THE EFFECTS OF WEALTH ON ENTRY INTO ENTREPRENEURSHIP (SUMMARY)

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THE EFFECTS OF WEALTH ON ENTRY INTO ENTREPRENEURSHIP

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Principal Topic

We explore whether a lack of wealth constrains individuals from starting businesses by measuring startup rates and the early performance of new ventures in the U.S. economy across different wealth percentiles. Theoretically, wealthy individuals can start new ventures more easily than less wealthy individuals by assigning their wealth as collateral to access credit markets (Acs, 2008). However, research on wealth and entrepreneurial entry provides mixed results. Some studies find that a lack of wealth deters entry (Evans and Jovanovic, 1989; Fairlie, 1999) whereas other studies find that this relationship applies only to the wealthiest 5 percent (Hurst and Lusardi, 2004). The possibility that wealth acts as a constraint is an important issue as it suggests that poorer nascent entrepreneurs are more likely to abandon their startup efforts. This study also provides insight into job creation by nascent entrepreneurs from different wealth percentiles, making important contributions toward our understanding of inequality and entrepreneurship.

Method

We examine the link between wealth and entrepreneurship using the Panel Study of Entrepreneurial Dynamics II dataset of 1,214 nascent entrepreneurs. We extend prior studies by disaggregating wealth into quintiles before performing regressions. This allows us to identify whether liquidity constraints apply at specific levels of wealth. We employ an alternative specification of dummy variables indicating net worth quintiles as our regressors of interest. Given that previous studies found nonlinear effects (Evans & Jovanovic, 1989; Parker, 2009), we generalize those dummy variables into a Bezier basis for a semi-parametric B-spline.

Results and Implications

Poorer nascent entrepreneurs are more likely to abandon their startup efforts compared to the wealthiest 20 percent of the population. And while first-year revenues for wealthy, successful entrepreneurs are greater, the number of employees hired does not differ significantly across the wealth distribution. Integrating these findings, and controlling for industry complexity and human capital, we see that while entrepreneurial entry is concentrated at the top, the types of ventures started by nascent entrepreneurs and their impact on the economy vary across the wealth distribution. This suggests that entrepreneurship may act as an amplifier, rather than modifier, of inequality in the U.S.

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