Center for American Progress

AP PHOTO/JULIO CORTEZ

What Data on Older Households Tell Us About Wealth Inequality and Entrepreneurship Growth

By Christian E. Weller, Jeffrey B. Wenger, Benyamin Lichtenstein, and Carolyn Arcand May 2015

Introduction and summary

Entrepreneurial activity—a measure of a country's dynamism and indicator of economic opportunity—can enhance economic growth through a number of channels. First, entrepreneurship fosters innovation through the development and marketability of advanced, often groundbreaking products and services. Second, small businesses tend to be more capital intensive than larger ones, which accelerates the adaptation and diffusion of new technologies and deepens an economy's capital base. Third, starting and running one's own business often allows entrepreneurs to better contribute their talent to economic activities over a longer, sustained period of time than in wage and salary employment.

Since the 1990s, entrepreneurship has become especially pronounced among older households, defined as those with heads of household age 50 and older. At the same time, entrepreneurship among younger households has fallen, slowing overall entrepreneurship in the United States.[1]

The growth of entrepreneurship among older households provides the opportunity to study the factors that contribute and possibly impede entrepreneurship growth. In particular, the entrepreneurship growth among older households coincides with increasing wealth inequality. The households that make up the pool from which the majority of older entrepreneurs hail—white, married, and college educated—has seen faster and more sustained wealth gains than other households as we show in this report. It is thus possible that disproportionate wealth increases among a particular subset of households contributed to limited increases in entrepreneurship associated with these wealth gains.

Alternatively, older households may have moved into entrepreneurship because they have faced increasing economic pressures in wage and salary employment such as increasing long-term unemployment spells. That is, older entrepreneurship may have increased not because older households had more money but because they needed more money. The economic pressures associated with wage and salary employment have also lowered the retirement preparedness of households nearing retirement.[2] As a consequence, older households may look at options to work longer as a way to increase their retirement preparedness. However, some of the phenomena that create economic pressures—especially longer unemployment spells—could potentially stand in the way of older households working longer in wage and salary employment. Thus, self-employment may offer a promising alternative path for older households who are facing lowered retirement preparedness.

This report looks at the Federal Reserve's triennial Survey of Consumer Finances, or SCF, a key nationally representative data set on household finances to analyze whether the disproportionate wealth gains for some older households contributed to entrepreneurship growth among households age 50 and older or whether alternative explanations for older entrepreneurship growth are more likely. More wealth could give those households interested in becoming entrepreneurs more collateral to use in order to start and expand their businesses. Furthermore, greater wealth may also give households, especially older ones, the opportunity to receive capital income—realized capital gains and interest and dividend income—as an income buffer against risky business income. By implication, though, entrepreneurship growth would be limited to a select subset of the population—young or old—if wealth is a key determinant of entrepreneurship. As wealth inequality has increased, only a small subset of households experienced growing opportunities to collateralize their wealth and use their wealth to diversify their income away from risky business income.

Data analysis for this report revealed the following conclusions:

- **Entrepreneurship growth has been concentrated among older households since 1998:** Entrepreneurship has fallen among households younger than 50 years from 1989 to 2013, while it increased for older households during that period. Older entrepreneurship growth appears to be especially noticeable when comparing the years post-1998 with prior years—up to and including 1998—as older entrepreneurship became more widespread in the later years than before.[3]

- **Wealth inequality has increased along key demographic lines:** Wealth has particularly grown among the subset of households from which entrepreneurs are increasingly found—white, married, college educated, and 50 years old and older. Households outside of this narrowly defined group have generally experienced little to no wealth increases over time. That is, older middle-class households may have been left out of entrepreneurship opportunities because they lacked savings and owed a substantial amount of debt.[4]

- **Older entrepreneurs increasingly rely on their wealth as collateral:** The share of older entrepreneurs who use their own personal wealth as collateral increased after the mid-1990s. Furthermore, the amount of personal wealth that these entrepreneurs collateralized has simultaneously increased as well.

- **Older entrepreneurs rely on capital income for income diversification more and more:** The share of older entrepreneurs with substantial capital income—income that is greater than $5,000 in 2013 dollars—has gone up since the mid-1990s.

- **It is all about economic opportunities, not economic pressures:** There is little evidence suggesting that economic pressures in wage and salary employment led older households to increasingly seek out entrepreneurship. For a subset of older households, entrepreneurship instead appeared to be driven by growing opportunities, such as the ability to tap into more wealth to start a business. Also, expanding access to Social Security benefits as a means to diversify income increasingly matters for older entrepreneurs, underscoring that growing opportunities relate to rising entrepreneurship.

The data analysis for this report, while focusing on older households, tells an interesting story about the potential link between entrepreneurship and wealth inequality that is relevant for economic policy more broadly. Rising wealth among a subset of higher-income households gave those households the opportunity to pursue entrepreneurial activities that otherwise would not have existed. Older households pursued these activities to generate streams of income that were unrelated to risky business income and because they could use their wealth as collateral. Policymakers interested in promoting increased entrepreneurship among older households—where economic pressures have been very noticeable—could consequently pursue two separate but not mutually exclusive paths: They could find ways to build wealth on a broader base than has been the case in the past, especially by emphasizing asset building among people of color, single women, and younger households, and they could develop ways for older households interested in pursuing entrepreneurship to diversify their incomes.

Our Mission

The Center for American Progress is an independent, nonpartisan policy institute that is dedicated to improving the lives of all Americans, through bold, progressive ideas, as well as strong leadership and concerted action. Our aim is not just to change the conversation, but to change the country.

Our Values

As progressives, we believe America should be a land of boundless opportunity, where people can climb the ladder of economic mobility. We believe we owe it to future generations to protect the planet and promote peace and shared global prosperity.

And we believe an effective government can earn the trust of the American people, champion the common good over narrow self-interest, and harness the strength of our diversity.

Our Approach

We develop new policy ideas, challenge the media to cover the issues that truly matter, and shape the national debate. With policy teams in major issue areas, American Progress can think creatively at the cross-section of traditional boundaries to develop ideas for policymakers that lead to real change. By employing an extensive communications and outreach effort that we adapt to a rapidly changing media landscape, we move our ideas aggressively in the national policy debate.

Center for American Progress