

To a Higher Degree: Educational Attainment in Entrepreneurs

WE OFTEN HEAR TALK ABOUT THE IMPORTANCE OF EDUCATION. Parents and counselors told us how education “opens doors” as they prodded us to graduate from college. Such talk isn’t just a cliché, as I have learned from personal experience. I earned a doctorate, and it has provided me with countless opportunities that I would otherwise not have considered. The same is true for those who pursue self-employment.

In a December 2007 study for the Office of Advocacy of the U.S. Small Business Administration, “Educational Attainment and Other Characteristics of the Self-Employed” (available online at www.sba.gov/advo/research/rs313tot.pdf), I looked at the linkage between educational attainment and self-employment. The analysis found that the likelihood of becoming one’s own boss increases with additional college education. For instance, heads of households with some post-baccalaureate experience are 8.3 percent more likely

to be self-employed than not; whereas those with any college are 3.3 percent more likely.

This finding wasn’t surprising, as other studies also support the notion that more education is a significant determinant of self-employment. In fact, higher levels of education are seen, by and large, as a net positive for an economic region, and many researchers have supported the concept of creating a “knowledge-based” or “creative” economy as a means for promoting more entrepreneurship and enhancing economic growth. Others state that self-employment is often a means of lifting oneself up out of a dire economic situation, and educational attainment plays a significant role in effecting such change.

Yet, other studies have suggested that more education doesn’t always lead to increased self-employment.

Post-baccalaureate education—despite my results—is often not associated with greater entrepreneurship.

The reason is simple. Those with more education have many career opportunities, and many of those options have compensation levels that make self-employment less attractive. With that said, some professions that require more education by their very nature lend themselves to being one’s own boss (e.g., doctors, lawyers, accountants, consultants, etc.). Furthermore, some researchers observe that high school education is a better measure of entrepreneurial activity in a region, and they surmise that this is because small-business owners tend to locate in areas with a skilled workforce, albeit one that is not necessarily college educated.

My study also showed that individuals are more likely to be self-employed if they have greater wealth. In this analysis, wealth is measured by homeownership or the value of one’s home. As you might expect, those with a house, and especially

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those with a more valuable home, were more likely to have the resources to start their own business.

More unexpected, however, is the finding that prior military service substantially increased the likelihood of self-employment. In fact, veterans are roughly 10 percent more likely to own their own business than non-veterans. Although more research is needed into why veterans are more likely to be self-employed, this result demonstrates clearly their entrepreneurial spirit.

The study also discusses what I refer to as “soft services,” or service-sector industries that are more white-collar in nature—such as retail trade; information; finance and insurance; professional, scientific, and technical services; etc. Consultants would be part of this group. Heads of households employed in the soft service sector are 2.9 percent more likely to be self-employed, and greater education slightly increases that probability.

Beyond educational attainment, several other important characteristics of self-employment can be observed. For instance, self-employed heads of household are more likely to be older, married, white, Internet savvy, and rural. Such findings are consistent with earlier studies. Moreover, certain industries are more prone to self-employment than others. For instance, there aren’t many people who are their own boss in the manufacturing sector; however, the construction sector is overwhelmingly dominated by smaller companies.

It’s always nice to have a study confirm findings from previous research, and this study was no exception. At the same time, it also poses some new questions for possible next avenues of research. For example, are there particular aspects of increased human capital that matter for some entrepreneurs and not others? Moreover, do the specific educational experiences of the student matter? (Such as, does it matter if a student’s degree is in business or in some other discipline?) Last, given that many individuals start their own firm later in life, their human capital expe-



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riences go beyond formal training. Many work in the private sector for a number of years, gaining valuable experiences, and then pursue their dream of becoming their own boss. How do these insights enter into the equation? Along those lines, what is it specifically about military service that makes that group more likely to engage in self-employment? (The latter is a question that I have been asked many times by policymakers and the media.)

In a separate study, which is still in progress, I draw three (preliminary) conclusions. First, salaries for the self-employed tend to follow a u-shaped distribution. They are more likely than the rest of the population to earn less than \$20,000, and they are also more likely to earn more than \$100,000. In other words, not all business owners are doing well financially. Some are just barely making it, and perhaps some of them are resorting to self-employment based on necessity.

Second, the choice of one’s college major matters. Among graduates of the collegiate class of 1993, students who

majored in business, management, engineering, math, or science were more likely to work for someone else in the for-profit sector. Those majoring in education, health, or biological sciences tended to work for either the government or the not-for-profit sector. Surprisingly, the self-employed were more likely to be social science or other majors.

The last finding was also unexpected. Those working for a not-for-profit or government tended to have higher grade-point averages. (The fact that I am a government employee did not bias the results, although it’s an interesting conclusion.) Much of this can be explained, though, by the makeup of those who are employed in those sectors. For instance, many hospitals and universities are now organized as nonprofit entities, and the government is heavily involved in the business of education. Such industries would tend to attract well-educated, smart people.

The self-employed, in fact, are more likely to be generalists in their field. Edward Lazear, the current chairman of the Council of Economic Advisors, is famous for a study that noted that entrepreneurs are jacks-of-all-trades who are able to complete a number of different functions within their business but who often master none of them. Indeed, my analysis shows that the grade-point averages of the self-employed are not that different from the rest of the population.

In summary, educational attainment is a key factor in determining self-employment, and as such, it can play a large role in shaping our overall economy. Studies, such as mine and others, tend to focus on the role of human capital in shaping one’s career choices. While the studies mentioned in this article tended to focus on the characteristics of the self-employed, other researchers are focusing on the pedagogy for better equipping future small-business leaders. From that knowledge, we will be able to better shape curriculum and public policy to ensure that our nation remains entrepreneurial and that our students are able to handle the challenges of running a small business.