

➤ Discussion of Albert, Caggese, Gonzalez and Martin-Sanchez:

## **“Income Inequality and Entrepreneurship: Lessons from the 2020 COVID-19 Recession.”**

by: Javier Miranda

IWH and Friedrich-Schiller University

2nd Finance and Productivity Conference

Albert, Caggese, Gonzalez and Martin-Sanchez (2022)

## Roadmap and High Level Thoughts

- Very nice descriptive paper packed with findings about entrepreneurship (in Spain) during COVID.
- Two distinct and welcome contributions:
  - Not much known about startups during this time anywhere (early access data)
  - Highlights different nature of this shock vis-à-vis GR and for high and low income individuals
- I'll make some suggestions for improvements
- I'll point to areas that I struggled with a bit...

## Albert, Caggese, Gonzalez and Martin-Sanchez (2022)

### Goals

- Study business entry during COVID-19.
  - Uses new early access data from the GEM-Spain survey
  - Estimates impact for high and low income hhlds
    - Access to financing
    - Necessity vs Opportunity factors (pull vs push)
- Uses estimates to predict long-term implications on employment growth
- Say something about financing (not main goal)

## Albert, Caggese, Gonzalez and Martin-Sanchez (2022)

### Findings

- Large decline in the startup rate in 2020 due to COVID-19 (~40% decline vs 50% during Great Recession years). Also shift away from high-growth startups.
- Unlike GR the decline is disproportionately concentrated among low- and medium-income households.
  - No reduction in entry among high-income households. It even increases!!
- Not the result of low income hhld more exposed to COVID. These results driven by non affected sectors (and to a large degree individuals).
  - No impacts on the affected sectors (hardly any entry!).
  - Particularly large declines for individuals with low income and no income shock
- Find high levels of private equity funding and some growth during this time
  - More so for low income entrepreneurs
- Large growth of digital businesses by high-income households (70%)
  - but not bc they are the only ones with relevant skills
- 2.4% smaller employment from lower entry and decline in high-growth firms after 10 years

Albert, Caggese, Gonzalez and Martin-Sanchez (2022)

## Findings

### ▮ Conclude

- financing constraints for low income individuals must have prevented them from creating businesses like high income individuals.

### ▮ Corollary

- job support policies should be accompanied by measures to reduce the cost of credit for new potential entrepreneurs.

## Albert, Caggese, Gonzalez and Martin-Sanchez (2022)

### Data

#### └ Global Entrepreneurship Survey -- Spain

- Annual hhld survey on entrepreneurial attitudes and decision (cross sectional)
- Representative of adults: sample of 24,000 year
- Identifies actual business owners and potential business owners (employers and non-employers)
- Module/Block structure: 1) All individuals, 2) Business owners, 3) nascent entrepreneurs (intention to start)
- Demographics, Employment Status , hhld Income, motivation, growth expectations, Source of Finance, COVID questions.
- Years: 2005 to 2020 (last year)
- Collected between mid July and early November
- ~26,000 individuals/year and ~1,100 potential new entrepreneurs

## Albert, Caggese, Gonzalez and Martin-Sanchez (2022)

### Comments

- ↴ Lots of new facts about entry and entrepreneurial perceptions (primarily non employer!)
  - Back of the envelope suggests less than 10% of potential entrants are employer business (from admin US data). Probably considerably less actually become employers (potential).
  - From US we also know many of these are entrepreneurs with day jobs. Businesses requiring very little financing.
  - What is conversion rate? Explore potential vs actual entrants in other cohorts to get a sense of conversion rate.
- ↴ Didn't highlight contrast with GR to learn about financing constraints
  - Lots more intervention by the ECB: Key interest rates historically low
  - Another read is low income individuals start business at same rate as high income if negative income shock → no financing constraints for necessity entrepreneurs? How did they finance?
- ↴ Why hardly any entry during normal times in affected sectors? Need more.
  - No individuals starting a restaurant or B&B business??? Does this line up with Central de Balances Integral? Please check entry in GEM vs CBI. What do we capture in GEM?

## Albert, Caggese, Gonzalez and Martin-Sanchez (2022)

### Comments

- Lots of tables and sections
  - Would like to see interactions of COVID with Gender (assume nothing there?).
- Policy implications: lots more discussion. Currently feels speculative.
  - Finding: Given skills then financing constraints for low income individuals must have prevented them from creating businesses like high income individuals
    - But self reported skill very blunt. What are the skills they have? What is education, experience, occupation (few of these things are collected in the survey). Tell us.
  - No discussion of assets and collateral. Given easy low rates maybe problem of collateral?
  - Facilitating credit without collateral not necessarily good: 80% of non-employer businesses shut down within 5 years.



Albert, Caggese, Gonzalez and Martin-Sanchez (2022)

## Comments

▮ Very early still!!

- Find evidence potential entrepreneurs see new opportunities. Will these new e-commerce businesses be disruptive?! Or simply be ideas hatched while keeping day job?
- Nothing yet on survival, productivity, growth, innovation outcomes from this cohort. Excited to see this team's next paper!

## Albert, Caggese, Gonzalez and Martin-Sanchez (2022)

### Comments

#### Very early still!!

- Predictions are interesting
  - But no GE effects (acknowledged).
    - Unless there is some fundamental change in structure of wages/financing/returns to entrepreneurship then entry should be delayed (some evidence of this from INE (figure 2) but also from U.S.. You can see what happened during the GR but not really comparable much slower recover there...
  - Found these results very speculative.
    - Not sure how to interpret the age dummies. Estimated relative to what? Also, not sure about current interpretation in the paper (level effects I don't think considered when interpreting the interaction?)
  - Given nature of findings we are going to have to wait...

## Albert, Caggese, Gonzalez and Martin-Sanchez (2022)

### Broader comments about paper structure

- ✧ I was a bit confused at times
  - Distracted by attention to inequality literature in the intro. But emphasis is entry and financial frictions.
  - Wasn't quite sure if we look at actual firm formations or not
  - Wasn't sure if we are looking at potential employer businesses or also non-employers
- ✧ Not much attention paid to theory
  - I think OK but helpful to guide readers through implications from a simple occupational choice model with financial constraints.
- ✧ Very tentative on financing: not main goal?
  - Not fully embraced which I think is a problem. Need much more about what happened to financing during this time.

Albert, Caggese, Gonzalez and Martin-Sanchez (2022)

Thank you again and look forward to next version!