The returns to education for opportunity entrepreneurs, necessity entrepreneurs and regular employees

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Extended Abstract:

Do entrepreneurs in Europe really have lower returns to education than regular employees? Prior literature for Europe suggests this puzzling finding, whereas in the US, entrepreneurs are reported to have higher returns (see the survey by van der Sluis et al., 2008). In this paper, we show that the picture changes when distinguishing between opportunity entrepreneurs, who are pulled into entrepreneurship because of favorable prospects, and necessity entrepreneurs, who are pushed into self-employed because they do not find regular employment. Based on the German Socio-Economic Panel, we estimate the returns to education for opportunity and necessity entrepreneurs and for employees controlling for non-random selection into the three groups and using an IV approach suggested by Block et al. (2010). We find that the returns to education are slightly higher for opportunity entrepreneurs than for employees, but significantly lower for necessity entrepreneurs. When pooling opportunity and necessity entrepreneurs, the misleading picture of lower returns to education for entrepreneurs than for employees found in other European countries can be replicated for Germany. The distinction between the two types of entrepreneurs, which was not made in the prior literature, is thus crucial. The heterogeneity explains the difference in average entrepreneurial returns to education between Europe and the US, as the higher unemployment rates in Europe increase the share of necessity entrepreneurs in the total of entrepreneurs and thus reduce average returns. Our results are robust to alternative definitions of opportunity and necessity entrepreneurs and to various specification choices. The findings imply that public or private investment in education does not lose any of its importance in an emerging entrepreneurial society (Audretsch, 2007).

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