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"Precautionary and Entrepreneurial Saving - New Evidence from German Households"

Abstract:

Various studies have interpreted a positive correlation between income risk and wealth as evidence for large precautionary savings. However, the high estimates emerged from pooling non-entrepreneurs and entrepreneurs without controlling for heterogeneity. This paper provides evidence for Germany based on the SOEP, a large, representative panel data survey, which included a special module on private wealth balance sheets in the survey waves of 2002 and 2007. Entrepreneurs, who face high income risk, hold more wealth than employees, but it is shown that this is not due to precautionary motives. They may rather save for old age, as they are usually not covered by statutory pension insurance. The analysis accounts for endogeneity of entrepreneurial choice and heterogeneous risk attitudes.