ECONOMIC INEQUALITY AND ENTREPRENEURIAL ACTIVITY (SUMMARY)

Nathan S. Greidanus  
University of Manitoba, Canada, nathan.greidanus@umanitoba.ca

Ellen Shi  
University of Manitoba, Canada

Zhenyu Wu  
University of Manitoba, Canada

Recommended Citation  
Greidanus, Nathan S.; Shi, Ellen; and Wu, Zhenyu (2015) "ECONOMIC INEQUALITY AND ENTREPRENEURIAL ACTIVITY (SUMMARY)," Frontiers of Entrepreneurship Research: Vol. 35 : Iss. 11 , Article 7.  
Available at: https://digitalknowledge.babson.edu/fer/vol35/iss11/7
~ SUMMARY ~

ECONOMIC INEQUALITY AND ENTREPRENEURIAL ACTIVITY

Nathan S. Greidanus, University of Manitoba, Canada
Ellen Shi, University of Manitoba, Canada
Zhenyu Wu, University of Manitoba, Canada

Principal Topic

Entrepreneurship and economic inequality share a strong implicit connection in terms of resource allocation, motivation, social mobility, and wealth accumulation to name a few. While there is a long history of exploring the relationship of entrepreneurship in economic theory (inter alia Baumol, 1968; Schumpeter, 1961) there remains a paucity of research situated at the nexus of economic inequality and entrepreneurial activity.

Drawing on the economic development and entrepreneurship literatures we propose an inverted U relationship between entrepreneurship and economic inequality. This relationship suggests that in countries characterized by lower economic inequality there will be a positive relationship between entrepreneurial activities and rising economic inequality. However, in countries characterized by high economic inequality this relationship will be reversed, with lower entrepreneurial activity levels as inequality rises. We also propose that economic inequality will serve to magnify (positively moderate) the relationship between both entrepreneurial attitudes and aspirations and the various forms of entrepreneurial activity.

Method

Our data is drawn from the well-established datasets of the Global Entrepreneurship Monitor (GEM), which estimates entrepreneurial activity, aspirations and attitudes, from 97 countries over an 11 year timeframe; the World Bank, which provides measures of inequality in the form of GINI coefficients and various GDP measures; the World macro governance indices, which provides a number of national level control variables. We use ordinary least square regression to estimate the relationship between each entrepreneurial activity and economic inequality. We also test this relationship in our subsamples, which was indicated by higher economic inequality countries (GINI index above the median) and lower economic inequality countries (GINI index below the median).

Results and Implications

Preliminary analysis supports the inverted U relationship and suggests that efforts to increase entrepreneurial activity can actually draw on some economic inequality but that this activity will drop off if inequality becomes too extreme. Our results, using a single factor of overall entrepreneurial attitude, also correlated strongly with entrepreneurial activity. The novel contribution of this paper, however, is that inequality positively moderates this relationship between attitude and activity. All things being equal, we propose that increases in economic inequality serve to concentrate resources; this in turn limits the number of potential entrepreneurs that can access needed resources. At the same time we propose that inequality increases motivations for entrepreneurship both in terms of push and pull (reward) based drivers. From a policy perspective our results indicate that some inequality is beneficial to increasing entrepreneurial activity, but that past a given level we see a decline in overall activity as inequality increases.

CONTACT: Nathan S. Greidanus; Nathan.greidanus@umanitoba.ca; (T)1-204-474-7325; Asper School of Business, University of Manitoba, Winnipeg, MB, Canada R3T 5V4.