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 work opportunities. Self-employed entrepreneurs 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 \( \alpha \) - distribution of entrepreneurial skill
- Individuals may have a gender \( \Rightarrow \) 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.

Results

| Table 1. Necessity self-employment for women (Multi-Level Regression) |
|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Necessity SE for women | (1) | (2) | (3) | (4) |
| County-year groups | 185 | 53 | 191 | 175 |
| Observations | 339 702 | 101 616 | 344 308 | 326 663 |
| GEG exact match | 0.0066*** | (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 | 0.6420*** | 0.6315*** | 0.6337*** | 0.9931*** |
| Age | (0.0075) | (0.0097) | (0.0063) | (0.0498) |
| Tertiary education | 0.0004 | 0.0000 | 0.0004 | 0.0003 |
| Knows entrepreneur | 0.0071*** | 0.0079*** | 0.0072*** | 0.0072*** |
| Knows business angel | 0.0018*** | 0.0035*** | 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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