

THE UNOBSERVED RETURNS FROM ENTREPRENEURSHIP

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October 23, 2014, BoF CEPR 2014, Helsinki

Main idea of the paper

This paper addresses the 'returns to entrepreneurship' puzzle (Hyytinen, Ilmakunnas & Toivanen, 2013; Astebro and Chen, 2014)

- ▶ Most entrepreneurs persist, despite lower earnings levels and growth (Hamilton, 2000)
- ▶ The lower earnings levels are even more remarkable because of the higher risks attached to entrepreneurship (Hamilton 2000, Moskowitz Vissing-Jorgensen, 2002)

This is an interesting contribution

- ▶ Proposes a variety of avenues for earnings amongst the self-employed that may evade reported income (tax evasion, different forms of income, reclass of employment and HC acc)
- ▶ Theoretically describes how total financial return maps to consumption and savings, and uses these new measures to estimate the financial returns from self-employment.
- ▶ Exploits 38 years of longitudinal data to study a variety of features relating to pre, during and post self-employment outcomes
- ▶ Finds that while individuals report earning 26.2% less in self-employment, their expenditures are 4.5% higher and savings are also higher

Acknowledged drawbacks

- ▶ Measure of consumption (food and housing) is not ideal
- ▶ Selection issues (entry unanticipated)

Better positioning in the literature (I)

Various (other) explanations have been put forth

- ▶ Varying definitions of the entrepreneur have been used mixing up necessity and opportunity entrepreneurship
 - ▶ (Henrekson and Sanandaji, 2014; Levine and Rubinstein, 2012, Astebro, Chen and Thompson, 2011)
- ▶ Non-pecuniary benefits from entrepreneurship must be substantial
 - ▶ (e.g., Benz and Frey, 2008; Blanchflower and Oswald, 1998; Carter, 2011; McCraffrey, 2014).
- ▶ Non-rational factors lead to entrepreneurship such as genetic and environmental factors (Lindquist et al., 2015; Nicolaou et al., 2008), cognitive biases (Holm et al., 2013) arising from, for instance, overoptimism (Lowe and Ziedonis, 2006; Dushnitsky, 2010), overconfidence (Hayward et al. , 2006), lower risk- (Hvide and Panos, 2014) or loss-aversion (Koudstaal et al., 2014).

Better positioning in the literature (II)

Sarada builds on a fourth possible explanation for the anomaly

- ▶ Measurement of entrepreneurial incomes is noisy and difficult
 - ▶ Due to tax shelters, misreporting and accounting misalignments
(Astebro and Chen, 2014; Astebro, 2010; Feldman and Slemrod, 2007; Hurst et al., 2013)
- ▶ Others have tested the validity of this explanation too, especially more recently
 - ▶ Astebro and Chen, 2014, tax evasion/reporting;
 - ▶ Berkhout, Hartog and Van Praag, 2011, focus on opportunity costs instead of benefits, using (opportunity) wage income as alternative measure

Unacknowledged drawbacks: room for improvement?

- ▶ There is room for improving the positioning in the current literature
- ▶ Better exploit the interesting feature of the data: movements into both directions
 - ▶ Are the effects symmetric? If yes, this might show lack of time varying unobserved heterogeneity
- ▶ Link between theory and empirics is weaker than claimed (for instance, HC acc or *changes* in consumption)
- ▶ Better describe the definition of self-employment and perhaps distinguish different groups

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