

# DISCUSSION ON HOUSING COLLATERAL AND ENTREPRENEURSHIP

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# Financial Constraints and Entrepreneurship

- Are entrepreneurs financially constrained?

$$Entry_{it} = \alpha_0 + \alpha_1 Wealth_{it-1} + \beta X_{it} + \varepsilon_i$$

Ability, social capital...

- How to isolate the wealth effect from others?
- Windfall gains as instruments for wealth
  - ▣ Inheritance and gifts (Blanchflower and Oswald 1991)
  - ▣ Lottery winnings (Lindh and Ohlsson 1996)
  - ▣ Gains from housing price changes (Hurst and Lusardi 2004)

# This Paper



- Highlights
  - ▣ Difference in Difference – a novel approach
  - ▣ Wealth effects on firm growth and survival – an important addition to the literature
- Clear research questions
- A thoughtful exercise

# Difference in Difference

- The first difference

$$Entry_H^O - Entry_L^O$$

- The untreated comparison group: renters
  - ▣ Not affected by changes in housing price
  - ▣ Experience the same *other* economic shocks

- The difference in difference

$$(Entry_H^O - Entry_L^O) - (Entry_H^R - Entry_L^R)$$

# Are renters the same as owners?

- Differences in ability, experience, social capital, risk preference...
- Are owners more responsive to business opportunities?
- Are owners even more responsive to business opportunities in regions with a higher increase in housing price?
- Are owners and renters responsive to different types of business opportunities?

# Some Statistical Evidence

Table 8: Comparison between Homeowners and Renters in the Extensive Margin Sample

	Renters	Owners	T-Test
Entrepreneurship	0.012	0.014	2.6**
log(wage)	8.494	8.964	40.25***
Unemployed	0.097	0.035	38.11***
Age	40.389	45.323	85.25***
Gender	1.225	1.094	54.87***
Foreigner	0.104	0.034	42.62***
College Degree	0.088	0.114	12.19***
<i>Education</i>			
Some College	0.084	0.093	4.4***
High School	0.097	0.109	5.64***
Technical	0.312	0.349	11.55***
No Diploma	0.418	0.335	25.18***

Ability  
difference



Difference in  
entry

# Some Statistical Evidence

Table 7: Comparison between Homeowners and Renters in the Intensive Margin Sample

	Renters	Owners	T-Test
<b>Panel A: Firm characteristics</b> (1999 book values, in thousand Euros)			
Log(Asset)	3.94	3.68	8.07***
Log(Sales)	4.54	4.15	12.38***
Log(Debt)	3.64	3.20	12.58***
Log(1+# Employees)	0.73	0.44	16.1***
Log(Value Added)	4.11	3.77	11.17***
Log(Total Wage)	2.90	2.30	14.87***
<b>Panel B: Entrepreneur characteristics</b>			
Sole Proprietor	0.35	0.57	20.77***
Business at Home	0.24	0.75	51.89***
Age	36.82	39.17	11.02***
Gender (Male==1)	0.76	0.81	5.37***
<i>Education</i>			
No Diploma	0.17	0.21	3.94***
Professional Training	0.38	0.47	8.35***
High School Diploma	0.20	0.15	5.87***
College Diploma	0.25	0.18	7.96***

Difference in industries  
(High tech vs. Low tech)

Difference in scalability

Table 5: Real Estate Capital Gains Before Creation and Entrepreneurship

	Probability of entrepreneurship			
	(1)	(2)	(3)	(4)
Owner $\times \Delta p$	.007*** (6.5)	.0019** (2.2)	.0095*** (7.3)	.0065*** (5.8)
Owner (d)	.0013 (1.6)	.0022*** (4.1)	.0012 (1.4)	.0039*** (6.1)
$\Delta p$	-.007*** (-5.3)	.0077** (2.3)	-.0083*** (-5.2)	.12*** (3.5)
Département FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Controls	No	Yes	No	Yes
Controls $\times \Delta p$	No	Yes	No	Yes
Observations	87,123	87,104	87,123	87,104

Owners are significantly different from renters with respect to entry.



**Table 3: Real Estate Capital Gains Before Creation and Entrepreneurial Outcomes**

	log(Assets) (1)	log(Sales) (2)	log(Debt) (3)	log(1+#Employees) (4)	log(Value Added) (5)	log(Wage Bill) (6)
Owner $\times \Delta p$	.72*** (4.1)	.57*** (4.1)	.81** (2.5)	.26*** (3.1)	.64*** (5)	.85*** (5.3)
Owner	.082** (2.5)	-.074** (-2.7)	-.028 (-.82)	-.11*** (-6.6)	-.11*** (-4.8)	-.15*** (-5.1)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Controls $\times \Delta p$	Yes	Yes	Yes	Yes	Yes	Yes
Département-FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	8,869	8,997	8,836	9,173	8,972	8,449
Adj. R2	0.26	0.23	0.28	0.28	0.25	0.42

- Owners are significantly different from renters with respect to *scaling businesses*.
- Do entrepreneurs own the house before or after business creation?

# Some Suggestions

- Comparability of owners and renters on observables
  - ▣ Entrepreneurial experience/family
  - ▣ Educational background
  - ▣ Industries of their businesses conditional on entry
  
- Institutional context
  - ▣ Policies/programs for assisting entrepreneurship in France
  - ▣ Government policies on the market for collaterals
  
- Consistency in empirical specifications
  - ▣ The main effect of  $\Delta P$