

# On their own: the self-employed and others in private business

*The Survey of Income and Program Participation provides new information not found in the Current Population Survey about business owners, including data on incorporated and side businesses, earnings of owners, and the number of persons they employ*

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Between 1948 and 1973, the percentage of self-employed persons in nonagricultural industries fell from 12.0 to 6.7 percent,<sup>1</sup> but by 1985, it had risen to 7.5 percent. Given this recent growth in entrepreneurial activity, it is of some importance to obtain as accurate information as possible about the size and composition of the entrepreneurial class and of the businesses they operate. The Bureau of the Census' Survey of Income and Program Participation (SIPP) provides an opportunity for obtaining this information. This article reports on some new findings, derived from this survey, relating to businesses and business ownership as distinct from self-employment.

The Current Population Survey (CPS), conducted for the Bureau of Labor Statistics by the Census Bureau, defines the self-employed as sole proprietors and partners of unincorporated businesses.<sup>2</sup> Individuals who identify themselves as owning a controlling interest in incorporated businesses are shown in published tabulations as wage and salary workers because they are employees of the businesses they operate and are paid a salary for the services they render. Omission of this group from the self-employed leads to an underesti-

mate of the number of business owners. Wage and salary workers who report self-employment as a secondary activity (that is, own a side business) also are business owners and they, too, are excluded from the CPS count of the self-employed. In fact, this group is the fastest growing group among business owners.<sup>3</sup>

While it is possible to derive information about incorporated business owners and owners of a side business from the Current Population Survey and the Survey of Income and Program Participation, the latter offers a number of advantages over the former in studying business ownership. For example, a question about ownership of a side business has only been asked occasionally in the CPS; in these instances information on hours worked at the side business has not been collected. In the Survey of Income and Program Participation, all business owners are identified, whether or not they own incorporated businesses or side businesses, and each owner is asked the number of hours he or she usually works at the business. Additionally, earnings information from up to two businesses is obtained in each Survey of Income and Program Participation reference period; in the CPS, self-employment earnings information is collected only in the March survey and pertains to the preceding calendar year. Furthermore, the Survey of Income and Program Participation contains information about businesses as well as business owners. In particular, information on the legal form of business and number of workers employed is

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obtained for all businesses except those with expected gross receipts of less than \$1,000 for the following year (casual businesses).<sup>4</sup> It should be emphasized that these differences between the surveys do not reflect deficiencies in the CPS; they are due to the fact that the two data sets are designed to measure different things.

### Survey samples

The Current Population Survey is a monthly survey of 59,000 households that collects information about employment and unemployment. The Survey of Income and Program Participation is an ongoing series of national panels designed to improve reporting of income and participation in major Federal Government income transfer programs. In Wave 1 of the 1984 panel, approximately 19,900 households were interviewed.

In the Survey of Income and Program Participation, each panel is divided into four rotation groups. During a cycle or wave of interviewing covering 4 months, each household is interviewed one time; over a 1-year period, a household is interviewed three times. The reference period for an interview is the 4-month period preceding the interview month.

The Survey of Income and Program Participation data utilized in this study are from Wave 1 of the 1984 panel. The interviews were conducted from October 1983 to January 1984. Hence, the reference periods are from June 1983 to September 1983 for the first rotation group through September 1983 to December 1983 for the fourth rotation group. During the reference periods to Wave 1, 24,490 respondents reported having worked in the nonagricultural sector of the economy; of this number, 2,948 respondents owned a business.

It should be noted that since the Survey of Income and Program Participation is a longitudinal survey, the data reflect work experience over time rather than activity status at a point of time as is the case for the Current Population Survey. For this reason alone, estimates of the number of persons engaged in business and in paid employment from the two Census Bureau surveys will differ.<sup>5</sup>

### Estimates of business ownership

The Survey of Income and Program Participation data indicate that in the last half of 1983, 12.8 million persons owned businesses, or 11.9 percent of persons working in nonagricultural industries. Of these workers, however, only 7.4 percent were self-employed owners of unincorporated businesses. A similar calculation based on May 1983 CPS data indicates that 13.5 percent of employed persons<sup>6</sup> in nonagricultural industries were business owners compared to 7.8 percent who were reported as self-employed.<sup>7</sup> From the figures in the first two columns of table 1, it is seen that business ownership is a much more prevalent activity among employed persons than is suggested by statistics on self-employment only. In fact, the percentage of workers who owned businesses was 60 percent (SIPP) to 75 percent

(CPS) larger than the percentage reported as self-employed.

Both Census Bureau surveys yield similar distributions of employment. As noted, 7.4 and 7.8 percent of the employed reported self-employment in unincorporated businesses in the Survey of Income and Program Participation and the CPS, respectively. From the Survey of Income and Program Participation, an additional 2.6 percent operated incorporated businesses;<sup>8</sup> the comparable CPS figure is 2.7 percent. The largest discrepancy between the surveys' figures is for the group, paid employee and a business owner (side business owner). In the Survey of Income and Program Participation, 1.9 percent of the employed owned side businesses; the comparable figure from the CPS was 3.0 percent. The difference between these figures is, in part, due to how owners of a side business are defined in both surveys<sup>9</sup> and our inclusion in the Survey of Income and Program Participation of some owners of a side business among casual business owners.<sup>10</sup> The most likely explanation for the difference, however, is that in the Survey of Income and Program Participation, individuals who owned farms and also worked as paid employees in nonagricultural industries were excluded from our count of side business owners because these individuals operated agricultural businesses. In the CPS, individuals who reported they were wage and salary workers in nonagricultural industries and also answered "yes" to whether they owned farms, businesses, or professions, were included in our count of side business owners because the only information about their industrial attachment is for their paid jobs; similar information for their side businesses is absent.<sup>11</sup> The remaining groups, paid employees only<sup>12</sup> and unpaid family workers,<sup>13</sup> accounted for 87.9 and 0.2 percent (SIPP) and 86.1 and 0.4 percent (CPS) of employed persons, respectively.

The percentage of persons working full time at jobs can be calculated from both surveys and as seen from table 1, the estimates are of the same order of magnitude for each category of workers. The Survey of Income and Program Participation percentages are higher than those from the CPS,

**Table 1. Distribution of employed persons in nonagricultural industries, SIPP and CPS, 1983<sup>1</sup>**  
[In percent]

| Category   | Distribution |       | Full time at all jobs |      | Full time at business |
|--|--------------|-------|-----------------------|------|-----------------------|
|  | CPS          | SIPP  | CPS                   | SIPP | SIPP                  |
| Total .....  | 100.0        | 100.0 | (2)                   | (2)  | (2)                   |
| Self-employed, unincorporated business owner ..... | 7.8          | 7.4   | 67.1                  | 67.6 | 66.2                  |
| Casual business owner .....                        | (2)          | 1.2   | (2)                   | 42.7 | 37.0                  |
| Noncasual business owner .....                     | (2)          | 6.2   | (2)                   | 72.4 | 71.9                  |
| Incorporated business owner .....                  | 2.7          | 2.6   | 85.2                  | 88.8 | 88.7                  |
| Paid employee and a business owner .....           | 3.0          | 1.9   | 76.7                  | 81.2 | 24.5                  |
| All business owners .....                          | 13.5         | 11.9  | (2)                   | (2)  | (2)                   |
| Paid employee only .....                           | 86.1         | 87.9  | 74.8                  | 77.9 | 73.0                  |
| Unpaid family worker .....                         | 0.4          | 0.2   | (2)                   | (2)  | (2)                   |

<sup>1</sup> SIPP reference periods June to September 1983 through September to December 1983; the CPS reference period is May 1983.  
<sup>2</sup> Not applicable or not calculated.

but this is most likely due to the reporting of usual hours worked in the Survey of Income and Program Participation and the use of actual hours in deriving the CPS figures.

Among business owners, the group with the highest percentage working full time at businesses was incorporated business owners; the group with the lowest percentage was owners of side businesses. Among incorporated business owners, 88.7 percent worked full time at their businesses, compared to 66.2 percent among unincorporated business owners. Of some interest, 37.0 percent of casual business owners—a category not distinguished in the CPS—reported working full time. One possible explanation for this relatively high proportion is that casual business owners who work full time do other things when working, such as watching children or trying to become more productive business owners in anticipation that sales will ultimately improve. Still another explanation is that expected gross receipts, because they are expected to be small, were underestimated.

Because full-time casual business owners reported very low earnings of \$1,224, it is clear that, as a group, they were only marginally engaged at their businesses. (See page 21.) The same can be said of side business owners. Although a high proportion of paid employees with side businesses worked full time, 81.2 percent, only a small proportion, 24.5 percent, worked full time at their side businesses.

### Type of business

The Survey of Income and Program Participation data provide a means of categorizing business owners by the types of businesses they own. In the survey, one can distinguish businesses by legal form of ownership status, whether the business is a casual or a side business, and whether the owner works full time at the business.

Of particular interest is the distribution of business owners and their businesses by legal form of organization. Estimates of these distributions are shown in table 2 for men and women under the plausible assumption that a casual business is a sole proprietorship. (See footnote 4.) As indicated in table 2, 23.2 percent of all business owners were incorporated. Incorporated business owners were a smaller percentage of female business owners, 17.1 percent, than of male business owners, 25.9 percent. The gender differentials are more pronounced when businesses rather than business owners are considered: 10.1 percent of incorporated businesses were owned by women, compared to 22.2 percent owned by men.<sup>14</sup>

The Survey of Income and Program Participation data also indicate that 13.5 million nonagricultural businesses existed in the last half of 1983—700,000 more than the 12.8 million business owners. The larger number of businesses than business owners is due, in part, to the percentage of business owners, 4.1 percent, who owned at least two nonagricultural businesses.<sup>15</sup> Of the nonagricultural businesses, 9.6 million were sole proprietorships, compared to the

**Table 2. Distribution of business owners and businesses in nonagricultural industries by legal form of business, 1983<sup>1</sup>**

| [In percent]               |        |       |       |
|----------------------------|--------|-------|-------|
| Legal form                 | Total  | Men   | Women |
| <b>Business owners</b>     |        |       |       |
| Total .....                | 100.0  | 100.0 | 100.0 |
| Sole proprietors .....     | 63.2   | 60.0  | 69.8  |
| Partners .....             | 13.6   | 14.1  | 13.1  |
| Incorporated .....         | 23.2   | 25.9  | 17.1  |
| Number (thousands) .....   | 12,842 | 8,769 | 4,173 |
| <b>Businesses</b>          |        |       |       |
| Total .....                | 100.0  | 100.0 | 100.0 |
| Sole proprietorships ..... | 70.8   | 65.6  | 81.8  |
| Partnerships .....         | 10.9   | 12.2  | 8.1   |
| Incorporated .....         | 18.3   | 22.2  | 10.1  |
| Number (thousands) .....   | 13,531 | 9,147 | 4,384 |

<sup>1</sup> SIPP reference periods June to September 1983 through September to December 1983.

10.7 million nonfarm proprietorships reported in Federal income tax returns for 1983.<sup>16</sup>

Still another perspective of business ownership is obtained from table 3. As indicated, 14.5 percent of men and 8.6 percent of women were business owners.<sup>17</sup> However, 18.8 percent of female business owners had casual businesses and 14.7 percent owned side businesses. Among male business owners, only 6.2 percent owned casual businesses and 16.6 percent were engaged in side businesses. We also see that men worked full time at businesses to a greater extent than women: the male-female differential in the proportion of business owners who worked full time was 28.7 percentage points, while the corresponding male-female differential in the proportion of paid employees only who worked full time was 17.3 percentage points.

If substantial entrepreneurial activity is defined as working full time at a noncasual business that is not a side business, we find that 65.3 percent of male business owners were active entrepreneurs; the analogous figure for female business owners was 37.0 percent. Thus, of all employed men and women in nonagricultural industries, 9.5 percent of the former but only 3.2 percent of the latter were substantially engaged in businesses.

### Earnings of workers

People become business owners for a number of reasons: some start their own businesses because they feel constrained by the formal work rules associated with paid employment; some operate businesses because it is a way of earning income while staying home; for those who have special talents, such as artists, self-employment is often the means of achieving the freedom they need to express their creativity. Each of these reasons yields psychic income and leads to the expectation that, all else being the same, business owners, on average, may earn less than paid employees. Additionally, because business owners face risks not generally shared by paid employees, it is plausible that low earnings, including zero earnings, are more common among the former than the latter. The Survey of Income and

**Table 3. Business owners in nonagricultural industries by business type, 1983<sup>1</sup>**  
(In percent)

| Category   | Total | Men  | Women |
|--|-------|------|-------|
| Employed workers owning a business .....   | 11.9  | 14.5 | 8.6   |
| Casual business owners .....   | 10.3  | 6.2  | 18.8  |
| Side business owners .....   | 16.0  | 16.6 | 14.7  |
| Business owners working full time at businesses .....                                | 63.8  | 73.0 | 44.3  |
| Full-time business owners of noncasual businesses that are not side businesses ..... | 56.1  | 65.3 | 37.0  |

<sup>1</sup> SIPP reference periods June to September 1983 through September to December 1983.

Program Participation data, like the CPS data, confirm that the reported earnings of business owners are less than that of paid employees.

Earnings data for business owners in the Survey of Income and Program Participation differ from analogous data in the CPS in several respects. First, the questions asked respondents about business income are different. In the Survey of Income and Program Participation, interviewers are instructed to ask the amount of income an individual takes out of his or her business<sup>18</sup> and income from a business is dated as to when it is earned. Second, because current rather than past income is recorded, the recall period is shorter. Third, this survey is a longitudinal survey and, hence, it contains information about individuals who are in the process of moving into and out of a business. Fourth, earnings information is routinely obtained for incorporated businesses in the survey.

Because the Survey of Income and Program Participation information is collected for up to two businesses and up to two paid jobs in a reference period, the earnings data are aggregated over both businesses and both jobs. Although some earnings may have been missed, it is believed the amount is very small, because only a small percentage of workers change jobs three times during a year. An even smaller proportion would be expected to have three employers (businesses) in a 4-month period.<sup>19</sup> Annualized earnings by type of business are shown in table 4 for men and women.<sup>20</sup>

### Earnings of men

To benchmark the earnings data from the Survey of Income and Program Participation, it can be inferred from table 4 that for men the ratio of earnings from unincorporated businesses, \$13,520, to earnings from paid employment only, \$20,039, is .67. The corresponding ratio, earnings of self-employed men to male wage and salary workers, based on CPS data for 1982<sup>21</sup> is also .67.<sup>22</sup>

Men who owned incorporated businesses earned considerably more than those who did not own incorporated businesses (excluding side business owners in both categories): the median earnings of male owners of incorporated businesses (\$24,012) were almost 80 percent higher than that of their counterparts who owned unincorporated businesses

(\$13,520). When the definition of a business owner is expanded to include incorporated business owners as well as the self employed, the ratio of business earnings to earnings from paid employment only for men rises from .67 to .78.

### Earnings of women

An anomaly in the Survey of Income and Program Participation data is seen from the data for female business owners in table 4. Self-employed women had annualized earnings of \$3,767, which is approximately one-quarter of the \$13,520 earned by self-employed men and one-third of the \$12,079 earned by female paid employees only. The CPS data for 1982 indicated that full-time, full-year self-employed women earned about one-half as much as self-employed men and female wage and salary workers.

It is difficult to say what accounts for the low earnings of self-employed women in the Survey of Income and Program Participation. On one hand, it may be that they were underreporting business earnings in the Survey of Income and Program Participation *vis-a-vis* the CPS. On the other hand, their relatively low earnings may reflect our use of annualized earnings instead of actual earnings over a full year. Still another explanation is that the Survey of Income and Program Participation longitudinal data include a larger fraction of transient business owners than the CPS cross-sectional data, and women may be more prone to enter and leave self-employment than men. The higher ratio of female-to-male earnings among incorporated business owners is consistent with the last conjecture because incorporated business owners are a more stable group than unincorporated business owners. Which of these reasons is the correct one requires further study.

### Evidence of underreporting

Despite the reasonableness of the Survey of Income and Program Participation earnings figures, at least for men,

**Table 4. Median annualized earnings of full-time, full-reference period business owners and paid employees, 1983<sup>1</sup>**  
(In thousands)

| Category   | Men      | Women   |
|--|----------|---------|
| Business owners, including owners of a side business ..... | \$14,787 | \$4,894 |
| Owners of a side business .....                            | 4,784    | (2)     |
| Business owners, excluding owners of a side business ..... | 15,600   | 4,894   |
| Unincorporated business owners <sup>3</sup> .....          | 13,520   | 3,767   |
| Sole proprietors .....                                     | 12,235   | 3,671   |
| Partners <sup>3</sup> .....                                | 20,216   | (2)     |
| Incorporated business owners <sup>4</sup> .....            | 24,012   | 9,302   |
| Paid employees only .....                                  | 20,039   | 12,079  |

<sup>1</sup> SIPP reference periods June to September 1983 through September to December 1983.

<sup>2</sup> Less than 50 observations.

<sup>3</sup> Excludes partners of noncasual businesses who could not be distinguished from incorporated owners of noncasual businesses.

<sup>4</sup> Excludes incorporated owners of noncasual businesses who could not be distinguished from partners of noncasual businesses.

some direct evidence of underreporting of business income in the survey should be noted. Underreporting is suggested by the earnings for business owners whose businesses were neither casual businesses nor side businesses. For example, the percentage of individuals in this group who reported no business earnings (that is, took no income from the business) during the reference period was 20.8 percent. Further evidence of underreporting is found in the data when business owners who worked full time are classified by the number of workers employed in their primary business.<sup>23</sup> Among owners of businesses with 3 or more employees, 14.3 percent reported no earnings during the reference period. Undoubtedly, some of these larger business owners were operating at a loss. Still, the percentage reporting no business earnings is sufficiently high to suggest an inconsistency in the Survey of Income and Program Participation between the earnings data and the data on business size. The alternative explanation that a relatively large proportion of businesses that appeared to be successful, judging by the number of workers employed, yielded no income to their owners over a 4-month period is highly implausible.

Internal evidence of underreporting is also suggested by the earnings of casual business owners. Individuals in this group who worked full time during all reference weeks had annualized median earnings of \$1,224.<sup>24</sup> Thus, more than one-half of this group reported earnings at an annual rate that exceeded the expected gross receipts criterion of \$1,000 used to define casual business owners. While the actual earnings and expected gross receipts estimates are not necessarily inconsistent, it would appear that some respondents underestimated their expected gross receipts. It is not implausible that such individuals may also have underreported their actual business earnings.

It should be mentioned that evidence of underreporting of self-employment earnings can also be found in the CPS. From the May 1983 CPS, it is found that among male full-time self-employed workers (in nonagricultural industries as of May 1983) who worked full time, full year in 1982, 12.5 percent reported business and wage and salary earnings of less than \$5,000<sup>25</sup> (that is, \$2.40 an hour, assuming a 40-hour week). The underreporting, by business owners, in survey data is a well-known phenomenon. As indicated, the Survey of Income and Program Participation yields new direct evidence of such underreporting.

### Employment in privately owned businesses

Up to this point, our analysis has focused primarily on business owners. As indicated, the Survey of Income and Program Participation also contains information about the businesses they own, particularly the legal status of the business and the number of individuals that work for the business.<sup>26</sup> As one would expect, and as can be seen from table 5, the legal status of a business is related to the number of persons in its employ. For example, more than 9 out of 10 businesses with only one worker were sole proprietor-

**Table 5. Distribution of businesses by legal form of business and number of employees, 1983<sup>1</sup>**  
(In percent)

| Category                                       | Number of employees <sup>2</sup> |       |        |           | Total |
|--|----------------------------------|-------|--------|-----------|-------|
|  | 1                                | 2     | 3 to 5 | 6 or more |       |
| Total .....                                    | 100.0                            | 100.0 | 100.0  | 100.0     | 100.0 |
| Sole proprietorships <sup>3</sup> .....        | 93.8                             | 51.1  | 47.7   | 16.0      | 70.7  |
| Casual sole proprietorships <sup>3</sup> ..... | 3.8                              | 0     | 0      | 0         | 22.3  |
| Noncasual sole proprietorships .....           | 90.0                             | 51.1  | 47.7   | 16.0      | 48.4  |
| Partnerships and incorporated businesses ..... | 6.2                              | 48.9  | 52.3   | 84.0      | 29.3  |
| Total .....                                    | 58.9                             | 12.3  | 14.5   | 14.3      | 100.0 |
| Sole proprietorships <sup>3</sup> .....        | 78.2                             | 8.9   | 9.7    | 3.2       | 100.0 |
| Casual sole proprietorships <sup>3</sup> ..... | 100.0                            | 0     | 0      | 0         | 100.0 |
| Noncasual sole proprietorships .....           | 68.1                             | 13.0  | 14.2   | 4.7       | 100.0 |
| Partnerships and incorporated businesses ..... | 12.5                             | 20.6  | 25.8   | 41.1      | 100.0 |

<sup>1</sup> SIPP reference periods June to September 1983 through September to December 1983.

<sup>2</sup> Employees in primary business. Owner or owners and unpaid family workers included in count of employees.

<sup>3</sup> Includes side businesses with expected gross receipts of less than \$1,000 in next 12 months. Some of these side businesses may be partnerships or incorporated businesses.

ships. At the other extreme, only about 1 out of 5 businesses with six workers or more were sole proprietorships. In "intermediate size" businesses, those with two to five employees, about one-half were sole proprietorships.

Table 5 also reveals that only 12.9 percent of sole proprietorships employed three workers or more; the comparable figure for partnerships and incorporated businesses is 66.9 percent. Among all businesses, somewhat more than 4 out of 10 provided employment for two or more workers.

The data underlying table 5 are of special interest because they enable one to estimate the number of workers employed in privately owned businesses. This number provides a more complete measure of the amount of employment generated through entrepreneurial activity than the number of self-employed persons or business owners. Because of the way the data are grouped in the Survey of Income and Program Participation public use file, however, our estimate is on the low side.<sup>27</sup>

Assuming that businesses with gross receipts of less than \$1,000 in the next 12 months have only one worker and also assuming that the number of workers employed by a business is given by the lower bound of each class interval in table 5, an estimate of 28.5 million workers (including business owners and unpaid family workers) in privately owned businesses is obtained. Thus, of the 108.1 million persons in nonagricultural industries who held a job in Wave I of the Survey of Income and Program Participation, at a *minimum* 26.4 percent (28.5 million workers) found employment in privately held businesses. Omitting Federal, State, and local government workers, the latter figure rises to 36.6 percent. If, in addition, paid workers in private nonprofit organizations are excluded from the employment base,<sup>28</sup> the proportion of workers in for-profit businesses who were employed

in privately owned firms increases still further to a minimum of 40.1 percent.

Another way of gauging the importance of the privately owned business sector is by estimating the employment multiplier effect attributable to individuals who establish their own businesses. Given our estimates of 28.5 million workers in privately owned businesses and 12.8 million business owners, this implies that, on average, for every 100 business owners, at least an additional 123 workers find employment in privately owned businesses. More accurate measures of the employment effects of owner-operated businesses must be deferred until as yet unpublished Survey of Income and Program Participation data become available.

### Summary

The Survey of Income and Program Participation yields new information about business owners, as distinct from the self-employed, as well as the businesses they own. Not included among the self-employed, but nonetheless members of the entrepreneurial class, are owners of incorporated businesses and owners of side businesses.

Among the more important findings from the Survey of Income and Program Participation data is that business owners accounted for 11.9 percent of persons working in nonagricultural industries during the last half of 1983; this is 60

percent more than the percentage reported as self-employed. A similar conclusion is reached based on Current Population Survey data for May 1983. In the cps data, an even larger proportion of employed workers, 13.5 percent, were found to own businesses.

We also found that 70.8 percent of businesses were sole proprietorships, while 18.3 percent were incorporated businesses. More women than men were engaged in casual and side businesses, and men worked full time at businesses to a greater extent than did women. Two-thirds of male business owners were substantially engaged in a business, compared to about one-third among female business owners.

Annualized earnings varied from about \$3,700 for female sole proprietors to \$24,000 for male owners of incorporated businesses. But a relatively high proportion of business owners in the Survey of Income and Program Participation reported no earnings from their businesses even among those with businesses with three workers or more, providing internal evidence of underreporting of business earnings.

It is also possible to estimate the percentage of workers employed by privately owned businesses. At a minimum, 26.4 percent of all workers (28.5 million workers) were employed in such firms. When government workers and paid workers in private nonprofit organizations are excluded, the proportion increases from 26.4 to 40.1 percent.

### —FOOTNOTES—

<sup>1</sup> T. Scott Fain, "Self-employed Americans: their number has increased," *Monthly Labor Review*, November 1980, pp. 3-8 and Eugene H. Becker, "Self-employed workers: an update to 1983," *Monthly Labor Review*, July 1984, pp. 14-18. For earlier studies of self-employment, see Robert N. Ray, "A report on self-employed Americans in 1973," *Monthly Labor Review*, January 1975, pp. 49-54 and John E. Bregger, "Self-employment in the United States, 1948-62," *Monthly Labor Review*, January 1963, pp. 37-43.

<sup>2</sup> Prior to 1967, no distinction was made in the cps between persons operating unincorporated and incorporated businesses. Individuals in both groups were classified as self-employed. In 1967, when incorporated business owners were separately identified, they were classified as wage and salary workers.

<sup>3</sup> Sheldon Haber, *A New Perspective on Business Ownership* (U.S. Small Business Administration, Office of Advocacy, July 1985). See also *The State of Small Businesses: A Report of the President* (U.S. Government Printing Office, 1986).

<sup>4</sup> For convenience, businesses with expected gross receipts of less than \$1,000 in the next year are referred to as casual businesses and their owners as casual business owners. Conversely, businesses with expected gross receipts of more than \$1,000 are referred to as noncasual businesses. Because casual businesses are small, it has been assumed that they are sole proprietorships with only one worker, that is, the owner of the business.

<sup>5</sup> For a comparison of estimates of employment and unemployment from SIPP and the cps, see Paul M. Ryscavage and John E. Bregger, "New Household Survey and the cps: A look at labor force differences," *Monthly Labor Review*, September 1985, pp. 3-12.

<sup>6</sup> For ease of exposition, in the remainder of the paper employed persons and persons with work experience are referred to simply as employed persons.

<sup>7</sup> One explanation for the lower percentages in SIPP is the greater difficulty of accumulating capital needed to start a business versus finding a job as a paid employee. This difficulty is seen more readily in longitudinal data than in cross-sectional data.

<sup>8</sup> In SIPP, only one owner of a noncasual business is asked the legal form of organization of (and the number of persons employed in) that business. Thus, while all owners of businesses in a household are enumerated, only one partner in a partnership or one owner of an incorporated business can be identified. While it is possible to determine who are the remaining partners and owners of an incorporated business, one cannot tell which of these two categories an individual falls into. Unless otherwise stated, in this study, partners and owners of incorporated businesses who could not be identified as such because another person had answered questions about the business are divided in the same proportion as partners and incorporated owners who could be identified.

<sup>9</sup> In the supplement to the May 1983 cps, wage and salary workers were asked whether they also operated a "farm, business, or profession." Persons answering "yes" to this question in the cps are classified as having a side business in this study. For SIPP, side business owners are defined in this study to include (a) casual business owners with earnings from paid employment in all 4 months of the reference period, and (b) noncasual business owners with earnings from a business and from paid employment in one or more of the 4 reference period months or earnings from paid employment in all 4 months of the reference period if there were no earnings from a business during the reference period.

<sup>10</sup> In table 1 and elsewhere in this study, unless otherwise stated, casual business owners are classified as owners of a side business if they also meet the criteria for being classified in the latter category. However, because SIPP provides less detailed earnings information for casual than noncasual businesses, it was not possible to identify all casual businesses that were also side businesses. Hence, within the definitional framework adopted in this study, the number of casual business owners is overestimated and the number of side business owners is underestimated.

<sup>11</sup> The difference in definition of a side business also helps explain the smaller percentage that business owners make up of all workers in SIPP vis-a-vis the CPS.

<sup>12</sup> In SIPP, paid employees are asked questions of up to two employers for whom they worked in a reference period. For both SIPP and the CPS, the group "paid employee only" is defined to include individuals who worked for pay and did not own a business.

<sup>13</sup> Unpaid family workers are defined in the same way in SIPP as they are in the CPS. However, if an individual reported he or she was a paid employee in one job and an unpaid family worker in another job during a SIPP reference period, we classified the individual as a paid employee.

<sup>14</sup> Some ambiguity in this conclusion should be noted. Because the legal form of business is elicited for only one owner of a partnership or incorporated business, it is possible that the recorded owner is of a different gender than the principal owner.

<sup>15</sup> Also, while SIPP provides an unduplicated count of casual business owners, it does not yield an unduplicated count of casual businesses. One can only assume, as we have here, that all casual businesses are sole proprietorships. This assumption may lead to an overcount of sole proprietorships in our study.

<sup>16</sup> *Statistics of Income Bulletin* (Department of the Treasury, Internal Revenue Service, Summer 1985), p. 98. It is to be recalled that a SIPP reference period is 4 months. The income tax return data cover a calendar year.

<sup>17</sup> Among blacks and Hispanics, 4.5 and 7.4 percent, respectively, were owners of a business.

<sup>18</sup> In the CPS, the respondent is asked to report money income from his or her business after expenses; hence, negative incomes can be reported indicating a business loss. In SIPP, the amount of income taken out of a business during a reference period is zero or positive; net profit is ascertained from a separate question.

<sup>19</sup> In 1978, less than 4 percent of workers had three or more employers during the year (based on the May 1979 CPS).

<sup>20</sup> Because this study is based on the 4-month reference periods of Wave 1, the earnings data have been annualized. Thus, some individuals are shown as having no earnings from a business because they had no

business income during their 4-month reference period, whereas they might be expected to have positive earnings over a full-year period. To some extent this problem is mitigated by the use of median earnings to measure income from different types of businesses. More precise figures will be forthcoming as additional SIPP data become available; in the meantime, the data from Wave 1 provide new insights into the earnings of business owners by type of business.

<sup>21</sup> See Eugene H. Becker, "Self-employed workers," p. 18. Becker reports CPS 1982 median earnings of \$14,360 and \$21,542 for male self-employed and male wage and salary workers, respectively. The corresponding figures for female self-employed and female wage and salary workers are \$6,644 and \$13,352.

<sup>22</sup> The SIPP earnings figures are for individuals who worked full time and for all weeks of their 4-month reference period. The CPS data referred to above are for individuals who worked full time, full year. The closeness of the ratios from the two data sources, while reassuring, is coincidental.

<sup>23</sup> In this study, the primary business of business owners with two businesses is defined as the one with the higher earnings. The owner or owners of a business and unpaid family workers are included in the count of employees.

<sup>24</sup> Based on 65 observations. Note, respondents are first asked their expected gross receipts in the following 12 months and then *later* in the interview are asked what their earnings were during the reference period.

<sup>25</sup> Sheldon Haber, *A New Perspective*, pp. 23-24.

<sup>26</sup> In topical modules to later SIPP waves, additional information is being collected about unincorporated businesses, for example, information about assets and liabilities and gross receipts and expenses.

<sup>27</sup> In SIPP, up to 99 workers are recorded for each business. Only the group sizes shown in table 5 are provided in the public use files.

<sup>28</sup> From 1984 data developed by Hodgkinson and Weitzman, it is found that 8.8 percent of paid employees in the private nonagricultural sector work in nonprofit organizations. See Virginia Ann Hodgkinson and Murray S. Weitzman, *Dimensions of the Independent Sector: A Statistical Profile*, 2nd ed. (Washington, Independent Sector, forthcoming). Applying the aforementioned figure in ratio form to the number of paid employees only (excluding government workers) derived from SIPP yields an estimate of workers in private nonprofit organizations.