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Small Business Research Summary

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Income and Net Worth of Veteran Business Owners over the Business Cycle, 1989–2010

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Purpose

Veterans constitute a vital part of the nation's population and business sector. Their economic success is a national priority and a key objective of government efforts to expand small business and entrepreneurship opportunities. The recent recession challenged all businesses. While there has been ample discussion of the growth and decline of businesses during the economic cycles of the past 30 years, knowledge of the experience of business owners (at either the individual or household level) is lacking.

This study focuses on the changing financial health of veterans during recent economic cycles. It examines the changes from 1989 to 2010, a period covering several economic expansions and contractions, for all veteran and non-veteran households and for those owning small businesses.

The 21-year period from 1989 to 2010 is one of extremes. The 1990s were marked by the largest ever peacetime expansion in the U.S. economy, while the U.S. economy experienced its most substantial decline since the Great Depression from 2007 to 2009. This rapid expansion and subsequent rapid contraction has raised a key question for decision makers and policy officials concerned with the well-being of veteran business owners and entrepreneurs: How have these expansions and contractions affected the financial well-being of veteran households with small businesses? This study utilizes data from the Federal Reserve Board's Surveys of Consumer Finance (SCF) from 1989 through 2010 to evaluate financial health in terms of changes in income and net worth for veterans and non-veterans. It updates a previous investigation of veteran household income and net worth done in 2007 for the Office of Advocacy.[1]

Background

Veteran business owners and entrepreneurs make important contributions to business creation and growth in the American economy. Their active duty and reserve service often provide them with important skills and leadership qualities that are directly relevant to business ownership. While veterans comprise an important segment of the nation's population and economy, veteran households have actually become a substantially smaller percentage of all U.S. households (and small business–owning households) over the past two decades. The percentage of veteran households declined from 30.7 percent in 1989 to 19.5 percent in 2010. The number of veteran households with small business ownership declined by over 28 percent, or 1.1 million households, over this period. This decline is largely due to the aging of the veteran population and the fact that the population age 65 and over has increased at a faster rate than the overall population between 2000 and 2010.[2]

The general economic expansion of the 1990s had an uneven impact on the net worth of households, dramatically increasing the net worth of some, leav-

1. George Haynes, 2007. *Income and Net Worth of Veteran Business Owners, 1989-2004.* U.S. Small Business Administration, Office of Advocacy. Available at www.sba.gov/advo/research/rs310tot.pdf, accessed July 16, 2014.
2. Jules Lichtenstein, "Profile of Veteran Business Owners: More Young Veteran Appear to Be Starting Businesses," Issue Brief Number 1, U.S. Small Business Administration Office of Advocacy, November 8, 2013. Available at http://www.sba.gov/advocacy/issue-briefs, accessed November 4, 2014.

ing others with more modest increases, and decreasing the net worth of others. The Great Recession in the late 2000s dramatically decreased the net worth of many households while leaving some relatively unscathed.

Drawing on data from the SCF from 1989 through 2010, the study uses both descriptive analysis and analytic models to describe changes in the financial well-being of veterans and non-veterans over this period as well as to identify the key factors affecting their relative well-being.

Overall Findings

The most striking finding of this study is that veteran small business owners fared better financially than veterans not owning a small business. This was the case even though the general impact of the business cycles from 1989 to 2010 on veteran and non-veteran small business owners was very similar—i.e., both groups experienced very similar cyclical changes in income and net worth from 1989 to 2010.

Also of note are the findings of the regression analysis which controls for such demographic variables as age and education. The regression analysis found that veteran households generally had lower income than non-veteran households, and veteran small business households had lower wealth than non-veteran small business households. Most importantly in the 21-year-period studied, there were no substantial changes (neither increases nor decreases) in the differences in income and wealth among the three groups studied: veteran and non-veteran households, veteran households with and without small businesses, and business households headed by veterans and non-veterans.

Findings on Income and Wealth. Specific findings on financial well-being include the following:

- Veteran households were less likely to be classified as high income and more likely to have lower mean income than non-veteran households. The percentage of non-veteran households with high income increased from nearly 20 percent in 1989 to over 26 percent in 2010, while the share of high-income veteran households declined from 36 percent to under 32 percent.
- The share of veteran small business households with high income declined by 8 percent, while increasing 12 percent for all veteran households. The share of veteran small business households with high wealth increased by 67 percent, while increasing at a slower rate—23 percent—for all veteran households.
- Veteran and non-veteran small business owners realized significant declines in mean income during the severe contraction between 2007 and 2010 (Figure 1).
- Significant increases were seen in the share of veteran and non-veteran small business households having high net worth.[3] Both sets of households realized very similar (and significant) increases of over 60 percent. The regression analysis suggests that veteran small business households had significantly lower net worth than non-veteran small business households.

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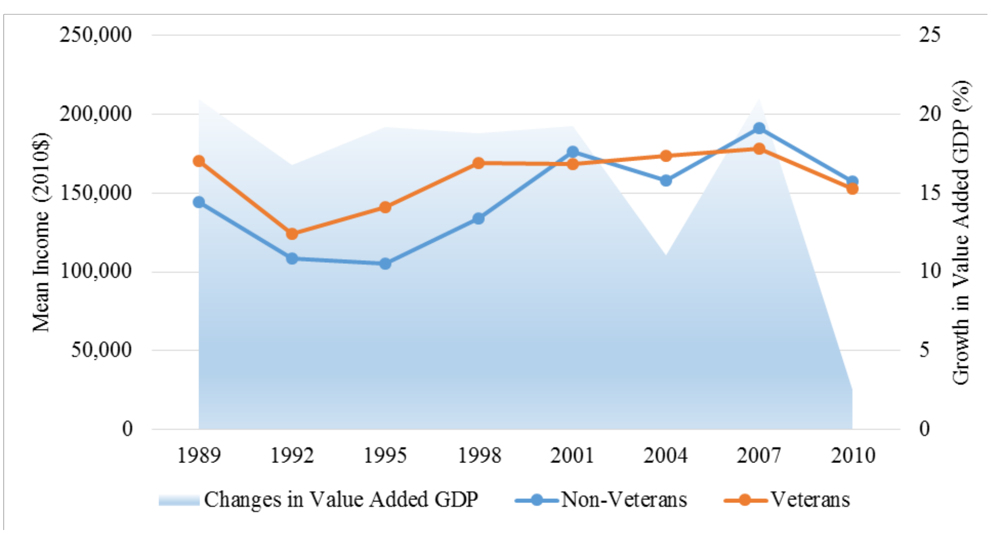
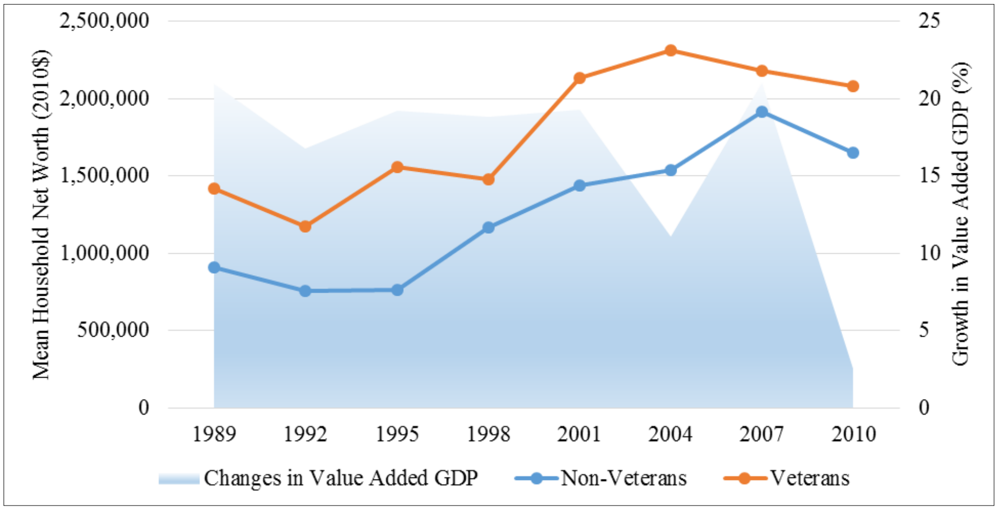
3. Net worth is defined as assets minus liabilities.



Source: George Haynes, *Income and Net Worth of Veteran Business Owners over the Business Cycle 1989–2010,* U.S. Small Business Administration, Office of Advocacy, 2014. Data from Surveys of Consumer Finance, Federal Reserve Board; National Bureau of Economic Research.

Figure 2: Mean Household Net Worth for Small Business Owners by Business Cycle, 1989-2010.



Source: George Haynes, *Income and Net Worth of Veteran Business Owners over the Business Cycle 1989–2010,* U.S. Small Business Administration, Office of Advocacy, 2014. Data from Surveys of Consumer Finance, Federal Reserve Board; National Bureau of Economic Research.

- Veteran small business households realized a significant increase in mean net worth during the 1998-2001 expansion (Figure 2). Non-veteran small business households realized significant increases in mean net worth during the 1995-2001 expansion and significant decreases during the Great Recession.

Demographic and Business Characteristics. Findings on the descriptive demographic and business characteristics of households include the following:

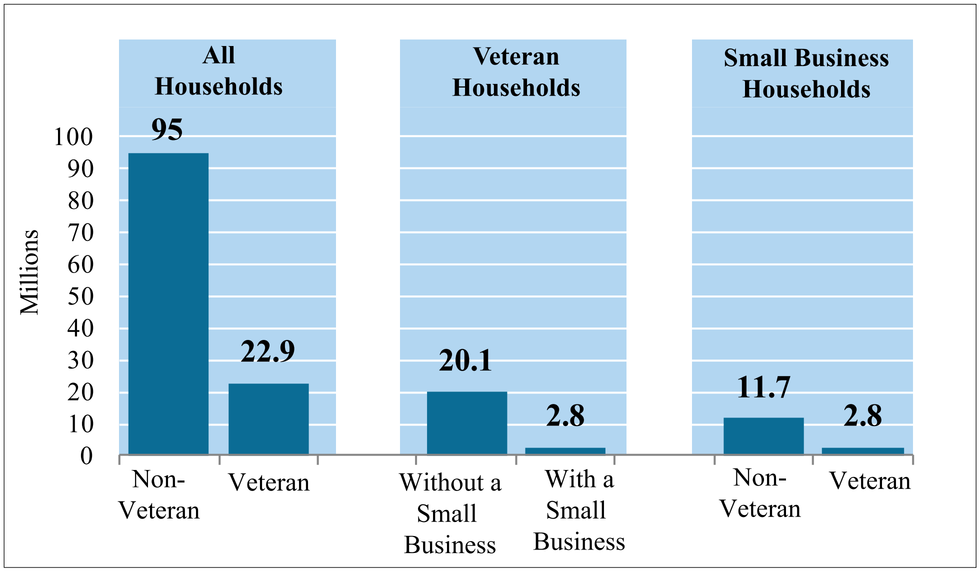
- From 1989 to 2010, the number of veteran households declined from 28.6 million to 22.9 million, while non-veteran households rose from 64.5 million to 94.7 million—an increase of 46.8 percent for non-veteran households compared to a decline of 19.9 percent for veteran households.
- The number of veteran households with small business owners decreased by over 28 percent, or 1.1 million households, while aggregate income for veteran small business households decreased by over 36 percent from 1989 to 2010.
- In the most recent year studied (2010), veteran household heads were older, and more likely to be white, male, and married than non-veteran household heads.
- Veteran heads of households with small businesses were somewhat older than their non-veteran counterparts in 1989 and 2010.
- Compared to their non-veteran peers, veteran small business households had a higher share of income in Social Security and pensions (25.2 percent versus 7.6 percent) and lower shares of income in wages and salaries (40 percent versus 48.5 percent) and business, farm, and rental income (27.8 percent versus 36.6 percent).

Policy Implications

The results of this study suggest that veteran and non-veteran small business owners had very similar changes in income and net worth through the business cycle expansions and contractions analyzed. However, veteran small business owners fared better than veterans not owning a small business. This evidence suggests that veteran small business households have a higher probability of earning more income and accumulating more wealth than other veteran households. This result reinforces the importance of policy incentives to support the growth and development of small businesses owned by veterans. Congress has also enacted legislation establishing government-wide procurement goals for contracts awarded to service disabled veterans, which should be carefully monitored.

Given the above policy implications, various programs that have been designed to help support aspiring veteran entrepreneurs and small business owners could be enhanced. These efforts include specialized assistance from SBA and its resource partners, as well as business development and entrepreneurship programs managed by SBA in conjunction with other federal agencies, such as Operation Boots to Business. Efforts by private sponsors, nongovernment organizations or universities also should be continued and strengthened.

Figure 3: Household Subgroups Analyzed in the Study, 2010.



Source: George Haynes, *Income and Net Worth of Veteran Business Owners over the Business Cycle 1989–2010,* U.S. Small Business Administration, Office of Advocacy, 2014. Data from Survey of Consumer Finance, Federal Reserve Board

Scope and Methodology

The study utilizes the 1989 through 2010 Surveys of Consumer Finances (SCF) conducted for the Federal Reserve Board to examine the impact of expansions and contractions in the U.S. economy from 1989 to 2010 on veteran households with small businesses by comparing three sets of households (Figure 3). The three groups are

1) all households—comparing those headed by veterans and non-veterans,

2) veteran households only—comparing those with and without small businesses, and

3) small business-owning households—comparing those with veteran owners and those without veteran owners.

The sampling frame for the analysis is the household. Personal and demographic characteristics are those of the respondent interviewed, typically the household head. The variables included are military status of the owner, business ownership status of the household, household income, and household net worth (including assets and debt held by members of the household). Business ownership status was determined by whether an individual owned at least one business. Household income is computed by summing various sources of income (e.g., wages and salaries, interest, and dividends). The net worth of the household was determined by generating a balance sheet supplied by the Federal Reserve Board.

Multivariate regression analyses, both logit and linear, are used to control for key household and business characteristics. A difference-in-difference regression model is used to examine the difference between veteran and non-veteran households in each of the survey years.

Control variables include personal and demographic characteristics of the household head and business owner, as well as characteristics of the business. Personal and demographic characteristics include age, race, gender, education, and marital status. In addition, financial characteristics of the household are included. Business characteristics include employee size of firm, age of the firm, legal organization, industrial classification, and founding strategy (i.e., bought or invested, started or inherited).

Business cycle information originates from two sources: the National Bureau of Economic Research (NBER), which reports U.S. business cycle expansions and contractions, and the U.S. Department of Commerce's Bureau of Economic Analysis (BEA), which reports gross output by industry.

This study examines the likelihood that a household would be classified as high income or high net worth in two ways: high income in terms of earning $75,900 or more a year (in 2010 dollars) or high wealth of holding $1.518 million (in 2010 dollars) and the likelihood that a household would be in the top 50 percent of income earnings or wealth holders in the U.S. population

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.

Additional Information

This report is available on the Office of Advocacy's research webpage at **www.sba.gov/advocacy**. To be informed of Advocacy's future research, visit the office's email subscription webpage at **www.sba.gov/content/connect-us-0**. By subscribing to the Small Business Regulation & Research category, you can choose to receive email notices of new Advocacy research, news releases, regulatory communications, publications, or the latest issue of *The Small Business Advocate* newsletter.