

# SMALL BUSINESS



# RESEARCH SUMMARY

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## Estimation of Small Business Wealth

by Joel Popkin and Company  
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### Purpose

This research is the first-ever attempt at estimating the portion of total private business wealth represented by small businesses (those with fewer than 500 employees). Having a measure of the share of the nation's wealth by business size gives a better picture of the structure of the U.S. economy and small firms' role in it.

### Scope and Methodology

After examining alternate definitions of wealth and their relationship to each other, the authors adopted the equity market valuation as their measure of U.S.

business wealth. The authors made a single estimate of total business wealth by combining wealth estimates of two forms of business organization: noncorporate and corporate sectors. The authors used the estimates for noncorporate wealth provided in the Federal Reserve's Flow of Funds data. They considered all noncorporate businesses to be small businesses. The authors derived the shares of total corporate wealth attributable to large and small businesses using the relative shares of net income and the appropriate price-to-earnings ratios. They applied these shares to the total corporate wealth estimates provided in the Flow of Funds data to arrive at the small and large business shares of corporate wealth.

**Table 1. Estimates of Business Wealth by Firm Size, Selected Years**

(Market Value of Corporate Wealth and Net Worth of Noncorporate Business in Billions of Dollars)

Year	Corporate Wealth		Noncorporate Wealth	Total Business Wealth	Total Small Business Wealth	Small Business Share of Corporate Wealth (Percent)	Small Business Share of Total Business Wealth (Percent)
	Small	Large					
1990	909	2,328	2,478	5,716	3,387	28.1	59.3
1992	1,764	3,214	2,404	7,381	4,168	35.4	56.5
1997	3,920	7,876	3,176	14,972	7,096	33.2	47.4
1998	3,751	0,026	3,508	17,285	7,259	27.2	42.0
1999	5,369	11,827	3,757	20,953	9,126	31.2	43.6
2000	4,288	11,108	4,039	19,434	8,327	27.9	42.8

Source: *Estimation of Small Business Wealth*, Joel Popkin and Company. Produced under contract to the U.S. Small Business Administration, Office of Advocacy, 2002.

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## Highlights

The authors' estimates of small businesses' share of corporate wealth and total business wealth appear in Table 1.

- Total small business wealth amounted to \$8.3 trillion, accounting for 42.8 percent of total business wealth of \$19.4 trillion in 2000.
- Small businesses' share of corporate wealth was 28 percent in both 1990 and 2000.
- Corporate wealth grew nearly fourfold from 1990 to 2000 as the stock market boomed and the tax code changed in favor of corporate status.
- Because small firms are often privately owned, stock market expansion was of little consequence to their growth or expansion. Hence, the small business share of wealth declined from around 56 percent in the early 1990s to around 43 percent during the late 1990s, despite substantial increases in the level of small business wealth.
- Total small business wealth more than doubled from 1990 to 2000 from \$3.4 trillion to \$8.3 trillion and was led by the growth in the corporate sector.

## Conclusion

This report estimates that the small business sector's share of total business wealth was 43 percent in 2000. The share declined steadily during the 1990s, mainly because of the massive growth over the period in the corporate sector, which is large business-dominated.

This report is the first attempt at estimating the small business share of total business wealth, and as such, the development of the methodology presented a challenge because of data limitations and conceptual issues in valuating financial assets versus real assets. Nevertheless, it represents a contribution to the dialogue on the relative share of small firms in the U.S. economy.

## Ordering Information

The full text of this report and summaries of other studies performed under contract to the U.S. Small Business Administration's Office of Advocacy are available on the Internet at [www.sba.gov/advo/research](http://www.sba.gov/advo/research).

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