# A Profile Of Owners And Investors Of Privately Held Businesses In the United States, 1989-1998

A working paper by

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*The statements, findings, conclusions, and recommendations found in this study are those of the authors and do not necessarily reflect the views of the Office of Advocacy, the United States Small Business Administration, or the United States Government.*

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## Abstract

**A Profile of Owners and Investors of Privately Held Businesses in the United States, 1989-1998**
By George Haynes and Charles Ou

This study gives estimates of the number of households owning privately held businesses in the United States, compares the demographic and economic characteristics of business owners and non-business owners, and examines the relationship between the growth in the total number of business entities and total business owners from 1989 to 1998. The analysis is based on the Federal Reserve Board's Survey of Consumer Finances for the years 1989, 1992, 1995, and 1998. This study concludes three things.

(1) Between 13 percent and 14 percent of U.S. households own privately held businesses.

(2) These households have relatively higher income, significantly higher net worth, were in the prime age group of 35 to 60 years of age, and have more education.

(3) The increase in the total number of business entities during the 1990s seems to be the result of individual households owning more than one business, not of an increased number of business owners or entrepreneurs. This appears to be the case, given that the ratio of business-owning households to total households stayed the same or declined slightly during the 1989-1998 period, but the total number of business entities relative to total households and the nonfarm labor force rose during the same period.

## Introduction

Entrepreneurs are the engine of growth and innovation in the competitive market economy. They organize production resources (production inputs such as workers, land, technology, and capital), open distribution channels, and interface with consumers for the purpose of producing, distributing and selling goods and services. Entrepreneurs are a catalyst for the market system by constantly introducing and initiating new products and new production methods and new solutions to businesses. As a catalyst they are creating new jobs, new products, and new industries. Entrepreneurs initiate the forces of dynamic change in an economy's industrial structure.

Not all businesses are dynamic and entrepreneurial. In fact, only five to ten percent of businesses in an economy are entrepreneurial ventures—introducing new ideas/methods/solutions to the production of goods and services in a market economy.[1] However, it is not possible to identify those successful dynamic ventures ex ante. And a majority of new ventures never succeed as indicated by the success rates for investments by venture capital companies and by angel investors.[2]

This study examines households that own privately held businesses in the United States. This information is available from the Survey of Consumer Finances for this group of business owners.[3] This study compares income earned and wealth held by households that own and and do not own a business, examines the characteristics of different types of business owners, assesses the growth in income and wealth by business owners in the 1990s, and investigates the relatively stable level of business-owning families during a time period when the number of U.S. businesses appeared to realize a substantial increase. This study will also attempt to identify the "entrepreneurs" and "entrepreneur-venture investors" that have been the focus of so much attention during the growth of New Economy in late 1990s.

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[1] See Richard G.P. McMahon "Deriving an Empirical Development Taxonomy for Manufacturing SMEs Using Data from Australia's Business Longitudinal Survey. In Small Business Economics, Vol 17, (2001) Pp. 197-212. In the Office of Advocacy's studies on the job growth records of employer firms from 1990 through 1995, using the longitudinal database (BITS) developed by the Bureau of Census, some 12 percent of firms doubled their employment during the four year periods. However, excluding the smallest firms (with under 5 employees), the percentage declined to 7 percent. Also, see the work by David Birch on the percentage of gazelles in his job creation studies.

[2] This explains the stable number of employer firms in the United States despite the large number of new firms started annually. According to Boden (2001), the average survival rate for relatively larger and better-established firms is around 50 percent at the end of the 4th year. See Richard Boden "Analysis of Business Dissolution by Demographic Category of Business Ownership, a report prepared for the U.S. Small Business Administration, Contract No. SBA-HQ-00-M-0497 (2001).

[3] See also George Haynes, "Wealth and Income: How Did Small Businesses Fare from 1989 to 1998?" A report prepared for the U.S. Small Business Administration, Office of Advocacy, Contract No. SBAHQ-00-M-0502 (2001).

**Literature Review**

Most literature of business ownership is concentrated on the changing financial situations of U.S. families—business or non-business-owning households. The literature review examines relevant literature assessing changes in income and wealth of U.S. families. Special attention is given to evidence of changes in the income and wealth of U.S. families who own one or more small business. A relatively comprehensive literature exists on the financial condition (income and wealth) of families, but the literature is much less comprehensive for that subset of families who own businesses.

The Federal Reserve Board assesses changes in U.S. family finances every three years in its summaries of the results of the Survey of Consumer Finances, which is published every third year (Kennickell and Shack-Marquez, 1992; Kennickell and Starr-McCluer, 1994 and 1997; Kennickell, Starr-McCluer, and Surette, 2000). The summaries of mean and median income and net worth are shown in Table 1. The use of both mean and median financial estimates (income and net worth) is important because of the skewed distribution of income and net worth data. For instance, a comparison of the relative changes in mean and median net worth indicates whether the share of aggregate net worth held by the poorest or wealthiest has increased or decreased. When the mean rises faster than the median, it often suggests an increase in the wealth shares of families at the top end of the distribution.

Between 1983 and 1989 real mean family income increased (from $44,400 to $51,700 in 1998 dollars) while real median family income remained virtually unchanged at around $32,000 (Kennickell and Shack-Marquez, 1992). Mean wealth rose by over 24 percent, while median wealth rose nearly 10 percent. These findings suggest that family income and wealth became somewhat more concentrated among families with higher income and wealth, respectively. Kennickell and Shack-Marquez (1992) suggest that several factors affected family income and wealth, including financial deregulation; progressive elimination of tax deductions for consumer interest; and tax changes, such as the elimination of general deductions for individual retirement accounts.

Table 1. Real Mean and Median Income and Net Worth, 1983 to 1998
(Thousands of 1998 dollars)

| | Before Tax Income | | Net Worth | |
|---|---|---|---|---|
| Year | Mean | Median | Mean | Median |
| 1983 | 44.4 | 32.3 | 189.8 | 54.4 |
| 1989 | 51.7 | 32.8 | 236.9 | 59.7 |
| 1992 | 45.6 | 30.4 | 212.7 | 56.5 |
| 1995 | 47.5 | 32.7 | 224.8 | 60.9 |
| 1998 | 53.1 | 33.4 | 282.5 | 71.6 |

Source: Kennickell, A. & Shack-Marquez, J. (1992). Changes in family finances from 1983 to 1989: Evidence from the Survey of Consumer Finances. Federal Reserve Bulletin, Tables 1 and 2; and Kennickell, A.B., Starr-McCluer, M. & Surette, B.J. (2000). Changes in family finances in the United States: Evidence from the Survey of Consumer Finances. Federal Reserve Bulletin, Tables 1 and 3.

Between 1989 and 1992, real mean and median family income and real mean and median family wealth decreased (Kennickell and Starr-McCluer, 1994). Several


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important changes occurred during this period of time. Interest rates declined and families tended to move their asset portfolios away from time deposits and toward mutual funds; families owned more tax deferred retirement accounts; and income and wealth grew substantially for non-white and Hispanic families.

Between 1992 and 1995, real mean and median family income increased slightly, although not sufficiently to offset the declines realized from 1989 to 1992 (Kennickell and Starr-McCluer, 1997). By 1995, median income and wealth were nearly the same as in 1989, however mean income and wealth had not fully recovered. This period of time from 1992 through 1995 was one of continued economic expansion in the U.S. economy. By 1998, real mean and median family income had surpassed their 1989 levels, having exhibited strong growth between 1995 and 1998. This period was marked by an increase in the holding of stock equity and a booming stock market (Kennickell, Starr-McCluer and Surette, 2000). While family indebtedness increased over this period of time, asset growth was more rapid. At this juncture in 1998, the economy was in the seventh year of an economic expansion. Civilian unemployment was around 4.5 percent and the average annual inflation rate of 2.2 percent, as measured by the consumer price index, had been low for the previous 3 years.

From 1989 through 1998, real family income and wealth increased in the United States. However, this growth in family income and wealth did not appear to be evenly distributed across the economy. Using the 1989 through 1995 Survey of Consumer Finances, Wolff (1998) argued that the distribution of wealth had become much less equal and that only households in the top 20 percent of income and wealth made any substantive gains. He suggested that all other groups suffered real wealth and income losses.

While no other authors addressed small business owners, Wolff (1998) argued that "small business equity, which tends to move with stock prices, is also highly concentrated among the rich." While small business owners may have realized an increase in the value of their assets with the increase in the stock market, other evidence suggests that small business owners hold more debt than non-business-owning families (Haynes and Avery, 1996). In addition, recent research suggests that small business owners are willing to assume more risk and hold more risky portfolios of assets (Xaio, Alhabeeb, Hong and Haynes, 2001). Thus, whether or not families owning small businesses have improved their financial status between 1989 and 1998 is an open question.

Finally, Ou (1993) attempted to identify small business owner-manager-investors and investigate their characteristics. This paper estimated the number of business owners (for three types of owner-investors) for 1983 and 1989 and investigated their asset portfolios.

## The Database

The 1989 through 1998 Surveys of Consumer Finances (SCF) were sponsored by the Federal Reserve Board. [4] The surveys are designed to collect detailed information on income and wealth of U.S. households—the assets and liabilities in the household's balance sheet, the sources of income, the use of financial services, pensions, labor force participation, and demographic characteristics.[5]

The SCF utilizes a dual frame sample to provide adequate coverage of the population. One frame is a multistage area probability sample, which provides adequate coverage of widely held assets and liabilities. The second frame is a list designed to over-sample relatively wealthy households. Response rates for the area probability and list samples in 1992 were approximately 70 and 34 percent, respectively (Table 2).

Table 2. Sample Size for the Survey of Consumer Finances, 1989-1998

| | Area Probability | | List | | Total Sample Size |
|---|---|---|---|---|---|
| Year | Sample Size | Response Rate (%) | Sample Size | Response Rate (%) | |
| 1989 | 2,277 | 70 | 866 | 34 | 3,143 |
| 1992 | 2,456 | 70 | 1,450 | 34 | 3,906 |
| 1995 | 2,780 | 70 | 1,519 | 35 | 4,299 |
| 1998 | 2,813 | 70 | 1,496 | 35 | 4,309 |

Source: Federal Reserve Board, Survey of Consumer Finances, 1989, 1992, 1995, 1998. Tabulations by authors.

This study is primarily interested in examining small business-owning households—those heads of the household that owned privately held businesses.[6] However, it is necessary to include the entire sample to assess the differences between business-owning and non-business-owning families. Business ownership status was determined by whether an individual owned and/or actively managed at least one business.

This study classifies business owners using two definitions. The first definition classifies business owners into four categories: self-employed business owners—the smallest business owner/managers with one or fewer employees; the small business managers—with more than one employee; the angel investors, who are business owners with no active management responsibilities in any business; and other angel investors, who are primarily business owners with other investments where they provide some

[4] The Federal Reserve started the Survey of Consumer Finances (SCF) in the 1970s. A better sample of high income owners was developed for the 1983 survey. Since 1989, a fairly large sample of high income households, the list sample, has been included in the sample. The 1989 SCF was conducted by the Survey Research Center at the University of Michigan. The more recent surveys were conducted by the National Opinion Research Center at the University of Chicago.

[5] The SCF survey asks respondents about the previous year, hence the SCF for 1998 actually gathers information about the finances of the family and business in 1997.

[6] That is, sole proprietorships, partnerships, S corporations, and non-public C corporations.

management support. A second definition classifies business owners into three categories based on the number of businesses owned by the household and their ownership or management of the business. Owner-managers are households that own and manage one business. Angel investors are households that own, but do not manage, one business. Multiple-business owners are households that own and/or manage more than one business. This group of business owner/investors seems to be different from those owner/manager that are more "career" oriented than business development oriented.

## The Findings

*Numbers of households that owned privately held businesses in the United States in 1998*

Of the 102.5 million households in the United States, there were some 13 million households with the heads of the household owning privately held businesses (hereafter referred to as the business owners or as the business-owning households) in 1998, accounting for 12.7 percent of total households. Of these business owners, some 11.6 million owned and manage a business (the owner-managers), 1.0 million own, but do not manage, the businesses (the investors), and some 400,000 owner-managers owned additional businesses that they do not manage (Table 3)[7]. In addition, there were a significant number of business owners that owned more than one business and owner-managers that also invested in businesses. While 9.64 million households owned and managed only one business in 1998, more than 2.6 million households owned more than one business. Of these multiple-business owners, 83 percent managed more than one business and 34 percent managed more than two. It seems that while entrepreneurs usually expand the businesses they own and manage, they can also fully utilize their management capability and investment portfolio by owning and managing more than one business. This also satisfies their creative zeal.

*Change in the number of business owners during 1989-1998*

While the number of households in the United States increased from 93.0 million in 1989 to 102.5 million households in 1998, the total number of households owning businesses remained unchanged, and in fact showed some decline from 1992 to 1998 (Table 5). The decline in the number of the self-employed owners seems to account for most of the decline between 1992 through 1989. This can be partly explained by the shift in the "career" oriented business owners to the status of "hired employees" in a growing economy with more higher-paid jobs, as indicated in the decline in the number of self-employed individuals reported in the Bureau of Labor Statistics.

[7] "Self-employed businesses owner" as used in this study was defined in the same fashion as by the Bureau of Labor Statistics. The number of self-employed business owners is much smaller than the total counts of the self-employed according to the CPO survey reported by the Bureau of Labor Statistics. This is so, because it is the number of households with the head of households There were some 8 million self-employed individuals (including the household head, spouse, and other household members).

*Characteristics of business owners in 1998: self-employed, owner/managers; owner/investors, and angel investors*

Who are these business-owning household heads? This section provides a statistical description of them in comparison to those non-business-owning households. The first part of this analysis will be primarily descriptive, where demographic and economic characteristics of non-business owners will be compared with business-owning households. Using the 1998 data, this descriptive analysis involves the careful comparison of the ratios using chi-square and t-tests to assess the differences among business and non-business-owning families. In the second section, logistic regression models are then used to assess the types of families and business owners more likely to be classified as business owners (business ownership for yes/no). Personal, demographic, and financial characteristics of the family are regressed on dummy variables representing business owners versus non-owners.

Results—Univariate Analysis

Table 5 compares the characteristics of business owners and non-owners in the 1998 survey. Statistically significant differences between non-business and business-owning households are identified in column 2 (non-business). When comparing these households, business owners were found to have the following characteristics:

1. Higher income and higher net worth;
2. Concentrated in the prime age group of 35-64;
3. Received more education—with college education or higher; and
4. Living with a spouse or a partner

In addition, business owners were financially more savvy as far as their investment and borrowing are concerned. They were more willing and more capable of using non-traditional consumer credit instruments, such as credit lines and installment loans, than simply the traditional credit card, car loan, or residential mortgage loan. Their asset holdings were also more diversified—including bonds, other financial securities, and, of course, the equity position in businesses. The picture was similar to the previous years: 1989, 1992, and 1995.

Table 5 also compares the different types of businesses. Owner-manager households tend to be somewhat younger, more likely to be white owned, more likely to owned by a male, have higher income and net worth, and are less likely to be working for someone else than self-employed households. In addition, they are less likely to own a professional practice, more likely to have income from the sale of stocks or bonds, more likely to have other financial assets and other business interests, more likely to hold line of credit and mortgage debt and less likely to have vehicle debt than self-employed households. Angel investor household heads are more likely to be from an "other" minority group, have more education, have higher income and wealth, never married, more likely to be working for someone else, less likely to be a professional practice business, more likely to have income from non-taxable investments, dividends and the sale of stocks, bonds or real estate, and more likely to have line of credit and mortgage

debt and less likely to have vehicle debt. Other angel household heads are more likely to be older, white, male, better educated, higher income and wealth and married than self-employed household heads. In addition, they are more likely to be financial sophisticated (have income from non-taxable investments, dividends, sale of stock and net rent/trust/royalties and have wealth held in stock mutual funds, directly-held mutual funds, stocks, thrift-type plans, real estate and other non-financial assets and hold line of credit debt) and less likely to have credit card and vehicle debt.

Results—Multivariate Analysis

The regressions that quantify the statistical significance of some of these characteristics with a logit analysis are performed and results reported in this section. . Two sets of regression models with variables for the log of household income and net worth added to the second set of regressions. Table 6 provides the results for the regression that contains log variables for income and net worth. The full model is specified as follows:

$$OWN_j = \alpha_0 + \alpha_1 age + \alpha_2 race + \alpha_3 gender + \alpha_4 ed + \alpha_5 ms + \alpha_6 cen + \alpha_7 loginc + a_8 lognw + a_9 debtrat + a_{10} equityrat + \varepsilon$$

where $OWN_j$ = owner type (self-employed, owner-manager, angel or other angel);
age = age of the household head (dummy variables for less than 35, 35 to 44, 45 to 54, 55 to 64, 65 to 74 and 75 and older);
race = race of the household head (dummy variables for white);
gender = gender of household head (dummy variables for male);
ed = education level (categorical variables for high school graduate, some college, college graduate);
ms = marital status (dummy variables for married or otherwise);
cen = census region (dummy variables for north central, south and west);
loginc = log of household income;
lognw = log of net worth;
debtrat= non-consumer personal debt ratio (ratio to total debt); and.
equityrat = equity investment ratio (ratio of total assets).

This regression analysis supports earlier univariate analysis. Business-owning household heads tended to be older, white, male and married. In addition, business-owning households had a higher net worth and higher equity investment ratio than non-business-owning households. When considering just the business owners, households owning a self-employed business had lower equity investment ratios than other business-owning households. Households owning and managing a business with employees had higher income and higher equity investment ratios. Households owning but not managing a business (angel household) had lower income and higher net worth than other business-owning households. Households with a mixture of owner/manager and owner only businesses (other angels) had lower income and higher net worth than other business-owning households. *While the results are limited because of the limited*

*information (and variables) available from the database, it is encouraging to see that those variables discussed above are significant.*

*Characteristics of multiple-business owner/manager/investors*

A different way to classify business owners yields additional insight into the property of "entrepreneurs"—those that build and/or invest in businesses to build and grow new ventures, using new methods, new materials to make new products. Owners that own and manage more than one business are separated from those that own and manage a single business. The latter group is the set of business owner/managers who consider owning and running a business as a career rather than working for someone else (as a hired employee or professional staff). Business ownership is a career choice for these individuals who prefer independence. They are less interested in wealth building or investing in wealth growth than the other group. The multiple-business owners start and/or own businesses to build and grow wealth. This group forms the basis for the emergence of entrepreneurs and the venture investors—the group that is closer to the entrepreneurs that create new ventures. A third group includes owners that own one or more businesses, but do not manage any. (These may be the angel investors.) This group includes some passive investors that accidentally became business owners as well as first-time business investors.

Results—Univariate Analysis

Table 7 uses the second definition of businesses (multiple-business owners, owner-managers and angel investors) and summarizes the number of households and the shares of aggregate income and net worth held by these three types of business-owning households in 1998. Households owning multiple business comprise just over 20 percent of business-owning households, however the earn nearly 38 percent of the income and hold over 47 percent of the net worth of business-owning households. Owner/manager households comprise the largest share of business-owning households (73.8 percent) and have a disproportionately small share of aggregate income (56.3 percent) and net worth (46.2 percent). A similar story emerges for business-owning households that do or do not hold any public stock.

Table 8 compares multiple-business owners with single owners and angel investors for 1992 and 1998. In 1992, single business owners were more likely to be female, less well educated, lower income, lower net worth, less likely to be married and more likely to be working for someone else (and less likely to be self-employed) than multiple-business owners. In addition, multiple-business owners were more likely to have investment, interest and dividend income; more likely to hold stocks, bonds and other investment vehicles; and more likely to hold a mortgage than single business owners. Angel investors were somewhat younger; more likely to be female; less educated; lower income; lower net worth; less likely to be married; less likely to be self-employed (more likely not to be working); less likely to have all sources of income except non-taxable investments and sales of stocks and bonds; less likely to hold all forms of wealth except stock mutual funds, thrift-type plans and net equity in real estate;

more likely to have credit card debt; and less likely to have line of credit or mortgage debt.

The comparisons for 1998 are very similar. Single business owners were somewhat younger; less likely to be white; lower income; lower net worth; more likely to be working for someone else (less likely to be self-employed); less likely to have income from non-taxable investments, dividends, sale of stocks/bonds and net rent/royalties; less likely to hold wealth in stock mutual funds, stocks, net equity in non-residential real estate and other non-financial assets; more likely to have credit card and vehicle debt; and less likely to have line of credit and mortgage debt than multiple-business owners. Angel investors were less likely to be white; somewhat lower income; lower net worth; less likely to have been previously married (more likely to never married); more likely to be working for someone else or being not currently employed; less likely to have professional practice income; more likely to own a thrift type plan and less likely to have net equity in non-residential real estate and other non-financial assets; and more likely to hold credit card debt.

Results—Multivariate Analysis

Tables 9a and 9b examine the characteristics of all business owners, multiple owners, single owners and angel investors. Table 9b includes two additional independent variables (log of family income and log of family net worth) not included in Table 9a. The most important determinants in this analysis are the non-consumer personal debt ratio and the equity investment ratio. Based on Table 9b, the results for a greater degree of financial sophistication as indicated by the ratio of non-consumer debts (other lines of credit and other debt) to total debt and the ratio of nontraditional assets (non-residential real estate, business investments, stocks and bonds) relative to total assets are most encouraging—the signs are correct, and one of the two variables was found statistically significant for multiple-business owners. When controlling for family income and wealth, multiple-business owners are more likely to have higher financial sophistication in holding debt, but not in holding assets. Similar regressions are reported for owner-managers (single owners) and investor only (angel investors) with both of these variables, non-consumer personal debt ratio and equity investment ratio, not being statistically significant.

*What is the relationship between the number of business owners and the number of businesses in the United States?*

As discussed in previous section, the relative stable, or a slight decline in the number of business owners during the four survey period needs further investigation. It is necessary to compare the changes in the numbers of business owners and the number of businesses in the United States during this period of the divergent trends observed. Of the 21 million businesses in the United States in 1998, some 16 million of them had no employees (Table 10).[8] Of the 5.6 million employer firms, they had over 6.8 million

[8] The estimates of total number of businesses in the United States ranges from around 7 million or 8 million to over 25 million in the United States. Depending on the sources used. After completing the count of the number of non-employer firms in the U.S. in 1996, the number from the Bureau of Census which includes

establishments and employed over 105 million people with their employees earning over $3 trillion in payrolls. While the number of businesses increased significantly during the 1990s in the United States[9] the number of households that owned businesses remain relatively stable, or even declined slightly from 1989 through 1998 (Table 11).

As Table 11 indicates, the ratio of households with the family head owning a business to total households ranged from 12.7 percent to 14.2 percent during the four survey periods (1989, 1992, 1995 and 1998) with a declining trend from 1992 to 1998.[10] In the meantime, the ratio of the total number of businesses to the total nonfarm labor force or to total households increased for the period, with exception of self-employed individuals (Charts 1 and 2).

How do we reconcile this declining trend in business ownership with the rising tide of entrepreneurship so widely discussed in the business literature? One possible explanation is the nature of the statistical surveys used—the possibility of of the survey to miss business owners/managers in immigrants and in the lower income groups. However, without more information about the undercounts and the under-representation of the sub-income group in the total household population and the standard errors of estimates for the four surveys, it is difficult to speculate on the significance of this factor.[11] Another possible explanation is that multiple-business owners are owning and/or operating more businesses. An additional explanation is the number of self-employed members of the households has increased during the four survey years. The number has increased by 16 % during the four survey years. Taking the estimates as they are, one explanation for the divergent movement in the numbers of businesses and business owners is that more households are owning more than one business and/ or that more spouse of the business-owning households are engaged as the self-employed and thus owing businesses, even though there is no increase in the number of business-owning households. That is, more business-owning household heads are becoming multiple-business owners, more spouses of business-owning household heads are owning businesses, or both.[12]

*Growth in the wealth of business owners, 1989-1998, A summary*

A recent report prepared for the SBA ("Wealth and Income: How Did Small Businesses Fare from 1989 to 1998") investigated the factors contributing to the growth of household income and wealth for business owners.[13] The report found five things:

(1) While the economic pie increased in size from 1991 through 1997 for most groups of small business owners, some types of small businesses

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the employer firms and non-employer firms will be used here. The reader is reminded that there are million non-employer firms with very limited annual revenues—under $5,000.

[9] The number of start-ups ranged from 600,000 to 700,000 for the employer firms (based on the study of EIN applications by the Bureau of Census) and almost 3 million annually for all businesses based on the NFIB-Wells Fargo study.

[10] The ratio of total self-employed individuals to total labor force in the United States has also shown slight decrease during the past 10 to 15 years. (see

[11] A "business" as used in the SCF seems to be a more full-fledged business—corresponding more closely to the employer-firm than to the total business counts derived from tax-return data, which include millions of non-employer-firms.

[12] This development could be explained by the increasing number of women-owned businesses during the past decade.

[13] See George Haynes (2001).

fared better than others. Small business owners without any financial resources invested in the publicly traded stock realized very modest gains in wealth and modest losses in net income. Larger small businesses registered the most substantial gains in mean and aggregate net family income and wealth. The self-employed (0 to 1 employees) realized very substantial gains in wealth, but much less modest gains in net income;

(2) Small businesses with more complex forms of legal organization, such as corporations, were more likely to realize more substantial gains than other types of legal organizations. Sole proprietors, the dominant form of ownership, realized smaller gains than any other type of legal organization;

(3) Small businesses inherited by the current owner realized the largest gains in net income and very modest gains in wealth, while small businesses started by the owner realized the largest gains in wealth;

(4) Small businesses engaged in the service industry realized the most substantial gains in both net income and wealth; and

(5) The most successful business owners were those owning more than one business. This group of families realized increases in mean income and wealth and shares of aggregate income and wealth surpassing all other groups.

It is interesting to observe that the growth of wealth for a majority of business owners during the period 1989-1998 came mostly from the ownership of publicly traded stocks, not from the ownership of small privately held businesses. Possible explanations include the rising costs, especially the rising labor costs and capital costs to very small business owners and the possible understatement of the value of the assets of privately held businesses.

**Conclusions**

This study examined the Federal Reserve's Survey of Consumer Finances to provide estimates of the number of households owning privately held businesses in the United States as well as comparing the demographic and economic characteristics of business owners and non-business owners. The study reached three conclusions.

(1) Between 13 and 14 percent of households in the United States owned privately held businesses in the United States.

(2) These households have relatively higher income, significantly more net worth, were in the prime age groups of between 35-60 years of age, and have more education.

(3) While the economic pie increased in size for most groups of small business owners during 1991-1997, some business owner groups fared better than others; business owners with financial resources invested in publicly traded stock, owners of large and more complex businesses, and owners of multiple businesses fared the best. Since the ratio of business-owning households to total households stayed the same or declined slightly during the four survey years (1989-1998) and the

> number of business entities relative to the total household and nonfarm labor force rose during the same period, it appears that an increasing number of multiple-business owners (or an increased number of businesses owned by multiple-business owners) contributed to the increase in business entities during the 1990s, rather than a rising number of individual business owners (or increases in entrepreneurship). The growth in businesses in the United States appears to be the result of additional investing by owners of multiple business, not of an increased number of business owners or entrepreneurs.

While business ownership is risky, business-owning households had a significantly higher probability of being classified as having high income and high net worth than non-business-owning households. Small business owners were somewhat more likely to be classified as high income (52.2 percent in 1992 versus 56.7 percent in 1998) and high net worth (12.5 percent in 1992 and 14.8 percent in 1998) in 1998 than in 1992. Businesses realized substantial gains in both real net income and net worth from 1989 to 1998, however these gains were somewhat lower than the gains realized by non-business-owning households. However, larger businesses and multiple-business owners were significantly different—they realized substantially higher gains in real net income and wealth than other businesses. Given these gains in income and wealth, it should be no surprise that the number of business-owning families has remained quite stable at around 12 million to 13 million families, while the average number of businesses owned by these families has increased. The growth in businesses in the United States appears to be the result of additional investing by multiple-business owners, rather than an upsurge in entrepreneurial activity by single business owners.

This result has important implications for agencies providing financial support for entrepreneurial businesses. If the goal is encourage more households to invest in business, then the current programs (especially educational programs) targeting start-up business are on target. If the goal is to increase economic activity and/or increase the number of business ventures, this study would indicate that investing in multiple-business owners may more readily achieve these goals than investing in start-up businesses where the business owner has never owned a business.

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