

ENTREPRENEURSHIP POLICY DIGEST

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CAN SOCIAL INSURANCE UNLOCK ENTREPRENEURIAL OPPORTUNITIES?

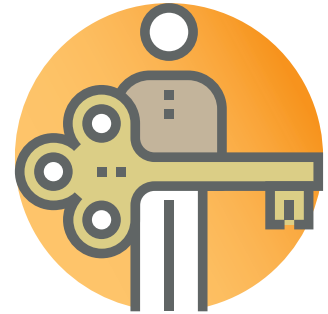
Entrepreneurship is the engine of economic growth and the [primary source of net new job creation in the United States](#). New businesses offer those they employ opportunities for upward economic mobility. They challenge existing firms to innovate and improve. And they contribute to the economic dynamism that fuels a growing economy.

Entrepreneurship, however, is an inherently risky and uncertain proposition. Approximately [half of all firms](#) are no longer in business after five years. Added to the uncertainty of entrepreneurial success is the loss of benefits, like health insurance, that accompany stable employment.

Many proponents of the Patient Protection and Affordable Care Act (ACA) seized on this point, claiming that changes to health insurance ushered in by the law would boost entrepreneurship by weakening the effects of "[job lock](#)."

The argument was if individuals value health insurance and can only afford insurance when provided by an employer, decoupling employment and health insurance will create new possibilities for these workers. In other words, when social benefits are available outside employment, people are more willing to take risks and become entrepreneurs.

But health coverage is only one form of insurance. Other policies offer protection against risk and economic hazards as well. Given [declining rates of entrepreneurship](#), it is worth exploring whether policy can boost firm formation by mitigating the fundamental risks of entrepreneurship.



HEALTH INSURANCE FOR ENTREPRENEURIAL RISK-TAKING

A LACK OF HEALTH INSURANCE MAY IMPEDE ENTREPRENEURSHIP

- In families with members in bad health, a lack of access to health insurance through a spouse's employer leads to both married men and women [being less likely to create new businesses](#).
- A 2011 study found that single women with no access to health insurance coverage were [10 percent less likely to be self-employed](#).



INCREASED ACCESS TO HEALTH INSURANCE CAUSES DIFFERENT AFFECTS TO DIFFERENT PEOPLE

- Eligibility for Medicare is an important threshold that influences entrepreneurial decisions. Research from 2011 shows a small but noticeable [increase in business ownership rates, from 24.6 percent to 28 percent](#) as individuals become eligible for Medicare.
- Yet, job lock affects young potential entrepreneurs differently. Research on young adults who saw their health insurance coverage extended saw [no increase in their rate of entrepreneurship](#).

SOCIAL INSURANCE FOR ENTREPRENEURIAL RISK-TAKING

- Taking advantage of an expansion in food stamp (SNAP) eligibility, researchers found that [business ownership increased 16 percent](#) for newly eligible households.
- A French unemployment insurance program [successfully increased business creation](#) by allowing individuals who started a business to retain access to their unemployment benefits to insure against the failure of their business (see next page for more information).
- Family wealth plays an [important factor in who becomes an entrepreneur](#). It can provide both initial funding for a startup and a buffer against failure. This implicit insurance advantages individuals from wealthy backgrounds and [shapes the entrepreneurial landscape](#).



FRANCE'S UNEMPLOYMENT INSURANCE PROGRAM SPURRED STARTUPS

In 2002, France passed a plan to stimulate new business creation called PARE (Plan d'Aide au Retour à l'Emploi). This program allowed individuals to retain access to their unemployment benefits for three years if they started a business. Previously, and as is in the United States, when the unemployed chose to start a business, they immediately lost their unemployment benefits and assumed the full burden of the risk of entrepreneurship.

After the program was introduced, new business creation flourished in France. Monthly firm creation rates increased by 25 percent, as more unemployed potential entrepreneurs took this loosening of the benefit policy as an [opportunity to start their own companies](#).

Interestingly, the program didn't attract less qualified or talented entrepreneurs. The researchers found that these firms were more likely to hire, were more productive and paid higher wages than their incumbent competitors.

The authors of the study argue that its results validate an "experimentation view" of entrepreneurship. When the risks to entrepreneurship are shared, they conclude, more individuals see entrepreneurship as a viable path.

POLICY PRESCRIPTIONS FOR ENTREPRENEURIAL GROWTH

REDUCE THE OPPORTUNITY COST OF ENTREPRENEURIAL EXPERIMENTATION

- [Strengthen social insurance programs](#) to even out potential entrepreneurs' risk-reward calculus.
- Offer family-friendly policies such as subsidized childcare or preschool to [boost the number of women entrepreneurs](#).
- Reform unemployment insurance to [help nascent entrepreneurs mitigate the downside risks of entrepreneurship](#).

FACILITATE ASSET ACCUMULATION

- While entrepreneurship tends to peak as individuals enter their late 30s and early 40s, millennials are

[having an even tougher time becoming entrepreneurs](#). Many are encumbered by heavy student debt burdens that make it more difficult to accumulate the savings needed to bootstrap a startup.

PRESERVE ENTREPRENEURIAL ENTRY AND COMPETITION BY DECREASING INCUMBENT BIAS

- Certain policies, like [occupational licensing](#), the strict enforcement of [non-compete agreements](#) and [overly strong patent rights](#) benefit existing and larger businesses by erecting barriers to entry and raising costs of entrepreneurial competition.
- Evaluate policy proposals to ensure they let entrepreneurs in and enable them to compete.



FOR MORE INFORMATION

Click on the links for access to the following resources, or contact Jason Wiens at jwiens@kauffman.org:

- Learn about initial findings regarding the [ACA's effect on entrepreneurship](#) and [economic dynamism](#).
- Read about [anticompetitive barriers to innovation and entrepreneurship](#) in the health insurance industry.
- See research by Kauffman's network of Emerging Scholars on [health insurance](#), and [how stronger social support programs can help boost entrepreneurship](#) among the elderly.



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