

Comments on:

***Insurance, Entrepreneurial Start-Up
and Performance***

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Scope of the Paper

- Objective: to investigate to what extent the provision of unemployment insurance (UI) leads workers to become self-employed, and whether those who select insurance are more or less successful
- Denmark: UI is both voluntary and available to wage-earners and the self-employed
- IV strategy: access to an early retirement (ER) program open only to members of UI funds – assumes choice of retirement fund is independent of occupational choice

Choice of Instrument

- Using ER reforms as orthogonal shifters for UI inflow renders a positive effect of insurance on transitions to self-employment
- Could ER be perceived as an (additional) insurance? If that is the case, the instrument is not orthogonal
- To what extent are ER reforms related with the economic cycle? The cycle affects occupational choice and could be simultaneously correlated with ER reforms
- ER reforms can also coincide with a perceived increase in risk, being correlated with occupational choice in this way

Choice of Instrument

- Access to the ER benefit implies more than participation in the UI scheme – people also have to pay an additional amount, suggesting that the decision to participate may depend on risk aversion (which also affects entry into self-employment) – what are the implications for instrument interpretation?
- People with lower entrepreneurial ability will be more likely to enroll in UI than those with higher ability (p. 17) – might this reasoning apply also to ER choice? If yes, it weakens the instrument

Model Specification

- There is a positive wealth effect on entry to self-employment (P. 17) – if wealth is accumulated over time, the probability of transition will depend on time, which calls for a 'time to event' (hazard) interpretation of the probability of transition
- Model assumes that entrepreneurial ability is constant over time (as implied in the fixed effects estimation) – if there is learning (or depreciation) of entrepreneurial ability over time, this again calls for a hazard model
- Fig. 9 shows that the sample changes as workers move into self-employment (time and age effects are present) – a hazard model would provide a better interpretation of the probability of becoming self-employed

Model Specification

- P. 20: You mention that – due to ‘additivity’ – optimal investment and choice of occupation conditional on insurance status are unaffected by the additional benefit – but the additional benefit depends on insurance status (individuals can only access ER if insured)
- Identification hinges on the discounted value of the retirement option being uncorrelated with the unobserved individual effects (risk of unemployment) – you need to argue this in more detail – do you think making a decision focusing 10 years or more into the future is enough to discard the correlation?



Model Estimation

- UI benefit duration was reduced twice in the 1990s, changing the insurance conditions – do these changes affect the results? Can separate transition models be estimated for different benefit durations?
- Fig. 3: ER reforms had different effects on different age groups – this may imply that the treatment is local (only valid for a sub-population) – it would be useful to estimate transition models for different age groups separately

Model Estimation

- The linear probability model only considers transitions from wage employment to self-employment (P. 25), but your data allows for a richer set of transitions – a hazard (competing risk) model could distinguish between self-employment with and without employees; a frailty specification would deal with unobserved heterogeneity, replacing the fixed effects
- The linear fixed effects IV model estimates a coefficient of insurance corresponding to the local average treatment effect – why not go a step further and use propensity score estimation? The Danish data is rich enough to allow for the identification of ER-insured and uninsured individuals with similar probabilities of becoming self-employed

Post-Transition Performance

- Previous work has looked at this issue: Branstetter, Lima, Taylor and Venâncio (2013). Do Entry Regulations Deter Entrepreneurship and Job Creation? Evidence from Recent Reforms in Portugal. *Economic Journal*, Published online: DOI: 10.1111/ecoj.12044.
- This paper looks at the effect of regulatory reform in Portugal, which substantially reduced the cost of entry, finding that while the probability of transition to self-employment increased, marginal firms were typically small, owned by relatively poorly educated entrepreneurs, operating in low-technology sectors, and significantly less likely to survive



Post-Transition Performance

- Similar to the EJ paper, you may want to look at whether the effects of UI access are different for high tech and low tech sectors (different investment requirements and risk exposure)
- Since indirect effects of start-ups on subsequent employment growth may be different depending on the quality (i.e. human capital or ability) of the entrepreneur and on the start-up sector, determining differences in the effect of UI across sectors and entrepreneur types would make a significant contribution in terms of policy evaluation