

Public Abstract

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Title:Wealth Accumulation Differences Between Wage Earning and Entrepreneurial Families: The Role of Active Saving Behavior

This study examines the causal relationship between entrepreneurship and wealth accumulation. Saving behavior is a potential source of family wealth differentials. It is proposed that entrepreneurial families exhibit more accelerated active saving behavior before entry into, or during, the entrepreneurship and consequently accumulate higher levels of wealth. The proposed reasons for this behavior are the cost of external funding relative to internal financing of entrepreneurial projects, the high idiosyncratic income risk associated with entrepreneurial activity, and engagement in mental accounting. To test these hypotheses, a two period Fisherian model is developed to predict the saving behavior of entrepreneurial families. The model indicates that there is a temporal effect of saving behavior among entrepreneurial families as compared with wage earning families. In addition, the proposed hypotheses are tested using PSID family data across a twenty-year horizon, 1984-2003. A "rotating" sampling technique was used, which targeted married-couples that retained the same head and wife for the study period, with the head aged between 21 and 65 years old.

Active savings was the dependent variable used to capture the behavioral differences between entrepreneurial and wage earning families. The five-year evolution of family occupation was used to develop a special coding scheme that captured the temporal effect of the family's occupational choice. Empirical support was found for the proposed hypotheses - due to financial constraints, entrepreneurial families engage in more intense saving behavior than wage earning families before entry into, and during entrepreneurship. All else being equal, they will end up accumulating more wealth. Public policy implications of these findings and future directions for research are explored.