

COMMENTS:

“ON THE NATURE OF ENTREPRENEURSHIP”

Ross Levine

3 Observations

1 point

3 suggestions

Outline

Who cares about entrepreneurship?

Those seeking to understand growth and business cycles.

- Entrepreneurs bring new goods, services, and production methods to the economy (Smith 1776, Schumpeter 1911, Aghion & Howitt 1991).
- Their responses shape the propagation of shocks (Veblen 1904, Fisher 1933, Keynes 1936, Shleifer 1986, Bernanke & Gertler 1989, etc.).

This paper's purposes are to provide:

- Life-cycle income profiles of different groups of entrepreneurs and employees.
 - ❖ Groups: individuals with distinct education, cognitive traits, interpersonal skills, etc.
- A model that accounts for these patterns.

The paper's contributions:

1. Uses extraordinary data to develop unique, dynamic income profiles:
 - 65M people, 1B Obs, and multiple cohorts
 - NLSY79: 13K people, 125K Obs, one cohort
2. Develops an insightful model of entrepreneurship:
 - Entrepreneurs: unique skills, invest in **intangible** capital, raise financing, rent physical capital, hire workers, and **experiment**.

My one point

I am concerned about the strength of the connection between the measure and concept of entrepreneurship.

A tale of two Laurels

One Laurel is an entrepreneur in the data, the other a worker

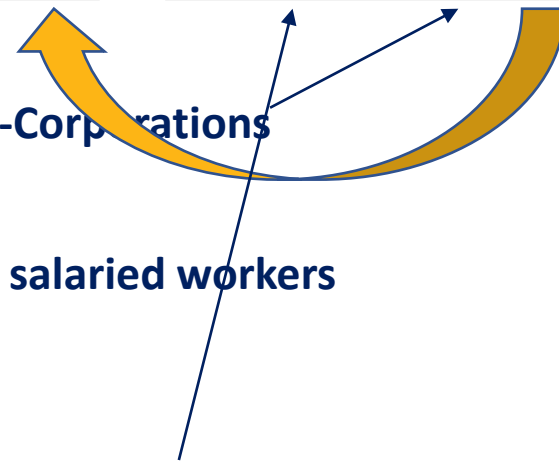
Summary information from the NLSY79

<u>Salaried</u>	<u>Self-Employed</u>	
	<u>Unincorp.</u>	<u>Incorporated</u>

In the NLSY79 data, these are essentially all C-Corporations

In the paper's data, C-Corporation owners are salaried workers

Unincorporated: sole-proprietorships and partnerships



People who start C-corporations are different, do different jobs, and start different businesses.

	Salaried	<u>Self-Employed</u>	
		Unincorp.	Incorporated
<i>Education</i>			
College graduate	29%	24%	39%
<i>Aptitude / personality as kids</i>			
AFQT	49	48	60
Self-esteem	0.05	-0.02	0.35
Control your future	0.05	0.13	0.43
<i>Work (among FTFY)</i>			
Hours	2000	1991	2461
<i>Job task requirement last year (if salaried)</i>			
Nonroutine analytical	4.0	3.8	4.7
Nonroutine direction, control, planning	3.1	2.8	4.5
<i>What businesses do they reestablish?</i>			
Incorporated:	Engineering-based, financial, accounting/auditing		
Unincorporated:	Taxi & truck drivers, laundering/cleaning, landscape		

They have different cyclical behaviors

	<u>Self-employed</u>	<u>Unincorporated</u>	<u>Incorporated</u>
State Unemployment	0.18	0.268***	-0.088*
	-0.11	-0.1	-0.052
Observations	161518	161518	161518

Countercyclical “Unincorporated”

Procyclical “Incorporated”

- Levine and Rubinstein, 2020, Selection into Entrepreneurship and Self-Employment, SSRN/CEPR/NBER.
- Levine and Rubinstein, 2017, Smart and Illicit, QJE.

Concept \Leftrightarrow Measurement

Are C-corporation founders really “workers?”

- That is how they are currently treated.
- Aside: high-tech and bio-tech startups are C-corporations.

Are most unincorporated entrepreneurs?

- They are clearly self-employed.
- But most do routine, manual jobs with no employees and no ambition to grow (Hurst and Pugsley, 2014)

S-corporations are confusing to me

- My cousin, the radiologist
- I am not sure this story is unique.

Are they the entrepreneurs in our models?

3 Suggestions

Separately examine unincorporated (sole props & partnerships)

- Importance: 80% of businesses and 32% of employment
- More likely to be countercyclical as capital requirements are small.

Separately scrutinize S corps

- Importance: 13% of businesses and 23% of employment
- Huge gap in the literature

Cyclical analyses at a more granular level

- Consider at a more granular level, e.g., the state or county, etc.
- Ex: responses of business types to unemployment, shale oil shocks, etc.

Conclusion

- I learned a lot from the paper
- Concerned about measurement
- This concern seems easy to address

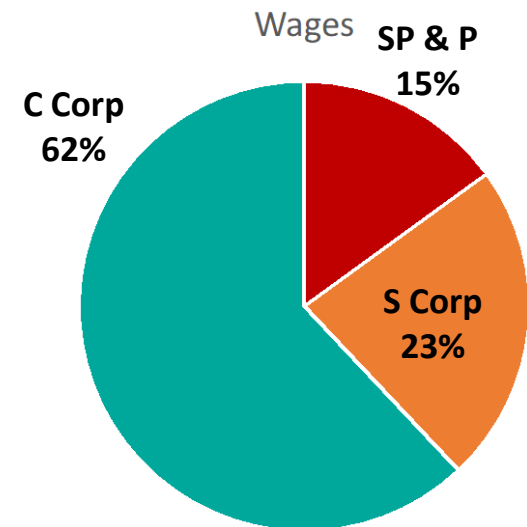
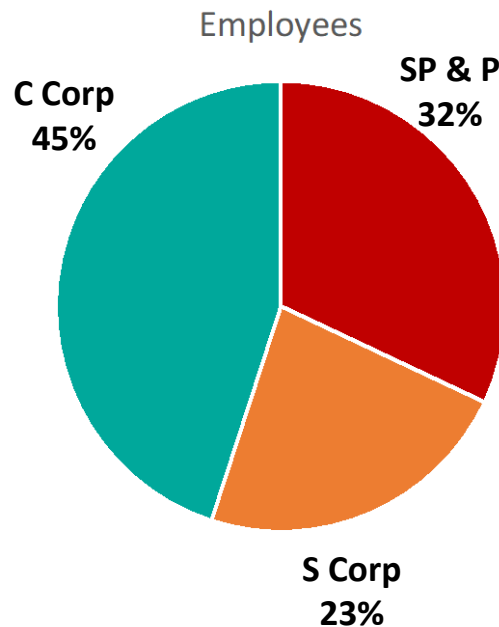
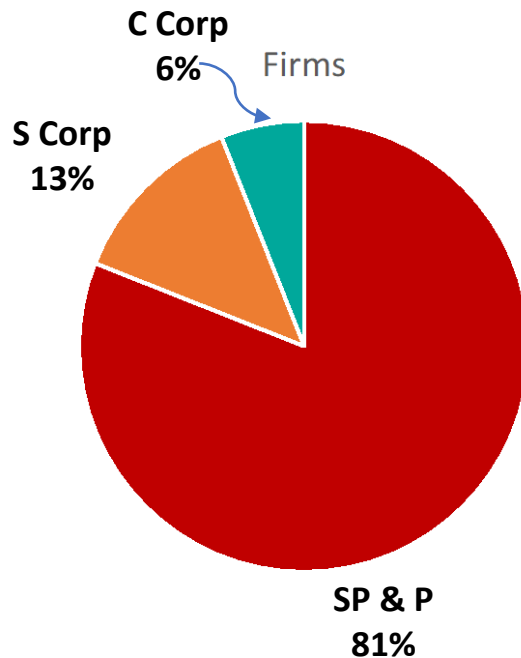
Extra Slides

Some articles you might consider

On experimentation

- Manso, Gustavo. "Experimentation and the Returns to Entrepreneurship." *The Review of Financial Studies* 29, no. 9 (2016): 2319-2340.
- Shaw, Kathryn, and Anders Sørensen. "The productivity advantage of serial entrepreneurs." *ILR Review* 72, no. 5 (2019): 1225-1261.
- Lafontaine, Francine, and Kathryn Shaw. "Serial entrepreneurship: Learning by doing?." *Journal of Labor Economics* 34, no. S2 (2016): S217-S254.

Firms, Employees, & Wages by Legal Type



SP & P: Sole Proprietorships & Partnerships

C Corp: C Corporations

S Corp: S Corporations

Census Bureau, 2011 data

Core empirical findings

- Self-employed earn more and have steeper profiles
 - Especially among the well-educated and cognitively skilled.
 - Especially among interpersonally skilled and manually unskilled.
 - Especially among those in professional services and health care.
- Positive selection into SE on wage earnings.
- Negative selection into SE on asset earnings
- A cyclical SE