

Pushed into necessity?

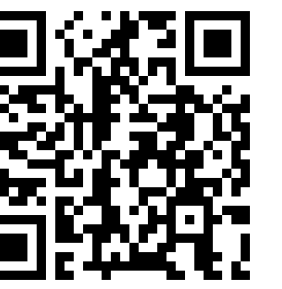
Labor market inequality and entrepreneurship of disadvantaged group



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Motivation

Pushed or pulled?

What is a main reason for becoming self-employed? Are entrepreneurs pushed from wage-employment market? Or rather pulled by new opportunities? Is the labor market inequality pushing factor for self-employment?

These questions remain mostly unanswered, especially due to lack of data with discriminated workers observed JUST before decision of becoming self-employed.

Our contribution and hypotheses

⇒ The analysis considers separately self-employed due to **necessity** and **aspirations**.

⇒ We exploit cross-country & time variation of labor market gaps.

Intuition:

- Inequality is a push factor for necessity self-employment, but should not matter for aspirational one.
- Wage inequality may operate weaker than employment inequality (employee agrees to lower wage instead of becoming self-employed, there is no such alternative in the context of employment inequality).

Theoretical model

We extend the model by Fonseca et al (2001):

- V - self-employment payoff, U - work payoff, K - start-up cost and α - distribution of entrepreneurial skill
- individuals may have a gender ⇒ women are disadvantaged in employment / wages (but not productivity): $U(1 - gap)$.
- m and f - costs of being self-employed are also gender-specific.

For becoming self-employed:

$$M: (\alpha - m)V - K > U \Rightarrow S_m = \frac{U + K}{V} + m,$$

$$W: (\alpha - f)V - K > U(1 - gap) \Rightarrow S_w = \frac{U + K - gap * U}{V} + w$$

This yields a gap in

$$\frac{1}{1 - F(S_w)} - \frac{1}{1 - F(S_m)} = -\frac{gap * U}{V} + (w - m)$$

- it is negative so long as m is sufficiently smaller than w .
- $(w - m)$ is likely to be a country specific effect.

Data

Gender wage gaps

- Nopo et al. (2011) for 64 countries (cross-section) and Tyrowicz & van der Velde (2016) for app. 500 data points (time and cross-section)

Gender employment gaps

- Goraus, Tyrowicz & van der Velde (2016) for app. 1200 data points (time and cross-section)

Measures of necessity and aspirational SE

- **Global Entrepreneurship Monitor** - entrepreneurs report whether their self-employment is driven by aspiration or due to necessity.

Matching

- 25 countries matched for GEG and 21 for GWG in exact matching (the same year in GEM and GEG/GWG data)
- 26 countries for GEG & GWG in inexact matching (+/- 5 years of GEM data relative to GEG/GWG data)

Results

Table 1. Necessity self-employment for women (Multi-Level Regression)

Necessity SE for women	(1)	(2)	(3)	(4)
Country-year groups	185	53	191	175
Observations	339 702	101 616	344 308	326 663
GEG exact match	0.0060*** (0.0018)			
GWG exact match		0.0021 (0.0030)		
GEG inexact match			0.0064*** (0.0014)	
GWG inexact match				0.0046* (0.0025)
Necessity SE - men	0.6242*** (0.0375)	0.6315*** (0.0597)	0.6237*** (0.0363)	0.9931*** (0.0488)
Age	-0.0001***	-0.0001***	-0.0001***	-0.0001***
Tertiary education	0.0004	0.0000	0.0004	0.0003
Knows entrepreneur	0.0071***	0.0079***	0.0072***	0.0072***
Knows business angel	0.0118***	0.0103***	0.0116***	0.0111***
Constant	0.0010	0.0049***	0.0011	-0.0021

- Multi-level regression confirmed positive link between GEG/GWG and necessity self-employment.
- No such link was found for aspirational entrepreneurs.

Conclusions

- Link between adjusted gender employment gap or gender wage gap and necessity self-employment is positive and robust.
- Effect of GEG is stronger than effect of GWG.
- No evidence on link between GEG/GWG and aspirational self-employment was found.

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