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How Did Small Business-Owning Households Fare During the Longest U.S. Economic Expansion?

By George Haynes, Montana State University, Bozeman, MT 69715; and Charles Ou, U.S. Small Business Administration, Office of Advocacy. 2006. [29] pages. Under contract no. SBAHQ-03-M-0274

During the 1990s, the U.S. economy enjoyed its longest expansion on record. U.S. household income and wealth rose significantly during this period. This report examines how households that owned businesses fared during this boom period. Were they well-represented in the high earnings and high net worth categories? Did their wealth and income grow faster or more slowly than households that did not own businesses? Did their share of wealth and income rise or fall? This study uses the Federal Reserve Board's 1992 and 2001 Surveys of Consumer Finance to explore these trends over the period 1992-2001.

Overall Findings

The authors found that households owning small businesses were more likely to be found in the top echelons of income and wealth than households that did not own a business. However, over the course of the study period, the likelihood of being in the high income and high wealth category increased at a faster rate for non-business owning households than for households with small businesses. In addition, small business owners saw their share of aggregate household wealth decline from 42.5 percent in 1992 to 40.6 percent in 2001.

Highlights

- Business-owning households remained significantly more likely to have high incomes and high net worth than households not owning businesses. In 2001, small business-owning households were more than twice as likely to be classified as high income (57.1 percent versus 25.5 percent) and more than eight times as likely to be classified as high wealth (21.2 percent versus 2.5 percent) as households not owning a business. Households that owned more than one business had the highest probability of being classified as high income (67 percent) and high wealth (38 percent).
- By 2001 the wealth and income gap between households with and without businesses had narrowed. From 1992 to 2001, the likelihood of being in the high-income or high wealth category increased at a faster rate for households without a business than for households that owned small businesses. For households without small businesses, the chance of being in the high income category increased 42.5 percent and the chance of being in the high net worth category increased 92 percent; for small business-owning households, these figures were 24.7 percent and 61.8 percent, respectively.
- For all households, aggregate income increased by 29.5 percent and aggregate wealth by 71.0 percent over the period 1992–2001. Small business-owning households realized higher percentage changes in aggregate income than non-business-owning households (31.5 percent versus 23.6 percent). Multiple business-owning households realized the largest increase in aggregate income (45.2 percent) of any group. On the growth in wealth, aggregate wealth increased slightly more for households that did not own businesses (a 68.3 percent rate of growth for non-business owners versus 63.5 percent for business owners). Of the three groups, households with multiple businesses experienced the smallest rise in aggregate wealth, 54 percent.
- In 1992 high income households were more likely to be headed by a well-educated, married male, 35 to 54 years of age. The household was more likely to own public stock. Households owning a sole proprietorship were less likely than those owning a regular corporation to be high income. A

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somewhat different picture emerges for 2001. The head of the high income household was more likely to be between 45 and 54 years of age, married, the owner of public stock, with employees, and having acquired his business by buying it. Most importantly, households owning one or multiple businesses were equally likely to be high income households in both years. In 1992 high wealth households were typically headed by older individuals with public stock holdings. These high wealth households owned larger and older businesses and were more likely to own multiple businesses. In 2001 the age effect was still present, owners were well-educated, and they were still likely to hold public stock. Households owning sole proprietorships were less likely to be millionaires than households owning regular corporations. In addition, these wealthy households typically owned larger and older businesses, and they were more likely to own multiple businesses.

Methodology

Data from the 1992 and 2001 Surveys of Consumer Finance are the main sources used in this study. This study continues a topic examined in an earlier report, *Wealth and Income: How Did Small Businesses Fare from 1989 to 1998,* prepared by George Haynes under contract to the U.S. Small Business Administration (*www.sba.gov/advo/research/rs205tot.pdf).* Like the previous study, the variables of interest include each household's business ownership status, income, and wealth (including assets and debt held by members of the household). Different categories of businesses were identified: self-employed business owner/managers with one or no employees; small business managers who are owner/managers with more than one employee; angel investors who are business owners with no active management responsibilities in any business; and other angel investors who are primarily owners with other investments where they provide some management support.

This study is primarily descriptive, using family income and wealth to compare business- and non-business-owning households. The probability of being classified as high income or high wealth by each group is estimated: real mean income and wealth were compared and the share of each group in the total family income and aggregate wealth in both years were estimated for comparison. Logistic regression models are used to assess the types of households and business owners more likely to be classified as high income or high wealth. This study uses non-linear logistic regression models to predict the likelihood of high family income or wealth from binomial classifications of high income (yes/no) and high wealth (yes/no).

This report was peer-reviewed consistent with Advocacy's data quality guidelines. More information on this process can be obtained by contacting the director of economic research at *advocacy@sba.gov* or (202) 205-6533.

Ordering Information

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