ENTREPRENEURSHIP
AND INNOVATION

COMMENTS BY THORSTEN BECK
TWO EXCELLENT PAPERS

• Albert/Caggese: Cyclical Fluctuations, Financial Shocks, and the Entry of Fast-Growing Entrepreneurial Startups

• Gupta/Hacamo: Early Career Choices of Superstar Entrepreneurs

• Short summary
• Some comments
• Putting papers into broader picture
• Negative growth and financial sector shocks reduce entrepreneurship and more so for high-growth enterprises – composition of entry channel
• Combines theory and empirics, with a good link between both
• Adds more evidence on the importance of alleviating financing constraints for entrepreneurship, especially for high-growth enterprises
ALBERT/CAGGESE – SOME COMMENTS

• Theory – why are Type 2 enterprises not riskier (higher default probability)

• Gap between low and high entrepreneurs can also be explained by an alternative story – recession/crisis results in unemployment and higher self-employment (of the low-growth type).

• GDP growth as proxy for collateral constraints – can we do better than that?

• Paper focuses on financial distress – alternative approach: financial structure (availability of venture capital, market finance etc.)

• Econometric quibble: as variable of interest is on country-year level, shouldn’t standard errors be clustered accordingly (Table 3)

• Implications for job market – interesting, but not general equilibrium, so this is again a composition effect rather than aggregate job loss
Engineering graduates are more likely to work in financial sector if they start out in an MSA with a higher share (and thus higher growth) of financial sector employment or study in a state that deregulates interstate banking.

This results in relatively fewer start-ups founded by engineering graduates that go into finance, as well as less innovation and less VC funding by such start-ups.

Evidence for brain-drain from engineering to finance.

Great data, nice identification strategy and important policy message (too much finance can hurt).
GUPTA/HAMACO – SOME COMMENTS

• Why 12 schools?
• When considering shifting from engineering into finance, why not interact with time since graduation? Also: differences in this probability over time?
• What are the real implications of your findings?
Financial crisis has contributed to lower productivity growth

Albert/Caggese show that this might be due to financial distress

UK productivity

Index

Output per Worker, 101.4

Output per Hour, 101.7


Source: Office for National Statistics
Can the decline in entrepreneurship in the US be explained by the brain drain from manufacturing into finance?

Gupta/Hamaco suggest that yes

Certainly, it cannot be explained by federal regulation (Goldschlag and Tabarrok, 2018)
CONTRADICTIONS?

• Albert/Caggesse show how financing constraints impede high-growth firms to be established
• Gupta/Hamaco show how finance crowds out entrepreneurship
• How can we reconcile these two findings
• Non-linearity of finance?
• Intermediation vs. non-intermediation business?
The Bright and Dark Sides of Finance

• Finance-growth relationship works through resource allocation and productivity growth
  • Entrepreneurship is thus an important channel, especially transformational entrepreneurs
  • Typically stronger in emerging markets, though there is evidence that it might work also in high-income countries (as, in Albert/Caggese)

• Finance-growth relationship does NOT work through the size of the financial system (e.g., employment in financial sector) and not necessarily through non-intermediation business
  • Tentative evidence in Beck, Degryse and Kneer (2014)
  • Evidence for brain drain (Kneer, 2013a,b), even when controlling for financial intermediation
  • Conclusion: financial sector can grow too big and can crowd out the real sector
ONE ATTEMPT AT RECONCILING RESULTS

- Gutpa/Hamaco: stronger effect of brain drain through securities business rather than credit business – does this capture non-intermediation business in the financial sector (e.g., trading)?
- Albert/Caggese: can we focus more on specific financing forms/intermediaries for start-ups?

- In summary: two exciting papers that show the ambiguity of the role of the financial sector in modern high-income countries
THANK YOU

THORSTEN BECK

TBECK@CITY.AC.UK
WWW.THORSTENBECK.COM
@TL_Beck_London