

Small Business Facts

THE IMPORTANCE OF BUSINESS OWNERSHIP TO WEALTH

August 2021, Brian Headd, Economist

At a Glance

A substantial amount of family wealth is in business ownership. On average, the self-employed are wealthier than the non-self-employed. This implies the value or potential value of business ownership in economic mobility.

Business equity represents a relatively large share of nonfinancial assets.

In 2019, nonfinancial assets represented a 58 percent share of total assets, while business equity was 34 percent of nonfinancial assets (Chart 1). Business equity was second only to primary residence's 45 percent share. (Source: Federal Reserve Board, Survey of Consumer Finances)

As net worth increases so does the probability that families have business equity.

In 2019, 45 percent of families in the top 10 percent of net worth had business equity, 23 percent for the 75 to 89 percentile, 14 percent for the 50 to 74 percentile, 5 percent for the 25 to 49 percentile, and 3 percent for the bottom 25 percentile. (Source: Federal Reserve Board, Survey of Consumer Finances)

The self-employed have a higher median net worth than others.

The median net worth of self-employed families at \$380,000 in 2019 was over four times that of families of workers (\$90,000) and over twice as much as families of retirees (\$178,000). It is not clear if the self-employed choose self-employment because they started with greater wealth, or if they created it, or both. (Source: Federal Reserve Board, Survey of Consumer Finances)

The relatively large wealth of a few skews the averages.

In 2019, the median net worth of a family was \$122,000 versus the mean of \$747,000. For self-employed families, the spread was even larger at \$380,000 and \$2.7 million, respectively. This spread is increasing as median wealth is down a few thousand dollars (inflation adjusted) over the last 20 years while mean wealth is up 30 percent. (Source: Federal Reserve Board, Survey of Consumer Finances)

Business equity as a share of nonfinancial assets differs for demographic groups.

Business equity makes up a larger share of nonfinancial assets for White (non-Hispanic) families at about one out of every three dollars than it does for Black (non-Hispanic) or Hispanic families, where business equity makes up about one out of every eight dollars for each (Chart 2). Over the last 20 years, business equity shares for Black and Hispanic families fluctuates with the business cycle while White families have had pretty steady increases.

In 2019, the median net worth for families was \$122,000; for Black families the median net worth was \$24,000; for Hispanic families it was \$36,000; for White families it was \$189,000; and for other or multiple-race families it was \$75,000. (Source: Federal Reserve Board, Survey of Consumer Finances)

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Chart 1. Share of Nonfinancial Assets, 2019

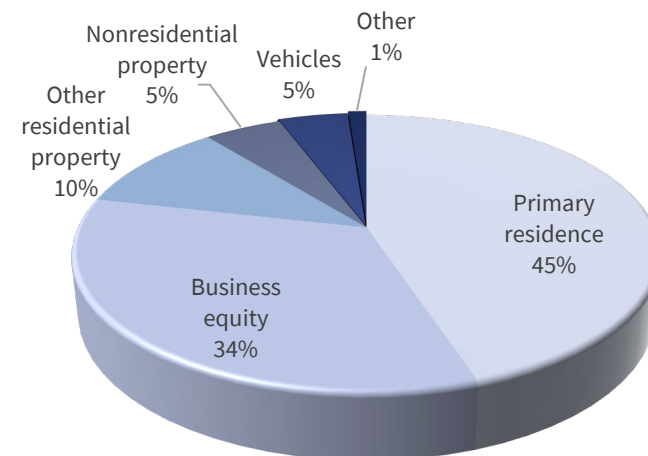


Chart 2. Business Equity Share of Nonfinancial Assets by Owner Demographic (2019 \$000)

