

# WHAT CAN I DO WITH A DEGREE IN ENTREPRENEURSHIP???

## Entrepreneurs in the U.S. economy

F. Scott Fitzgerald supposedly said to Ernest Hemingway, "The very rich are different from you and me." To which Hemingway is said to have replied, "Yes, they have more money." Had Hemingway been talking about the nation's entrepreneurs, he would have been only partially correct. They do have more money than the average household. But entrepreneurs differ from the rest of the population in other ways.

**Who are entrepreneurs?** People who own businesses, invest their own money in their businesses, and actively manage their businesses: self-employed business owners. Roughly 7 to 8 percent of the nation's households are headed by people fitting this definition.

In "Evidence on entrepreneurs in the United States: Data from the 1989–2004 *Survey of Consumer Finances*" (*Economic Perspectives*, fourth quarter 2007, Federal Reserve Bank of Chicago) Mariacristina De Nardi, Phil Doctor, and Spencer D. Krane use data from the Federal Reserve Board's Survey of Consumer Finances to show how entrepreneurs are different and how their behavior plays an important role in the U.S. economy.

Entrepreneurs are wealthy, on average. They own nearly one-third of all wealth in the United States. Their median net worth ranges between about \$260,000 and \$540,000 in the years studied. This is between 4 and 6.5 times the median net worth of other households. The median income for entrepreneurs—ranging from \$52,000 to \$85,000—is only about 2 times greater than that of others. Even when their business assets are excluded, entrepreneurs have significantly higher wealth-to-income ratios than other households. That is, they have higher savings rates than other households. These savings are necessary to overcome the "liquidity constraints" faced by entrepreneurs. Unable to borrow all they need for business start-ups or expansions, the entrepreneurs invest their own savings in their businesses.

Entrepreneurs are also more educated than other heads of households. They are much more likely to have a college degree. The fraction of entrepreneurs with a college degree is 15 to 20 percent higher than the proportion for the rest of the population. As would be expected, entrepreneurs are less likely than others to have only a high school diploma or less education.

Entrepreneurs are less likely to be minorities. The percentage of entrepreneurs that are not white ranges between about 8 percent and 13 percent during the 1989–2004 period. Among other heads of households, approximately 25 percent, on average, are nonwhite.

Entrepreneurs most often work in professional practices (such as law and medicine); contracting and construction; farm, agricultural services, and landscaping; and general retail and wholesale trade. These four areas combined account for about 57 percent of entrepreneurs' businesses.

In addition to demonstrating how entrepreneurs differ from the rest of us, the authors provide evidence to support the assertion that entrepreneurs, as savers and innovators, are important sources of wealth creation in the U.S. economy.