Small Business Research Summary

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Income and Wealth: How Did Households Owning Small Businesses Fare From 1989 to 2004?

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Introduction

The 1990s were marked by the largest peacetime expansion in the U.S. economy. Income and wealth of American households rose significantly during this period. This report continues the study of wealth and income of U.S. families that own businesses. An earlier study, *How Did Small Business-Owning Households Fare During the Longest U.S. Economic Expansion?* can be accessed on the Advocacy website at **www.sba.gov/advo/research/rs276tot.pdf**. The study has been extended through 2004, so that it covers 1989 to 2004. In addition, changes in income and wealth of households with self-employed individuals are examined in an appendix.

Overall Findings

Families owning businesses remained significantly more likely to be high income earners and high wealth holders than families not owning businesses. However, income and wealth for households owning businesses are more sensitive to fluctuations in economic activities. As a result, the selection of time periods for assessing the income and wealth growth of households owning small businesses relative to non-business-owning households significantly affects the outcome of the analysis. Consequently, when the time period from 1989, a peak year, to 2004, a mid-recovery year, is selected, it appears that households owning small businesses made less progress in accumulating wealth than other households. In other words, the likelihood of being a high wealth household increased at a faster rate for those without a small business than for those with a small business. However, this result was not supported when the time period from 1992, an early recovery year, to 2004, a mid-recovery year, is selected; households with and without small businesses appeared to have very similar changes in income and wealth during this period.

Highlights

- For the period between 1989 and 2004, the income gap between households with and without a business widened, and the wealth gap narrowed. Small-business-owning households were now just over two times more likely to be classified as high income (55.2 percent versus 24.8 percent) and about seven times more likely to be classified as high wealth (20.2 percent versus 3.0 percent). However, the picture is not as evident when the period between 1992 and 2004 is under consideration.
- Multiple business owners still appeared to be the most prosperous small business group, with nearly three-fourths of them classified as high income and nearly one-half classified as high wealth.
- Real mean income was significantly higher in 2004 than in 1989 for all household types, increasing by over 15 percent from $60,150 in 1989 to $69,629 in 2004. Households not owning a business realized a real mean income increase of 16.1 percent from 1989 to 2004, while households owning a small business realized a real mean income increase from $139,040 to $142,559 (or 2.5 percent). However, for the time period between 1992 and 2004, households owning a small business realized a real mean income increase of 44 percent, compared with 31 percent for households not owning a business.
- Real mean wealth increased by 60 percent for the entire sample from 1989 to 2004. Households not owning a business realized a real mean wealth increase of 61 percent, while households owning a

small business realized an increase in wealth from $944,705 to $1,445,385 (or 53 percent). Again, for the time period from 1992 through 2004, households owning a small business realized an increase in real mean wealth of 77 percent, compared with 68 percent for households not owning a business.

- Households owning a small business realized an increase in the share of income earned (24 percent in 1989 and 26 percent in 2004) and a decrease in the share of wealth (48 percent in 1989 and 46 percent in 2004) held from 1989 to 2004.
- In 1989, multiple business households constituted about 16 percent of all small-business-owning households; however, they earned more than 30 percent of total household income and held more than 38 percent of the wealth of small business owners. In 2004, they constituted nearly 18 percent of all small-business-owning households; however, they now earned nearly 35 percent of total household income and held 47 percent of the wealth of small-business-owning households.
- The multivariate analysis using the 1989 and 2004 Survey of Consumer Finances (SCF) datasets suggests that households owning small businesses appear to have accumulated wealth at a slower rate than other households over this period of time. However, this result was not supported by the 1992 and 2004 SCF datasets.
- The multivariate analysis using the 1989 and 2004 SCF datasets suggests that households owning small businesses appear to have increased income at about the same rate as other households over this period of time. This result was supported by the 1992 and 2004 SCF datasets.
- The multivariate analysis using the 1989 and 2004 SCF datasets suggests that households owning multiple small businesses fared (in accumulated wealth and earned income) about the same as other households owning small businesses from 1989 to 2004. This result was supported when the 1992 and 2004 SCF datasets were used.

Methodology

This study utilized the survey data collected in the Surveys of Consumer Finance from 1989 through 2004. The variables of interest include each household's business ownership status, income, and wealth (including assets and debt held by members of the household). Small business owners included owner/managers with one or more than one business, and small business owners with no active management responsibilities in any business. (In the appendix, small business owners are defined to include self-employed individuals who indicated no business ownership.)

This study is primarily descriptive, using family income and wealth to compare households owning at least one business with households not owning a business. The probability of being classified as high income and/or high wealth by each group is estimated, real mean income and wealth are compared, and the shares of each group in the total family income and aggregate wealth in both years are estimated for comparison. The probability of being high income and/or high wealth is examined using two measures. The first measure examines the probability that a household has $50,000 (in 1992 dollars) of total income and/or $1 million (in 1992 dollars) of accumulated wealth. The second measure examines the probability that a household is in the top 50 percent of income earners and/or the top 50 percent of wealth holders in each year. Logistic regression models are used to assess the types of families and business owners more likely to be classified as high income or high wealth. This study uses nonlinear logistic regression models to predict the likelihood of high household 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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