

# Entrepreneurship and the Discipline of External Finance\*

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## Abstract

Using micro data from Denmark, I confirm Hurst and Lusardi's (2004) finding that the propensity to start a new firm is relatively flat until the 80th percentile of personal wealth, and rises most sharply after the 95th percentile. I also show that this pattern is particularly strong for those entering less capital intensive industries. The wealthiest individuals starting these firms with low dependence on external finance earn 12% less in the year before entry compared to those who stay in employment. Their firms are also significantly more likely to fail. This pattern is not true for less-wealthy individuals in the data, and is attenuated for wealthy individuals starting firms in capital intensive industries. The findings suggest that the 'excess entry' at the top end of the wealth distribution may be driven by low-ability individuals with a preference for entrepreneurship, who can afford to start weaker firms in less capital intensive industries because they do not face the discipline of external finance.

*JEL Classification:* D31, H24, J24, M13.

*Key Words:* cost of external finance, financing constraints, entrepreneurship, entry, occupational choice.

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# 1 Introduction

One of the most robust findings in the entrepreneurship literature is the strong positive correlation between personal wealth and the propensity to engage in entrepreneurship (Evans and Jovanovic, 1989; Rosen et al 1994; Gentry and Hubbard, 2004). For example, Gentry and Hubbard (2004) find that entrepreneurs comprise just under 9% of households in the US, but hold about 40% of total net worth. Several other studies have documented that entrepreneurs are not just wealthier, but wealthier individuals are also more likely to *become* entrepreneurs (xx)

The most common explanation for this correlation is that credit constraints pose an important barrier to entry for less wealthy individuals (Evans and Jovanovic, 1989). However, Hurst and Lusardi (2004) use panel data from the US to highlight that the relationship between personal wealth and entrepreneurship is relatively flat for the bottom 80 percent of the wealth distribution and steepest for the wealthiest 5 percent of the population. Since they also find that the wealthy often found *less* capital intensive, service-oriented businesses, the convex relationship between wealth and entry is seen as somewhat of a puzzle when viewed in light of the literature on financing constraints in entrepreneurship. Hurst and Lusardi (2004) argue that the correlation between personal wealth and entrepreneurship may in fact be spurious, driven by unobserved preferences for becoming an entrepreneur that might be correlated with personal wealth.

In this paper, I use micro data from Denmark to more-closely examine the characteristics of those selecting into entrepreneurship, as well as see whether they differ systematically across wealth buckets. By running comparisons of those founding businesses relative to those who stay in paid employment, I show strong differences in the pre-entry salary of those selecting into entrepreneurship, but only at the top end of the wealth distribution. Those above the 80th percentile of wealth (and particularly the wealthiest 5 percent) who start new businesses earn less than their counterparts who stay in paid employment. This driven largely by those starting firms in less capital intensive industries. There is little difference in pre-entry salaries of those lower down in the wealth distribution. In fact, the least wealthy people who become entrepreneurs earn more than those who stay in paid employment, particularly among those founding more capital intensive businesses. Looking at the survival of startups highlights that firms founded by the wealthiest 5 percent of the population also have a consistently lower probability of survival than expected.

These findings suggest that the significantly higher rates of entry among the very wealthy need not be because of different preferences, but simply because wealthy individuals with a desire to start a new business require a lower threshold level entrepreneurial ability to enter – due to the fact that they do not face the discipline of external finance. This is particularly true for wealthy individuals starting businesses in less capital intensive industries. The lack of discipline from the external capital markets for the wealthiest individuals can account for the increasingly high

propensity for entrepreneurship among the very wealthy (Hurst and Lusardi 2004). It may also shed light on why the wealthiest individuals have been found in other settings to be relatively poor entrepreneurs (Hvide and Møen, 2007) or have low returns to the private equity in their businesses relative to returns on public equity markets (Moskowitz and Vissing-Jorgensen, 2002).

While this paper is also related to the large literature on financing constraints in entrepreneurship, the focus of the analysis is on the highly non-linear relationship between personal wealth and entrepreneurship at the top end of the wealth distribution. As such, it does not explicitly examine the issue of whether financing constraints are binding for entrepreneurs at the lower end of the wealth distribution. It is possible, for example, that ‘excessive entry’ among low-ability individuals at the top end of the wealth distribution can co-exist with credit constraints binding for high-ability individuals at the bottom end of the wealth distribution (de Meza 2001). However, the results do imply that the marginal individual benefiting from public policy aimed at stimulating entrepreneurship through subsidies is likely to be of lower ability than those who are already entrepreneurs, and may even be of lower ability than those remaining in paid employment .

The rest of the paper is structured as follows: In Section 2, I put the descriptive evidence on firm foundings and failures across the wealth distribution in context; in Section 3 I outline the data and my empirical strategy. I discuss the results in Section 4. Section 5 concludes.

## 2 Personal Wealth and Entrepreneurship

Empirical tests examining selection into entrepreneurship typically assume that individuals are wealth maximizers and that they choose entrepreneurship over paid employment if it yields the highest present value of future earnings. Aside to contributing towards an individual’s non-salary income in a given year, individual wealth may play an additional role in determining entrepreneurial income and hence occupational choice: since new businesses require a capital investment, the returns from a new venture can be expected to be an increasing function of the capital invested in the startup, up to an optimal level. If an individual does not face financing constraints, then the amount of capital that she invests in her business would be independent of her personal wealth. If however, she did face financing constraints, then the amount she invests would be based on her personal wealth (less than the optimal level of capital), lowering her expected income from entrepreneurship, and hence lowering the probability that she would leave paid employment to become an entrepreneur.

The standard approach to understand the role of personal wealth in the entrepreneurial decision is therefore to run a binary choice model where the dependent variable takes a value of 1 if an individual who is employed in one year becomes an entrepreneur in the next. If the coefficient on individuals’ personal wealth is positive, it suggests that individuals may be credit

constrained (Evans and Jovanovic,1989, Gentry and Hubbard, 2004).

Subsequent research has aimed to overcome two sources of spurious correlation in such an empirical test. The first relates to the endogeneity of wealth creation: if individuals with low ability are less likely to generate savings and also less likely to become entrepreneurs, the observed correlation between personal wealth and entrepreneurship may reflect this unobserved attribute rather than the causal effect of financing constraints (Holtz-Eakin, Joulfaian, and Rosen, 1994). In order to control for such a spurious correlation, researchers have sought to find exogenous shocks to personal wealth and study their effect on selection into entrepreneurship. For example, Lindh and Ohlsson (1999) have shown that those who win lotteries are more likely to be entrepreneurs than those who do not. A related approach has used inheritances as a source of unexpected liquidity that reduces potential financing constraints (Holtz-Eakin, Joulfaian, and Rosen, 1994; Blanchflower and Oswald, 1998). These studies also find that unexpected shocks to personal wealth lead to higher rates of entry into entrepreneurship.

The challenge with such approaches, however, is that even unexpected changes to an individual's wealth have important "wealth effects". They are hence unable to overcome the concern around the second source of unobserved heterogeneity: that (observed and unobserved) individual ability and preferences for entrepreneurship are likely to be systematically correlated with personal wealth. For example, wealthy people may have lower absolute risk aversion, making them more likely to become entrepreneurs (Evans and Jovanovic,1989; Khilstrom and Laffont, 1979), they may be systematically more optimistic, or they may have a preference for being their own boss that rises with wealth (Hurst and Lusardi, 2004). Further, suppose that wealthier individuals are more productive as entrepreneurs than as wage employees, say because they have access to better entrepreneurial opportunities or networks (Shane, 2000), they may be more likely to systematically sort into entrepreneurship than those who are less wealthy. Each of these factors where personal wealth is systematically correlated with entrepreneurial ability or preferences would lead to a positive relationship between individual wealth and entrepreneurship *even if* individuals faced an exogenous shock to personal wealth. In fact, in an extreme case we may observe an individual becoming an entrepreneur even when in pure income terms she is better off in wage employment. This argument has been put forth by Hamilton (2000) and Moskowitz and Vissing-Jorgensen (2002) to account for the fact that in their samples, individuals seem to become, and remain entrepreneurs, even though their income as entrepreneurs is below that of wage employees.<sup>1 2</sup>

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<sup>1</sup>Although Moskowitz and Vissing-Jorgensen (2002) do not find entrepreneurial income to be below that of wage employment, they argue that the income for entrepreneurial households that they observe is still below the income premium one would expect them to have over wage employees holding public equity portfolios, given that entrepreneurial households invest the vast majority of their wealth into a single business, thereby holding highly concentrated, risky, and illiquid private equity portfolios.

<sup>2</sup>Hurst and Lusardi (2004) also point to this explanation in trying to reconcile the fact that in their sample, very wealthy households show a strong positive relationship between wealth and entry into entrepreneurship, while this relationship does not exist for less wealthy households.

In this paper, I examine the characteristics of those selecting into entrepreneurship, to study whether they vary systematically across the wealth distribution. The panel structure of the micro data allow me to create measures of personal wealth in a prior period, reducing concerns about the endogeneity of wealth creation. I then use a similar approach to Hamilton (2000), by looking at earnings regressions to understand the extent to which the entrepreneurial choices of individuals can be explained by models of entrepreneurship. The rich micro-data allow me to construct control groups of individuals (who remain in paid employment) within wealth buckets, to better-understand the mechanisms leading to the decision to select into entrepreneurship.

Several important facets of the data allow me to shed more light on mechanisms behind the decision to select into entrepreneurship. I describe these in greater detail in the section below.

## **3 Data**

### **3.1 Description of Data**

I use a matched employer-employee panel dataset for this study that is a significant improvement over data used in most prior studies on financing constraints. The data is drawn from the Integrated Database for Labor Market Research in Denmark, which is maintained by the Danish Government and is referred to by its Danish acronym, IDA. IDA has a number of features that makes it very attractive for this study.

First, the data is collected from government registers on an annual basis, and has detailed micro data on the labor market status of individuals, including their primary occupation. An individual's primary occupation in IDA is characterized by the fraction of income earned from that occupation over the prior year. Individuals are therefore identified as business owners if the majority of their income in that year came from their business. This allows me to identify entrepreneurs in a much more precise manner than many prior studies. For example, I can distinguish the truly self-employed from those who are unemployed but may report themselves as self-employed in surveys. I can also distinguish the self-employed from those who employ others in their firm. Finally, since my definition of entrepreneurship is based on an individual's primary occupation code, I am also able to exclude part-time consultants and individuals who may set up a side business in order to shelter taxes from my definition of entrepreneurship.

Second, the database links an individual's ID with a range of other demographic characteristics such as their age, educational qualifications, marital status, as well as important financial data, including annual salary income, total income, and the value of their assets and debt. This facilitates a study of the basis of selection into entrepreneurship by allowing me to explicitly control for individual assets.

Third, the database is both comprehensive and longitudinal: all legal residents of Denmark and every firm in Denmark is included in the database. In this extract, I have annual observations on each individual for 11 years from 1980-1990. This is particularly useful in studying entry into entrepreneurship, where such transitions are a rare event. It also allows me to control for many sources of unobserved heterogeneity at the individual level – in particular I overcome the concerns about endogeneity in wealth accumulation by calculating the average assets for each individual in a pre-period of 3 years and examine transitions to entrepreneurship in the subsequent 8 years.

While there are several benefits to using this data for my study, there may be concerns about the external validity of a study that is based on information from a relatively small country such as Denmark. I address some of these concerns in Table A1 in the Appendix – by looking at how the rates of self-employment in Denmark compares to the US, and where available in other European countries. Moreover, as I show later in the analysis, the concentration of wealth and income among entrepreneurs is also present in Denmark, as it is in the US. These comparisons should provide confidence that the data I use has external validity beyond Denmark, at least to other OECD and developed economies.

### **3.2 Definition of Entrepreneurship**

There are two main types of individuals classified as business owners in IDA– those who are self employed and those who are self employed with at least one employee. In keeping with the spirit of models of entrepreneurship that examine the decision to leave employment to start a firm, I define transitions to entrepreneurship as taking place when an individual who is employed in a given year becomes an entrepreneur in the subsequent year. That is, I study transitions to entrepreneurship when an individual is classified as being in paid employment in year  $t$  and becomes an entrepreneur in year  $t+1$ . I therefore treat as censored, individuals who were unemployed or students in year  $t$ , but became employers in year  $t+1$ .

I examine both types of business owners separately in the analysis, as those with at least one employee probably need to make more capital investment in their businesses than those who are self employed. This variation in the type of entrepreneurship that is pursued also provides me with a source of variation that I can exploit. For example, difference in capital required to be an employer in a capital intensive industry relative to a less capital intensive industry is more than the difference in capital required to be self employed in more versus less capital intensive industries.

## **4 Results**

Please refer to the tables and figures. This section needs to be completed.

## 5 Conclusions

The relationship between individual wealth and entry into entrepreneurship is highly non-linear. In this paper, I examine whether the characteristics of individuals selecting into entrepreneurship vary across the wealth distribution, to shed light on the reasons for the spike in entrepreneurship among the wealthiest individuals in society. I find that below the 80th percentile of personal wealth, those selecting into entrepreneurship had either the same, or higher pre-entry salaries than their counterparts who stayed in paid employment. On the other hand, wealthy individuals who became entrepreneurs earned 7-10% less in the year prior to entry than their counterparts who stayed as employees. Those entering less capital intensive industries earned even less relative to their counterparts. This is not just driven by outliers at the bottom of the salary distribution: even the median entrepreneur above the 95th percentile of wealth earns 2% less than his or her counterpart who remained employed.

The results in this paper provide an alternative explanation for the strong positive association between individual wealth and entrepreneurship among the very wealthy (Hurst and Lusardi, 2004) and the finding that even wealthy individuals (with liquid assets well beyond the needs to start a typical business) respond to unexpected increases in their assets by choosing to become entrepreneurs (Holtz-Eakin, Joulfaian and Rosen, 1994). While prior work has argued that this finding was evidence of a lower bound for financing constraints in entrepreneurship, the results from this paper suggest that at least part of the entry in entrepreneurship following large windfall gains for already wealthy individuals may be driven by the fact that these individuals can now undertake lower value entrepreneurial ventures that they aspired to found but may not have been able to finance before. This may also explain the strong positive association between wealth and entrepreneurship in the cross section even among the top 5% of the wealth distribution (Hurst and Lusardi, 2004) and is consistent with the finding that private equity returns seem to be too low (Moskowitz and Vissing Jorgensen, 2002). It is also consistent with findings that wealth and ability may be negatively correlated in certain populations (Jovanovic and Evans, 1989) and that returns to capital can be decreasing for the very wealthy (Hvide and Møen, 2007).

This result also has important implications for policy makers aiming to stimulate entrepreneurship by providing cheap credit for new ventures. A growing literature supports the view that entrepreneurs are not only critical for their role in creating new markets, technologies and products, but are equally important for their role in the process of “creative destruction” (King and Levine, 1993a; 1993b; Kerr and Nanda, 2009). While these potential positive externalities could justify a role for the government to stimulate entrepreneurship, the results from this paper suggest that a simple scheme of providing cheap credit for new ventures may lead to adverse selection among entrepreneurs, where individuals who choose to select into entrepreneurship based on these subsidies may not always be talented individuals who lack funding for their ventures.

A significant portion might instead include individuals with large non-pecuniary private benefits from entrepreneurship, rather than the projects that are typically seen as those that suffer from market failure (Scott Morton and Podolny, 1998).

Finally, the results in this paper highlights that the characteristics of entrepreneurs are endogenous to the financing environment and that there may be heterogeneity in the backgrounds and motivations of those who do choose to select into entrepreneurship. This has important implications for theoretical models of entrepreneurial choice, in particular for those who argue in favor of an ‘entrepreneurial type’. It also suggests that making inferences about both the nature of entrepreneurship and the characteristics of entrepreneurs across regions or countries based on cross-sectional analyses may lead to erroneous conclusions, especially if the regions have very different institutional environments.

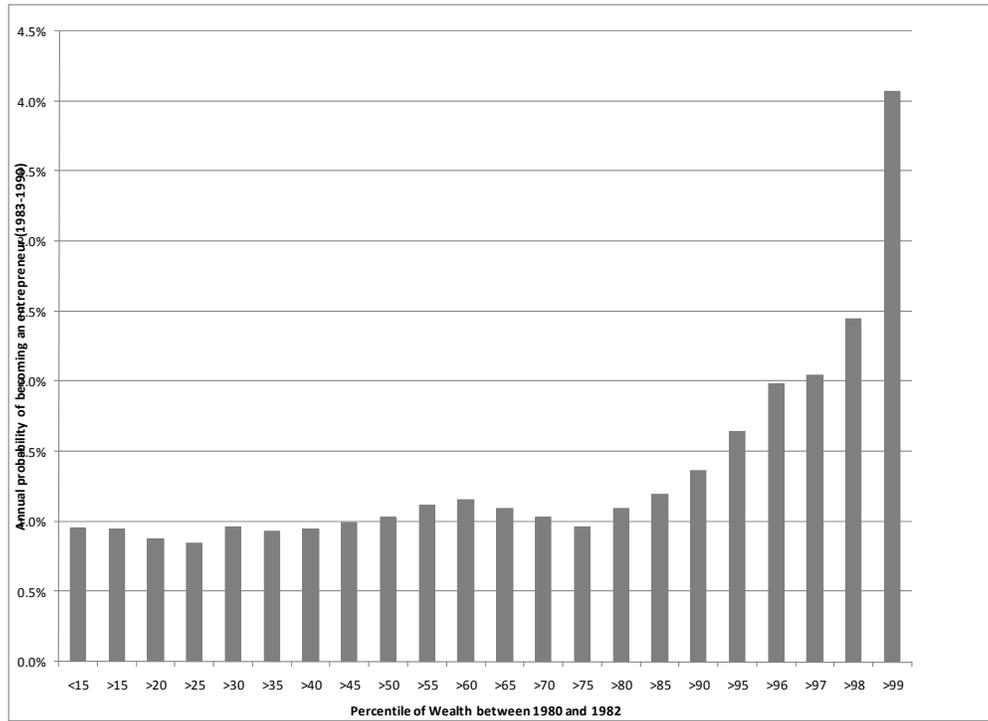
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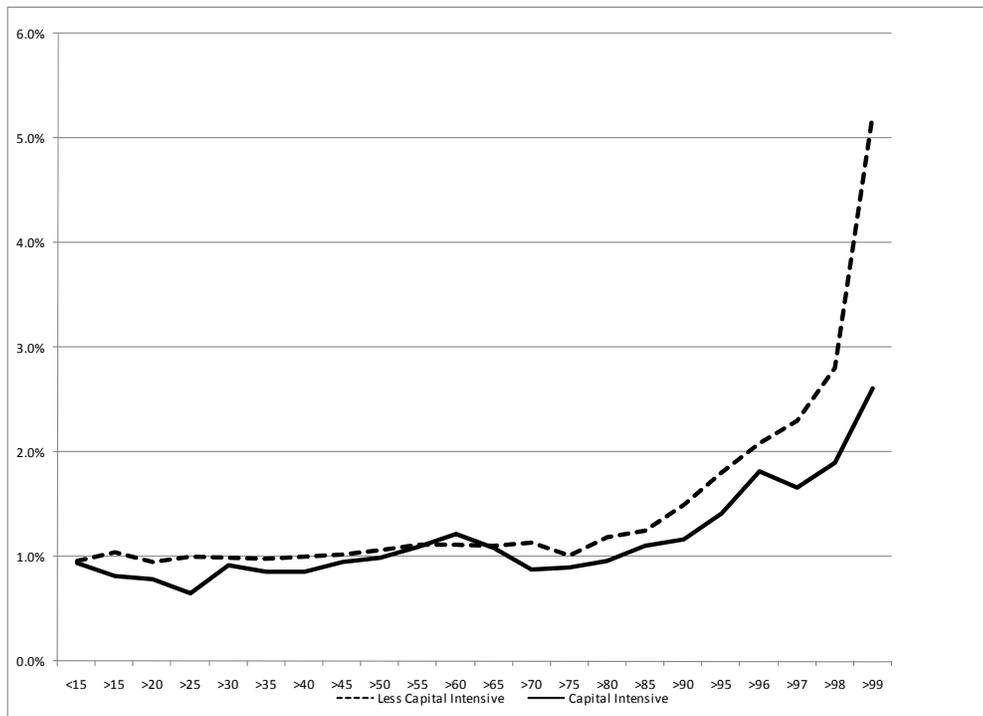
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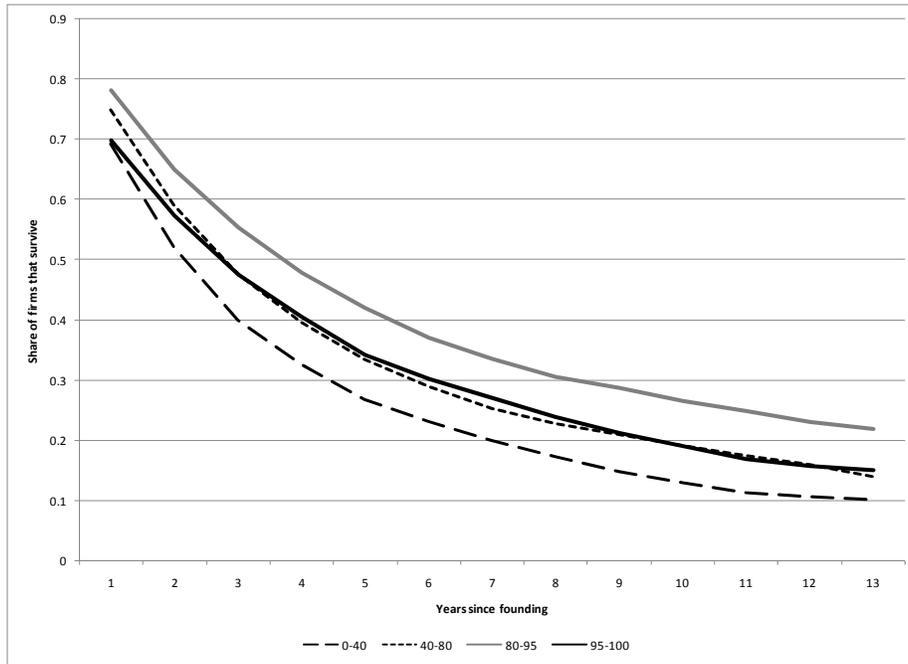
**Figure 1: Probability of Entering Entrepreneurship**



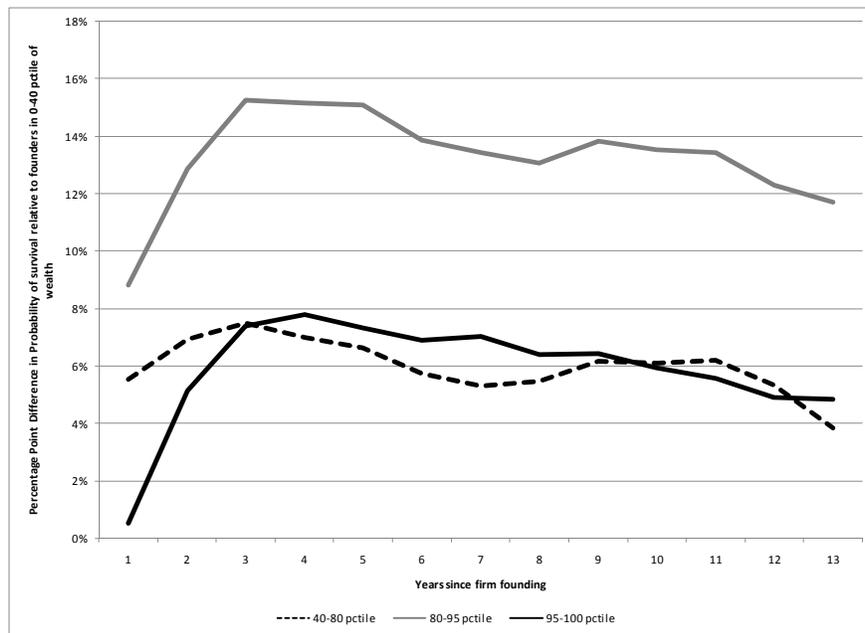
**Figure 2: Probability of Entering Entrepreneurship, by type of industry**



**Figure 3: Survival functions by asset bucket**



**Figure 4: Percentage point difference in the probability of survival relative to founders in the 0-40 percentile of assets, by asset bucket**



**Table 1: Descriptive Statistics, by percentile of assets from 1980-82**

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|  | <i>Full Sample</i> | <i>0-40<br/>pctile</i> | <i>40-80<br/>pctile</i> | <i>80-95<br/>pctile</i> | <i>95-100<br/>pctile</i> |
|--|--------------------|------------------------|-------------------------|-------------------------|--------------------------|
| Number of Observations                                     | 1,468,504          | 482,566                | 619,034                 | 274,588                 | 92,316                   |
| Share that become entrepreneurs each year                  | 1.1%               | 0.9%                   | 1.0%                    | 1.1%                    | 2.2%                     |
| Share that become entrepreneurs with at least one employee | 0.4%               | 0.3%                   | 0.4%                    | 0.5%                    | 1.0%                     |
| Firm-level covariates                                      |                    |                        |                         |                         |                          |
| Median size of firm at which work                          |                    |                        |                         |                         |                          |
| Average Salary income                                      |                    |                        |                         |                         |                          |
| Individual-level covariates                                |                    |                        |                         |                         |                          |
| Average age  |                    |                        |                         |                         |                          |
| Share that are male  |                    |                        |                         |                         |                          |
| Share that are danish citizens                             |                    |                        |                         |                         |                          |
| Share with a high school degree                            |                    |                        |                         |                         |                          |
| Share with a university degree                             |                    |                        |                         |                         |                          |
| Share that are married                                     |                    |                        |                         |                         |                          |
| Share with Children  |                    |                        |                         |                         |                          |

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**Table 2: Probability of Entering Entrepreneurship**

Coefficients on Logit Regressions where dependent variable takes a value of 1 if individual who is employed in year t becomes an entrepreneur in year t+1

|  | (1)                | (2)  | (3)   |
|--|--------------------|--|---|
| <i>Variable</i>  | <i>Full Sample</i> | <i>work in capital intensive industries in t+1</i> | <i>work in less capital intensive industries in t+1</i> |
| <b>PANEL A: All Entrepreneurs</b>  |                    |  |   |
| 40- 80th pctile in assets <sub>1980-1982</sub>                           | 0.036<br>(0.037)   | 0.141**<br>(0.049)                                 | -0.074<br>(0.057)                                       |
| 80 - 95th pctile in assets <sub>1980-1982</sub>                          | 0.134**<br>(0.048) | 0.211**<br>(0.063)                                 | 0.114<br>(0.076)  |
| 95 - 100th pctile in assets <sub>1980-1982</sub>                         | 0.622**<br>(0.055) | 0.492**<br>(0.074)                                 | 0.776**<br>(0.084)                                      |
| <b>PANEL B: Only Employers (those with at least one employee in t+1)</b> |                    |  |   |
| 40- 80th pctile in assets <sub>1980-1982</sub>                           | 0.180**<br>(0.065) | 0.290**<br>(0.080)                                 | -0.027<br>(0.111)                                       |
| 80 - 95th pctile in assets <sub>1980-1982</sub>                          | 0.452**<br>(0.085) | 0.553**<br>(0.105)                                 | 0.277<br>(0.143)  |
| 95 - 100th pctile in assets <sub>1980-1982</sub>                         | 1.025**<br>(0.093) | 0.949**<br>(0.119)                                 | 1.011**<br>(0.156)                                      |
| Individual's Demographic Controls  | Yes                | Yes  | Yes   |
| Year Fixed Effects   | Yes                | Yes  | Yes   |
| Region Fixed Effects   | Yes                | Yes  | Yes   |
| Industry Fixed Effects   | Yes                | Yes  | Yes   |
| Number of Observations   | 1,468,504          | 1,027,422  | 441,082   |

robust standard errors in brackets, clustered at the firm-level \* p<.05 \*\* p<.01

**Table 3: Hazard of Failure****Hazard Ratios on Cox Proportional Hazard Models**

|   | (1)                | (2)  | (3)   |
|---|--------------------|--|---|
| <i>Variable</i>   | <i>Full Sample</i> | <i>Firms founded in<br/>capital intensive<br/>industries</i> | <i>Firms founded in less<br/>capital intensive<br/>industries</i> |
| <b>PANEL A: All Entrepreneurs</b>   |                    |  |   |
| 40- 80th pctile in assets <sub>1980-1982</sub>  | 0.932**<br>(0.017) | 0.923**<br>(0.022)   | 0.937**<br>(0.028)  |
| 80 - 95th pctile in assets <sub>1980-1982</sub>   | 0.890**<br>(0.024) | 0.888**<br>(0.031)   | 0.888**<br>(0.031)  |
| 95 - 100th pctile in assets <sub>1980-1982</sub>  | 0.962**<br>(0.031) | 0.954**<br>(0.042)   | 0.965**<br>(0.047)  |
| <b>PANEL B: Only Employers (those with at least one employee when firm was founded)</b> |                    |  |   |
| 40- 80th pctile in assets <sub>1980-1982</sub>  | 0.949<br>(0.034)   | 0.927<br>(0.039)   | 0.970<br>(0.065)  |
| 80 - 95th pctile in assets <sub>1980-1982</sub>   | 0.908*<br>(0.044)  | 0.901*<br>(0.045)  | 0.904<br>(0.078)  |
| 95 - 100th pctile in assets <sub>1980-1982</sub>  | 0.992<br>(0.055)   | 0.972<br>(0.068)   | 1.003<br>(0.094)  |
| Individual's Demographic Controls   | Yes                | Yes  | Yes   |
| Year Fixed Effects  | Yes                | Yes  | Yes   |
| Industry Fixed Effects  | Yes                | Yes  | Yes   |

robust standard errors in brackets, clustered at the firm-level \* p&lt;.05 \*\* p&lt;.01

**Table 4: OLS Regressions of Pre-Entry Salary, by percentile of assets**

|                                       | <i>Full Sample</i>  | <i>0-40 pctile of assets</i> | <i>40-80 pctile of assets</i> | <i>80-95 pctile of assets</i> | <i>95-100 pctile of assets</i> |
|---------------------------------------|---------------------|------------------------------|-------------------------------|-------------------------------|--------------------------------|
|                                       | (1)                 | (2)                          | (3)                           | (4)                           | (5)                            |
| Employer in t+1                       | -0.011<br>(0.008)   | 0.064**<br>(0.017)           | -0.020<br>(0.011)             | -0.073**<br>(0.014)           | -0.109**<br>(0.022)            |
| Self-employed but no employees in t+1 | -0.220**<br>(0.007) | -0.175**<br>(0.011)          | -0.232**<br>(0.011)           | -0.272**<br>(0.016)           | -0.255**<br>(0.022)            |
| Log size of firm where employed       | 0.013**<br>(0.001)  | 0.015**<br>(0.002)           | 0.011**<br>(0.001)            | 0.011**<br>(0.001)            | 0.029**<br>(0.002)             |
| Tenure at Firm                        | 0.021**<br>(0.001)  | 0.038**<br>(0.001)           | 0.021**<br>(0.001)            | 0.002<br>(0.001)              | -0.002<br>(0.002)              |
| Tenure at Firm squared                | -0.002**<br>(0.000) | -0.004**<br>(0.000)          | -0.002**<br>(0.000)           | 0.000<br>(0.000)              | 0.001*<br>(0.000)              |
| Weeks of unemployment in past year    | -0.066**<br>(0.001) | -0.061**<br>(0.001)          | -0.068**<br>(0.001)           | -0.062**<br>(0.001)           | -0.075**<br>(0.002)            |
| Individual's Age                      | 0.040**<br>(0.001)  | 0.048**<br>(0.001)           | 0.035**<br>(0.001)            | 0.022**<br>(0.001)            | 0.050**<br>(0.004)             |
| Individual's Age squared              | -0.001**<br>0.000   | -0.001**<br>0.000            | 0.000**<br>0.000              | 0.000**<br>0.000              | -0.001**<br>0.000              |
| Female                                | -0.214**<br>(0.004) | -0.181**<br>(0.004)          | -0.186**<br>(0.004)           | -0.187**<br>(0.007)           | -0.300**<br>(0.016)            |
| Danish Citizen                        | 0.017**<br>(0.003)  | 0.003<br>(0.005)             | 0.022**<br>(0.004)            | 0.011*<br>(0.005)             | 0.016<br>(0.011)               |
| Married                               | 0.015**<br>(0.001)  | -0.010**<br>(0.002)          | 0.012**<br>(0.001)            | 0.017**<br>(0.002)            | 0.038**<br>(0.005)             |
| Have Children                         | 0.001<br>(0.001)    | -0.025**<br>(0.003)          | -0.007**<br>(0.001)           | 0.012**<br>(0.002)            | 0.009*<br>(0.004)              |
| Have a highschool degree              | 0.016**<br>(0.005)  | 0.015<br>(0.008)             | 0.011*<br>(0.004)             | 0.022**<br>(0.003)            | 0.033**<br>(0.005)             |
| Have a university degree              | 0.074**<br>(0.006)  | 0.043**<br>(0.011)           | 0.065**<br>(0.006)            | 0.112**<br>(0.004)            | 0.125**<br>(0.006)             |
| Year Fixed Effects                    | Yes                 | Yes                          | Yes                           | Yes                           | Yes                            |
| Region Fixed Effects                  | Yes                 | Yes                          | Yes                           | Yes                           | Yes                            |
| Industry Fixed Effects                | Yes                 | Yes                          | Yes                           | Yes                           | Yes                            |
| Occupation Code Fixed Effects         | Yes                 | Yes                          | Yes                           | Yes                           | Yes                            |
| R-Squared                             | 0.45                | 0.31                         | 0.37                          | 0.39                          | 0.35                           |
| Number of Observations                | 1,468,504           | 482,566                      | 619,034                       | 274,588                       | 92,316                         |

robust standard errors in brackets, clustered at the firm-level \* p<.05 \*\* p<.01

**Table 5: Difference in Salary (in year t) between those becoming entrepreneurs in t+1 and those remaining in paid employment in t+1**

|   | (1)                 | (2)                          | (3)                           | (4)                           | (5)                            |
|---|---------------------|------------------------------|-------------------------------|-------------------------------|--------------------------------|
|   | <i>Full Sample</i>  | <i>0-40 pctile of assets</i> | <i>40-80 pctile of assets</i> | <i>80-95 pctile of assets</i> | <i>95-100 pctile of assets</i> |
| <b>PANEL A: Employers (with at least one employee in t+1)</b> |                     |                              |                               |                               |                                |
| Capital Intensive Industry in t+1                             | 0.002<br>(0.010)    | 0.058**<br>(0.022)           | -0.022<br>(0.014)             | -0.020<br>(0.017)             | -0.070**<br>(0.030)            |
| Less Capital Intensive Industry in t+1                        | -0.015<br>(0.013)   | 0.093**<br>(0.031)           | 0.011<br>(0.017)              | -0.123**<br>(0.024)           | -0.129**<br>(0.034)            |
| <b>PANEL B: Self Employed, with no employees in t+1</b>       |                     |                              |                               |                               |                                |
| Capital Intensive Industry in t+1                             | 0.215**<br>(0.010)  | -0.161**<br>(0.016)          | -0.232**<br>(0.014)           | -0.260**<br>(0.022)           | -0.259**<br>(0.037)            |
| Less Capital Intensive Industry in t+1                        | -0.214**<br>(0.011) | -0.190**<br>(0.018)          | -0.214**<br>(0.017)           | -0.263**<br>(0.025)           | -0.246**<br>(0.029)            |
| Same Covariates and Fixed Effects as Table 4                  | Yes                 | Yes                          | Yes                           | Yes                           | Yes                            |

Notes:

**Table 6: Difference in Salary (in year t) between those becoming entrepreneurs in t+1 and those remaining in paid employment in t+1: (Quantile Regressions run at the 75th Percentile of Salary Income)**

|   | (1)                          | (2)                           | (3)                           | (4)                            |
|---|------------------------------|-------------------------------|-------------------------------|--------------------------------|
|   | <i>0-40 pctile of assets</i> | <i>40-80 pctile of assets</i> | <i>80-95 pctile of assets</i> | <i>95-100 pctile of assets</i> |
| <b>PANEL A: Employers (with at least one employee in t+1)</b> |                              |                               |                               |                                |
| Capital Intensive Industry in t+1                             | 0.096**<br>(0.012)           | 0.072**<br>(0.008)            | 0.046**<br>(0.013)            | 0.014<br>(0.026)               |
| Less Capital Intensive Industry in t+1                        | 0.049**<br>(0.014)           | 0.024**<br>(0.008)            | 0.025**<br>(0.011)            | 0.024<br>(0.021)               |
| <b>PANEL B: Self Employed, with no employees in t+1</b>       |                              |                               |                               |                                |
| Capital Intensive Industry in t+1                             | -0.071**<br>(0.009)          | -0.048**<br>(0.007)           | -0.039**<br>(0.013)           | -0.071**<br>(0.030)            |
| Less Capital Intensive Industry in t+1                        | -0.093**<br>(0.007)          | -0.067**<br>(0.005)           | -0.051**<br>(0.010)           | -0.076**<br>(0.018)            |
| Same Covariates and Fixed Effects as Table 4                  | Yes                          | Yes                           | Yes                           | Yes                            |

Notes: