Abstract

• Prior research using data from the National Longitudinal Survey of Youth 1979 Cohort (NLSY79) has found earnings patterns of young less-educated business owners are superior to earnings patterns of young less-educated wage and salary workers (Fairlie 2004).

• These findings suggest that business ownership and self-employment present a feasible pathway for less-educated and disadvantaged youths to escape poverty.

• Less studied is whether the earnings patterns of all business owners are superior to earnings patterns of wage and salary workers in general.

• Beyond the psychic income that business owners receive from being their own boss, is it the case that business owners and wage-payers do better financially than wage-takers over the long run?

Data and Methods

• Key methodological question: How to define a business owner given the data available?

• The Current Population Survey (CPS) question concerning the "class of worker" category of the respondent lends itself as a useful tool to address this issue.

• Possible worker types include: (1) private sector employee, (2) government employee, (3) self-employed, (4) working without pay.

• The CPS asks respondents to categorize their worker type for their (a) most recent job and, separately, for up to five distinct jobs (labeled "Job 1," "Job 2," etc.), complicating the labeling of any particular individual as a business owner.

• Two approaches taken to define business owners using the "class of worker" category.

• Approach 1: Look only at respondent’s answer to most recent job (i.e., assume that the respondent’s most recent job is the respondent’s main job for a particular year) and ignore all other jobs for categorization purposes. Using this approach, a respondent is considered self-employed if they self-categorize their most recent job as a self-employed job (regardless of how many hours the respondent worked on average in their most recent job).

• A business owner using Approach 1 is defined as any respondent who self-classifies as anyone who self-identifies as self-employed in their most recent job for that job and, separately, for up to five distinct jobs (labeled "Job 1," "Job 2," etc.), complicating the labeling of any particular individual as a business owner.

• Approach 2: Analyse all five distinct jobs, categorizing a respondent as a business owner if for any particular job, the respondent self-identifies the job as a self-employed job and the respondent reports working at least 30 hours per week, on average, for that job. As with Approach 1, a business owner using Approach 2 is defined as any respondent who self-identifies as self-employed for any five of the ten "classification" years.

• The classification years are years in which self-identification as being self-employed using Approach 1 or Approach 2 contributes toward determining whether a respondent is classified as a business owner (or not). Given the failure rate of new businesses (according to the SBA, approximately one-half of all establishments survive five years or more and approximately one-third survive ten years or more) and the phenomenon of many entrepreneurs starting multiple businesses over the course of their careers, a business owner defined using either approach need not self-identify as self-employed for five consecutive years.

• The classification years are the ten years spanning 1983 to 1992. The choice to begin the classification years in 1983 was influenced by the fact that 1983 marked the first year that all individuals in this cohort were at least 18 years of age (the 1979 cohort includes individuals who were 14 years of age when the surveys began in 1979).

• The decision to limit the classification years to only ten years is arbitrary but was influenced by the length of the time series: The time series spans 34 years and we desired to observe economic outcomes 10 years and (nearly) 20 years from the end of the classification period.

• (Unweighted) sample sizes using Approach 1 and Approach 2:

- N = 234 (Approach 1), N = 0 (Approach 2)

• For obvious reasons, Approach 1 was selected as the classification method to define business owners. Weighted, the 294 subsample of individuals dubbed business owners constitute 3.5 percent of the total sample.

• Three indicators of economic wellbeing were analyzed for business owners and non-owners: (1) total wage and salary income (of the respondent), (2) family net worth, and (3) total net family income.

Results

• Analysis of the economic wellbeing indicators show that business owners, as defined using Approach 1, clearly outperform non-business owners at both the (approximately) ten-year and 20-year mark (see Table 1 below). These findings square with Fairlie’s 2005 results, given in Table 2.

• Table 1: Comparative Economic Performance between Business Owners and Non-Business Owners over Times: 1993-2012

<table>
<thead>
<tr>
<th>Year</th>
<th>Business Owners</th>
<th>Non-Business Owners</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993</td>
<td>$21,393</td>
<td>$19,865</td>
</tr>
<tr>
<td>2004</td>
<td>$56,359</td>
<td>$49,072</td>
</tr>
<tr>
<td>2008</td>
<td>$82,273</td>
<td>$64,832</td>
</tr>
</tbody>
</table>

• Table 2: Results from Fairlie (2005)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Wage and Salary Income</th>
<th>Family Net Worth</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993</td>
<td>$21,393</td>
<td>$177,655</td>
</tr>
<tr>
<td>2004</td>
<td>$56,359</td>
<td>$49,935</td>
</tr>
<tr>
<td>2008</td>
<td>$82,273</td>
<td>$99,978</td>
</tr>
</tbody>
</table>

• In 2012, respondents were asked whether they owned any businesses between 1993 and 2008.

Conclusion

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• See references for a complete list of references.

Note: The views expressed in this presentation represent those of the author and do not necessarily reflect the views of the NFIB Research Foundation.