Entrepreneurs' Age, Wealth and Succession

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Motivation

- The effect of wealth on older entrepreneurs is ambiguous
- They can grow their firms more or use additional wealth to retire
- If older entrepreneurs retire, would younger individuals succeed them?
- Is the growth of younger individuals' businesses sufficient to offset the lost activity of older business owners?

Our Contribution

- Examine how entrepreneurial activities of younger and older individuals respond to extra wealth
- The effect is theoretically ambiguous
- Consider firm ownership and business growth
- Measure incorporated and unincorporated business activities
- Examine long-term exit from business ownership and labor market (retirement)

What we find

- **Older (55-64):** Extra wealth increases exit from entrepreneurship into retirement. Additional wealth reduces high quality (incorporated) business, reduces equity share in corporations, decreases business growth.
- **Younger (21-54):** Extra wealth leads to low growth entrepreneurship (incorporated but without growth) and low quality (unincorporated) businesses.
- **Main Story:** Extra wealth motivates older entrepreneurs to reduce high-quality entrepreneurship, but leads younger individuals to increase low quality entrepreneurship. Net effect on the economy is negative.

Data and Method

- **Data:** Comprehensive matched employer-employee tax record + lottery prize amounts (exogenous increase in wealth)
- **Lottery Data:** All lottery wins over $1,000 from 2004 to 2021, provided by the lottery corporation of a Canadian province.
- **Tax Data:** Employer-employee matched dataset. Universe from Canada. Business ownership (incorporated and unincorporated), equity share in incorporated, business-level outcomes (profits, sales, etc.), wage labor.
- **Method:** Stacked difference-in-differences (DID)

Measuring Growth Potential of Firms

- **"Growth Potential"**: The impact of the firm on economic growth
- **Definition 1:** Incorporated business is higher growth potential. Unincorporated business is lower growth potential.
  - Large literature uses incorporated legal structure as a proxy for growth orientation.
- **Definition 2:** Actual business growth and scale
  - Measured by tax data: Incorporated (sales, profits, etc.); Unincorporated (net and gross income)

Effect of Wealth on Firm Ownership

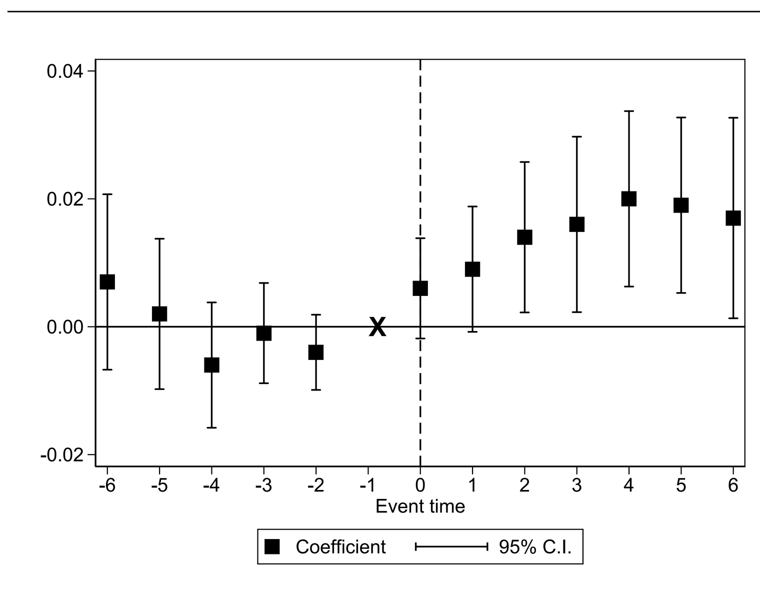

Figure 1. Incorporated (Younger)

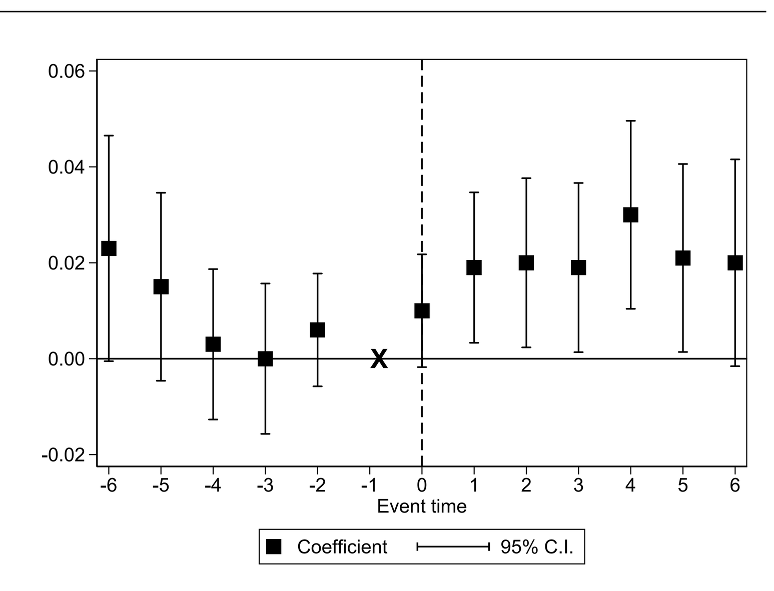

Figure 2. Unincorporated (Younger)

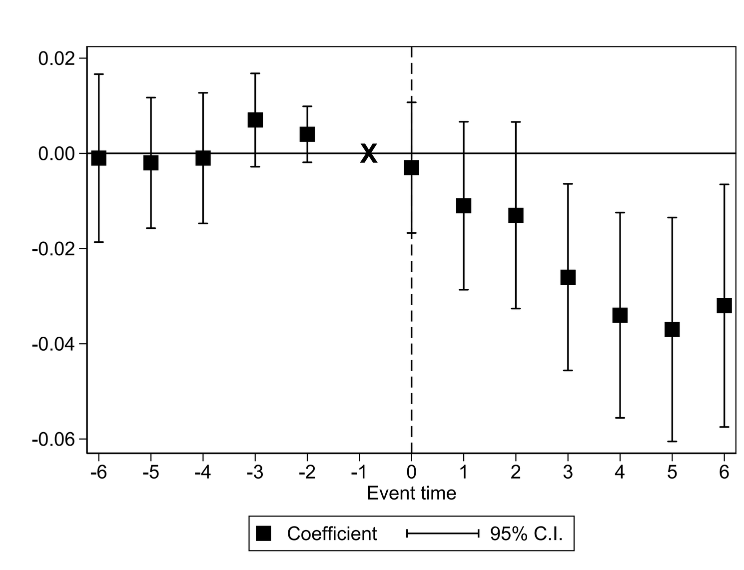

Figure 3. Incorporated (Older)

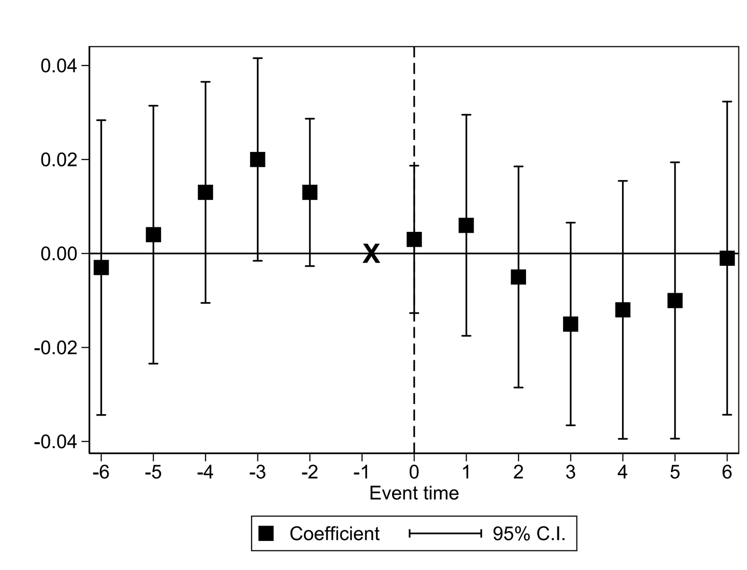

Figure 4. Unincorporated (Older)

Effect of Wealth on Growth of Incorporated Firms

	(1) Total sales	(2) Expenses	(3) Revenues	(4) $\mathbb{1}$(Has employees)
Younger	0.087	0.182	-0.250	-0.017
	(0.931)	(0.802)	(0.924)	(0.028)
Older	-1.571**	-1.153*	-1.515**	-0.068**
	(0.701)	(0.685)	(0.723)	(0.034)
Difference	1.658	1.335	1.265	0.051
	(1.165)	(1.055)	(1.174)	(0.044)

Long-Term Exit from Wage Labor and Entrepreneurship

	5-year exit from		
	(1) Wage earnings	(2) Uninc. bus.	(3) Inc. bus.
Younger	0.021***	0.007	0.001
	(0.003)	(0.017)	(0.007)
Older	0.038***	0.002	0.033**
	(0.007)	(0.017)	(0.013)
Difference	-0.017**	0.004	-0.033**
	(0.008)	(0.024)	(0.015)

Incorporated Equity Ownership Shares

	(1) Overall equity shares	(2) Equity share | owns inc. bus.	(3) $\mathbb{1}$(Owns equity share)
Younger	0.014**	-0.004	0.014***
	(0.006)	(0.024)	(0.005)
Older	-0.022***	-0.030*	-0.023***
	(0.008)	(0.018)	(0.009)
Difference	0.036***	0.026	0.038***
	(0.009)	(0.029)	(0.010)

Additional Results

How does extra wealth affect the transition from wage labor to entrepreneurship?

- Younger transition
- Older retire (reduce both wage labor and entrepreneurship)

Which industries are affected?

- Older exit from 4 out of 9 industries (broad-based)
- While younger enter unincorporated real estate, rental and lease (1 industry)

Business Ownership By Age Bins

	(1) $\mathbb{1}$(Has inc. bus.)	(2) $\mathbb{1}$(Has uninc. bus.)
Age 21 to 31	0.011	0.040***
	(0.013)	(0.013)
Age 32 to 42	0.016	-0.014
	(0.011)	(0.014)
Age 43 to 53	0.015**	0.008
	(0.007)	(0.013)
Age 54 to 64	-0.020**	-0.006
	(0.008)	(0.011)

Conclusions and Implications

- Extra wealth makes business-ownership-by-age profile steeper on both ends
- Younger individuals are more likely to enter entrepreneurship with extra wealth
- Older exit ownership faster with more wealth

- Older exit high-growth firms (corporations) and shrink existing businesses
- Younger enter low-growth and high-growth firm ownership, but generate little business growth

- Net effect on the economy is negative
- This may be important because of aging society and wealth concentration (housing, stock market) among older individuals