

SMALL BUSINESS RESEARCH SUMMARY

Earnings Growth among Disadvantaged Business Owners

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under contract SBAHQ-00-M-0596

Purpose

Many policy initiatives exist in the United States and other countries to promote business formation, especially among economically disadvantaged or unemployed individuals. These programs take the form of training, mentoring, or a variety of financial assistance plans. This study examines how the earnings growth of self-employed workers who are less-skilled and disadvantaged compares to that of wage- and salary-earning workers who are also less-skilled and disadvantaged. In effect, this study seeks to assess the merits of business promotion policies.

Scope and Methodology

The data used in this study are drawn from a nationally representative sample cohort of individuals who were between 14 and 22 years of age in 1979. These data—the National Longitudinal Survey of Youth (NLSY)—span the years 1979 through 1998. The initial size of the sample was nearly 13,000 young men and women, although there has been some attrition over the years.

Most of the study's analysis of earnings and earnings-growth differentials between self-employed and wage/salary workers are based on men and women who have completed 12 years of formal education or fewer and worked 1,400 or more hours per year. No educational parameter was imposed for blacks and Hispanics, however. The study excludes observations from two supplementary NLSY samples of youths enlisted in the military and economically disadvantaged non-black, non-Hispanic young men and women.

The data analyses presented in this study consist of descriptive tabulations and graphics, as well as results from longitudinal regression equations. The results of most data analyses are broken out into three racial groups (black, Hispanic, and non-black, non-Hispanic) and gender.

Highlights

Given that the empirical findings presented in this study are broken out into six categories of race and gender, they cannot be comprehensively recapitulated here. Instead, this summary highlights the more notable results. Note that, with the exception of blacks and Hispanics, all findings pertain to young men and women who have completed no more than 12 years of formal education.

- Self-employed men made an average of \$12,000 per year more than men employed in wage/salary jobs (in 1998 dollars). After controlling for observed worker/job characteristics, self-employed men still accrued almost \$10,000 more than their wage/salary counterparts.

- Self-employed women made about \$2,500 more per year, on average, than their wage/salary counterparts both before and after controlling for relevant, observed characteristics.

- For both men and women, the variance in annual earnings was greater among the self-employed than among wage/salary workers.

- Self-employed men and women experienced slower annual earnings growth relative to their wage/salary counterparts for the first few years, but their earnings grew faster after a critical number of years.

- The average annual earnings of self-employed blacks and Hispanics were substantially lower than those of non-black, non-Hispanics.
- For black men, there was no statistically significant difference in earnings growth between the self-employed and wage/salary workers.
- Self-employed Hispanic men had much lower initial earnings but experienced much higher earnings-growth rates than their wage/salary counterparts.
- The sample size for minority women was very small and yielded no notable findings.

Conclusions

Several countries, including the United States, have implemented programs to encourage entrepreneurship. In many instances, these programs target economically disadvantaged demographic groups whose prospects in the labor market are lackluster. This study set out to assess how average earnings and earnings growth differ between the self-employed and wage/salary workers, and how these differences vary by race and gender.

The study generally found that initial mean earnings and earnings growth rates were lower among the

self-employed, a pattern that later reverses itself after a critical number of years. However, for blacks, there were no systematic earnings-related patterns between self-employed and wage/salary workers. In short, policymakers who advocate the promotion of entrepreneurial activity as an alternative to wage/salary work should, as a general proposition, not expect immediate positive results, particularly for black men.

Ordering Information

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