and physical health.



Gig work can also offer flexibility in terms of location, which can be beneficial for rural residents finding difficulty with local employment options aligning with their skills. While some gig economy jobs are location-specific, like driving for a ride-hailing or delivery service, many gig economy jobs are remote. Freelance platforms like Upwork and Fiverr actively market themselves as platforms for people interested in working from home. These jobs tend to be higher-skilled and digitally based. Freelance work — like remote work — can create opportunities for rural residents to expand their work and career options while remaining in a rural community. Popular freelance jobs range broadly in terms of skills required and length of the project, including jobs like copywriting, translation, website development, digital marketing, and software development. It can be easier to find part-time freelance work in many of these fields, making it an attractive option for workers that want to build experience to increase their competitiveness for full-time remote work employment.

The gig economy can also enable people to leverage their personal assets to generate income, like renting out a spare bedroom or becoming a part of a ride-sharing platform. By leveraging their capital assets to provide a service, people are able to earn extra income.

(Courtesy Unsplash)



These types of positions generally have low barriers to entry and enable more people to take on a source of income. Research on the economic impact of gig economy platforms is very limited. Among the limited research that is available, a recent study exploring the impact of the introduction of Uber in urban areas found that the service led to increased labor participation and decreased unemployment of those below the poverty line. Yet, Uber drivers are likely to earn less than the minimum wage in their area, with the vast majority using the platform to earn supplemental or very part-time income.

Finally, freelance work that leverages a high degree of specialized digital skills can generate high incomes for competitive workers. The freelance platform Upwork's most in-demand skills include:

- Machine learning (average rate of \$80 - \$120 per hour)
- Automation (\$40 - \$110 per hour)
- Data analysis (\$40 - \$100 per hour)
- Mobile application development (\$40 - \$100 per hour)
- Video production (\$40 - \$80 per hour)
- Digital marketing (\$25 - \$75 per hour)

Freelance workers with these skills can earn well above median wages in most rural areas. It is likely that as remote work expands, freelance opportunities will also expand, both in terms of the number of opportunities as well as the diversity of different types of projects that buyers look to complete with freelance talent.

While offering many benefits, workers bear greater risk in gig economy work compared to more conventional wage and salary employment. One of the biggest issues is that independent contractors working in the gig economy do not receive the same type of benefits that employees do – like health insurance and paid time off – and prior to the pandemic were not eligible for unemployment benefits. For those who choose gig or freelance work as a secondary job, or receive benefits through a spouse, these issues may be less of a concern, but those who work in the gig economy as their primary employment and do not have access to benefits through a spouse might face unique challenges that wage and salary workers do not face. While data is limited, surveys have found that roughly 40% of freelance workers use gig work to supplement other income, and 30% of freelance workers depend on gig work income to fulfill their basic needs. In addition, for many, gig or contract work may be the only available employment option, although they would prefer the stability and benefits of full-time wage and salary employment. In such cases, gig economy work might serve as an important bridge to full-time wage and salary employment, but it does not address the systemic barriers to full-time employment that some workers face.

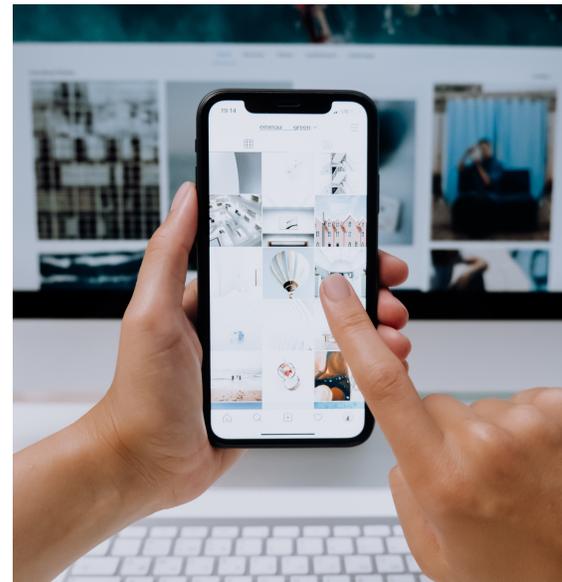
While gig work is known for its flexibility and low threshold for entry, it can come with unexpected costs related to procuring work, establishing a business entity like an LLC, dealing with legal issues, and filing taxes on their own. While gig platforms are noted for the flexibility they provide to workers, they can also create new constraints. Stringent guidelines set by platforms for when and how workers can engage with customers, what they can charge, and other factors erode the autonomy of the gig work.



This concern has led to legal challenges against gig work platforms like Uber and Lyft on the grounds that the control that these platforms exert undermines the independent contractor status of the workers who participate on the platform, and that workers who use the platform should therefore be treated as employees and receive the benefits and protections of other employed workers,

Workers in the gig economy who do not have specialized skills may end up making less than those doing the same job in a wage and salary environment. For example, Uber drivers earn the equivalent of an hourly wage that is less than 90% of all wage and salary wage workers in the U.S., partially due to the fact that the Uber platform takes about one third of what passengers pay per ride. Earnings can also be driven by competition, leading gig workers to underbid projects in order to receive a job, in part because platforms expand the supply of digital workers available to potential employers or firms. Additionally, income from self-employment can all be volatile, as we noted in the previous section, creating risks for gig workers during an economic downturn. Finally, gig workers are more vulnerable to not receiving payment for their work. Nearly 30% of gig workers report that they have failed to receive payment for work they completed through an online platform. To address these issues, state local governments are taking action to create more protections for gig workers. In 2017, New York City passed a “freelance isn’t free” legislation to protect gig workers from wage theft, with similar legislation proposed in Massachusetts.

Finally, there are potentially costs incurred by the broader community resulting from increased activity on gig economy platforms. For example, research has shown that the growth in properties listed on Airbnb in an area increases housing values and cost, and also increases investment in residential and retail renovations. While primarily studied in an urban context, rural areas that are rich in natural amenities could experience similar impacts. While creating benefits for property and business owners, increased gig economy activity related to short-term rentals can have unintended effects by increasing pressure on the housing market, displacing local residents not participating in the gig economy, and reducing access to affordable housing for the workforce.



(Courtesy Unsplash)





(Courtesy Unsplash)

IMPLICATIONS FOR RURAL AMERICA

Job creation is a central goal of economic development, yet economic development strategies tend to only consider one type of employment — wage and salary employment. This narrow focus on job creation overlooks the fact that self-employment, which includes independent contracting and gig work, is growing at a much faster pace than wage and salary employment in rural America. In 2019, self-employment accounted for 1 in 5 rural jobs.

Technology is making it easier for workers and businesses to engage in short-term, project-based, contracted arrangements. As a result, we expect to see gig work continue to rise into the future. Gig work can create opportunities for rural workers through more flexible work schedules, the ability to work from home, and by expanding opportunities to leverage specialized skills. For some, gig work can be a lucrative, full-time employment option, while for others it can provide an opportunity to work for those who cannot work full-time, or allow workers to supplement their income from full-time wage and salary employment. As we have noted, there are risks associated with work in the gig economy for workers, and the gig economy can create unintended negative impacts for communities. These platforms and the regulation that surrounds them continues to evolve, but the issues related to the gig economy should not be overlooked.

Given its growing role in rural employment, rural economic development leaders should adopt a more intentional approach to integrating contract, freelance, and gig economy work into their economic development strategies. This begins with understanding the gig and self-employed workers in your community today. When considering how gig work fits into an economic development strategy, it is critical to consider that people come to gig work with different goals. There are many people in rural America who desire the flexibility and options offered by the gig economy, and would benefit from increased access to the training or support required to take advantage of these opportunities. Conversely, there are people who work in the gig economy because they have been forced to, lacking options for wage and salary employment. These workers could also benefit from additional support to help them thrive in the gig economy, as well as support that helps them find employment in a wage and salary job which offers the benefits and stability they desire. It is critical to understand who the self-employed and gig workers are in your community to design strategies and support systems aligned with their goals.



We recommend that rural leaders consider the following when developing economic and workforce development programs and strategies:

- Understand the state of contract-based employment, freelance employment, and self-employment in your region, and incorporate it into your economic tracking and strategy. To incorporate contract, freelance, and gig employment into your strategy, you first need to understand it. While data on the gig economy itself is scarce, the Bureau of Economic Analysis provides estimates for the level of self-employment and income earned from self-employment for all U.S. counties. This data can help economic development leaders understand both the degree to which workers in their communities are already engaged in self-employment, and the trends in self-employment over time. Collecting data using surveys or focus groups from self-employed workers can surface local insights about what they do, what their goals are, and how economic development efforts can address their needs.
- Ensure access to broadband so that gig workers can find and deliver work using technology platforms. While broadband is critical for all contract-based work, like construction, the growth in new gig and freelance work is likely to be enabled by technology-based platforms. This means that workers will need broadband access to find these opportunities, and in most cases, deliver the work. This is especially true for high-paying tech-based freelance and gig work opportunities.
- Connect gig workers in tech fields to local businesses. Gig economy platforms for tech-based jobs (e.g., software development, machine learning) or tech-enabled jobs (e.g., graphic design, digital marketing, video production) connect gig workers and freelancers to job opportunities around the world. Many of these gig workers live in rural communities, but may not market their services or skills locally because they do not believe there is a local market. At the same time, local companies and businesses often outsource work in these same jobs because they do not believe there is local talent. This mismatch is a lost opportunity to connect local talent with local employers, and in doing so increase demand for local tech skills. Consider creating your own local freelance job board to help local small businesses, companies, and organizations find local talent to meet their needs in tech, graphic design, digital marketing, and other fields. Creating a job board might require training for local businesses on how to scope and design job requests so that they can take advantage of local freelance talent.
- Build training ecosystems that connect workers with the training they need to take advantage of growing opportunities in the gig economy. Many of the fastest growing jobs in the gig economy are either tech-based (e.g., software development, machine learning) or tech-enabled (e.g., graphic design, digital marketing, video production)



and require specialized digital skills. Expanding access to training in these skills will require innovative approaches. Those who work as freelancers — or who aspire to — are often left out of the traditional workforce development system because they do not align with the system’s target outcome of wage and salary employment. Thus, local training programs often only align with the skills needed for local wage and salary employment, which might be different from the opportunities offered in the gig economy. Rural leaders should work to connect local freelance workers with the training that they need. This requires an ecosystem approach, linking together micro-credential programs offered by libraries, nonprofits, and online training providers, while also working with regional postsecondary institutions to explore certificate and degree programs offerings that align with the skills needed in the growing gig economy.

- Connect gig and freelance workers with entrepreneurship support resources. Just as gig and freelance workers are often left out of the workforce development system, they are also often left out of the entrepreneurial support systems. Entrepreneurship support often focuses on either brick-and-mortar “Main Street” businesses or scalable startup businesses. Yet, gig workers — especially those engaged in work requiring specialized skills — often need many of the same resources and training as other small business owners, including support around marketing, proposal writing, client management, and project management. Rural leaders should seek to connect gig workers with local resources for small businesses, for example, by offering a special gig workers membership through the chamber of commerce, or by offering programming specifically focused on the needs of gig workers. Increasing the skills of gig workers can make them productive and increase their earnings potential.
- Create spaces, places, and programs where gig workers can meet and network. Many gig economy jobs offer the same benefits as remote work in terms of the flexibility to work from anywhere. As we noted, gig or freelance work can help aspiring remote workers build the experience required to find full-time remote employment. Yet, one drawback is that like remote workers, gig workers can experience isolation. This can be particularly true in a rural community where people are more physically distant. We recommend that those serious about considering gig work as part of an economic development develop coworking spaces as critical infrastructure. Not only do coworking spaces provide productive spaces for gig workers to work and network, they can also serve as a critical source of broadband access for those who might have limited home service. The hubs for freelance workers can also leverage online platforms to create virtual spaces for gig workers to connect when they are not able to meet in person.



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