**Pre-Analysis Plan for:**

**“The Political Economy of Small Business Ownership in America”**

**Introduction**

Small business owners (SBOs) account for approximately 23 million Americans, or 9% of the country’s adult population. Despite the size of this group—larger than unions members or workers in the manufacturing sector— its political preferences have been overlooked in the literature to date. In a systematic analysis of several datasets from the US and Europe, we document a consistent pattern whereby self-employed individuals, a category that consists primarily of SBOs, tend to be systematically more supportive of parties and candidates on the right. In this study we seek to understand why that is the case. We will do so by carrying out a targeted survey that will include an oversample of SBOs and another survey that will be fielded to a nationally representative sample. These two surveys will allow us to empirically evaluate several competing explanations for the right-wing affinity of small business owners. In this document we describe the two surveys we intend to conduct, our key theoretical expectations, and how we plan to go about testing them empirically.

**Theoretical Framework**

Explanations for the tendency of SBOs to vote for the right fall into two broad groups: treatment and selection-based accounts. “Treatment” explanations center on the causal impact of the experience of *being* an SBO. The day-to-day features of the job, the type of interactions the job requires, and the issues that SBOs confront may shape their worldviews and make them more amenable to the policy offerings of the political right. Alternatively, selection-based explanations recognize the distinct challenges that being an SBO entails, and hence focus on the personality traits that characterize people who choose to become small business owners in the first place. In turn, these personality traits and predispositions may be what accounts for the outsized tendency of SBOs to be attracted to the offerings of the political right.

Specifically, we focus on various explanations in each of these groupings.

Treatment-based explanations:

*Regulatory Burden* *–* Ownership of a small business typically requires the entrepreneur to deal with a high degree of regulatory burden. From dealing with health and safety requirements, through obtaining operational licenses to adhering to employment laws, the list of regulations SBOs confront is long. One possibility is that the oversized experience of dealing with burdensome regulations leads small business owners to develop a strong aversion to government intervention in the economy. This in turn may lead them to support a small-government agenda that is typically associated with the right.

*Tax Antipathy –* A second casual route centers on taxes. Unlike regular employees, who file their taxes once a year in a process that is mostly routine, taxes on small businesses tend to be more complicated, as there isn’t a single tax form nor a single tax rate that applies to all businesses. Furthermore, taxes business owners pay on employees’ salaries, on dividends, and the need for decisions on the business tax structure (e.g., whether to pay them as a corporation or as a pass-through entity) may make the issue of taxes particularly salient to SBOs. If so, this might explain the appeal of the political right, which typically “owns” the issue of low taxes and a business-friendly tax environment.

*Placebo Social Attitudes –* An important part of our argument is that small business owners are conservative based on their economic experiences. Hence, an important placebo category of attitudes are social attitudes which are on a separate dimension from economics. It is important to show that SBOs exhibit more conservative preferences regarding economic issues specifically (regulation and taxation) rather than all issues (or controlling for their views on social issues).

Selection-based explanations:

*Risk Acceptance.* Starting a business may also require tolerance of a high degree of risk taking. If tolerance of risk is negatively associated with support for government-provided social safety net, it is likely that SBOs would be more supportive of a small government.

*Protestant Work Ethic*. Starting and running a business requires extreme hard work and long hours. The Protestant work ethic is the belief that hard work and discipline result in rewards in life, and the basis in this belief is the Calvinist idea that hard work, as well as the enjoyment of its material benefits, is a way of serving God. Weber argued that this worldview is a core basis of capitalism. People espousing this belief may be more likely to start businesses, and the belief in hard work as the determinant of success is also tied to conservative economic ideology.

*Individualism*. Operating a small business is often an individualistic experience. Even if there are a small number of employees, the success and failure of the business ride on one (or a few) people. This is in contrast to people who work as employees in an entity (bureaucracies, corporations) where responsibilities are shared. People who believe more in individualism, as opposed to communitarianism, may be more likely to start small enterprises. Rugged individualism is also tied to conservative economic ideology.

**Measurement and Categorization of Issues**

We asked a series of questions pertaining to regulation. We use these items to generate two indices: one centered on respondents’ objective, personal experiences with regulation, the other on respondents’ attitudes toward regulation. These two indices are based on the following variables:

*Regulation\_Experience:* regulations\_work; regulations\_life;

*Regulation\_Subjective:* dis/agree\_regulate; small\_b\_regulate; fire\_employees; unions\_private

We plan to construct two additive indices using these items, coded to lie between 0 (regulation-acceptant) and 1 (regulation-averse).

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* regulations\_work. Which statement comes closest to describing how government regulations affect the way you do your job?
* regulations\_life. Which statement comes closest to describing how government regulations affect the your life outside of work?
* dis/agree\_regulate (two items) To what extent do you agree or disagree with the following statements on regulations?
* The government understands business, technology and industry well enough to regulate. (1)
* It is easy for businesses to comply with regulations (2)
* small\_b\_regulate Some people think that the US government has not done enough to regulate businesses. Other people think businesses are regulated too much by the government. Should the US government increase or decrease regulation of businesses?
* fire\_employees Do you oppose or support government rules that make it harder for employers to fire their workers?
* unions\_private Would you, personally, like to see labor unions in the United States have more influence than they do today or have less influence than they do today?

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*Tax burden*: We asked a series of questions pertaining to taxes and redistribution. We use these items to generate two indices: one centered on respondents’ objective, personal experiences dealing with the tax system, the other on respondents’ subjective attitudes toward taxation. These two indices are based on the following variables:

*Tax\_burden\_experience:* income\_tax\_return; filing\_type; attention\_to\_taxes; tax\_stress; audited\_worry; refund\_feeling; pay\_or\_refund

*Tax\_burden\_subjective* raise\_taxes; ; gov\_spending, universal\_income, irs\_funding

We plan to construct two additive indices using these items, coded to lie between 0 (tax-tolerant) and 1 (anti-tax).

We plan to construct an additive index of these items, coded to lie between 0 (tax-tolerant) and 1 (anti-taxes).

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* income\_tax\_return How many times per year do you file an income tax return?
* tax\_stress Generally, how much stress does paying taxes cause in your life?
* attention\_to\_taxes How much attention do you pay to how much you are paying in taxes?
* raise\_taxes Do you think the government should increase, maintain, or decrease the current tax rates?
* audited\_worry How worried are you about being audited by the government every year?
* filing\_type How do you usually file your taxes?
* pay\_or\_refund At the end of the year, do you usually have to pay taxes or do you get a refund back from the government?
* refund\_feeling When you receive your refund check, how do you generally feel?
* gov\_spending Would you like to see more or less government spending on the following? Remember that increasing such spending might require higher taxes to pay for it.
  + Providing financial assistance to the poor (1)
  + Providing training and education services for workers who lose their jobs (2)
  + Providing money to universities to conduct research (3)
* universal\_income Do you favor, oppose, or neither favor nor oppose establishing a federal program that gives all citizens $12,000 per year, provided they meet certain conditions? This program would be paid for with higher taxes.
* IRS\_funding The Inflation Reduction Act included an increase of $8 billion annual funding to the IRS’ budget in order to finance:   
    
  - increasing tax enforcement on very high-income individuals (income over $400,000)   
  - hiring an additional 20,000 IRS employees   
  - updating the technology used to detect tax evasion   
    
  It is estimated that this proposal would raise an extra $70 billion per year in revenue.  
    
  Some people say that this bill will allow the IRS to collect more money from tax dodgers. Other people say that this bill will increase the burdens on Americans by increasing the number of audits.   
    
  Do you support or oppose the increase of funding for the IRS?

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*Social Conservatism.* To gauge respondents’ level of social conservativism, which is theoretically orthogonal to economic issues (regulation, taxation), we asked a series of items that pertain to major social and cultural issues. These items are:

abortion\_rights; death\_penalty; gay\_marriage; gun\_rights; trans\_rights

We plan to construct an additive index of these items, coded to lie between 0 (liberal) and 1 (conservative).

* gay\_marriage Do you support or oppose allowing gays and lesbians to marry legally?
* death\_penalty Do you support or oppose the death penalty for a person convicted of murder?
* abortion\_rights There has been some discussion about abortion during recent years. Which one of the opinions on this page best describes your view?
* gun\_rights What do you think is more important: to protect the right of Americans to own guns, or to control gun ownership?
* trans\_rights Should transgender people – that is, people who identify themselves as the sex or gender different from the one they were born as – have to use the bathrooms of the gender they were born as, or should they be allowed to use the bathrooms of their identified gender?

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*Risk acceptance*

To gauge respondents’ tolerance of risk, we asked two items:

slider\_risk; others\_risks

We plan to construct an additive index of these items, coded to lie between 0 (risk averse) and 1 (risk acceptant).

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* slider\_risk Please move the slider on the scale, where the value 0 means: not at all willing to take risks and the value 10 means: very willing to take risks. Please move the slider on the scale.
* others\_risks Some people say you should be cautious about making major changes in life. Suppose these people are located at 1. Others say that you will never achieve much in life unless you act boldly. Suppose these people are located at 10. Others have views in between.

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*Protestant Work Ethic*

To gauge respondents’ belief in the Protestant work ethic, we asked three items as part of the question grid work\_ethic\_1

We plan to construct an additive index of these items, coded to lie between 0 (does not believe in the Protestant work ethic) to 0 (believes in the Protestant work ethic)

work\_ethic\_1 Do you agree or disagree with the following statements:

* Anyone who is able and willing to work hard has a good chance of succeeding. (1)
* Our society would have fewer problems if people had less leisure time. (2)
* Hard work offers little guarantee of success. (3)

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*Individualism*

To gauge respondents’ degree of individualism we asked two items:

individuality Do you agree or disagree with the following statements:

I'd rather depend on myself than others. (1)

Entrepreneurs and other people with new ideas get too much credit these days; ordinary people who work hard are the backbone of this country. (2)

We plan to construct an additive index of these items, coded to lie between 0 (community oriented) to 1 (individual oriented)

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*Financial literacy*

To measure respondents’ level of financial literacy, we asked two items:

Interestrate; assetrisk

We plan to construct an additive index of these items, coded to lie between 0 (financially illiterate ) and 1 (financially literate).

* [interestrate] Suppose you had $100 in a savings account and the interest rate was 2% per year. After 5 years, how much do you think you would have in the account if you left the money in the account for the entire period?
* [assetrisk] When an investor spreads his investments among more assets, does the risk of losing money:

We measure financial literacy not as part of any main hypothesis, but to rule out the explanation that SBOs have more conservative attitudes on economic issues simply because they have more financial expertise.

**Definition of Groups**

To conserve statistical power, our main groups for comparisons will be SBOs and the rest of the survey sample. However, in exploratory analyses, we can examine different subgroups of SBOs based on variables such as size of company and length of time business was owned. For the non-SBO group, we can also examine differences according to various occupational categories (e.g., in/out of labor force, gig economy / freelance workers, etc.).

**Experiment**

We also seek to examine whether a heightened sense of identity as a small business owner is associated with respondents expressing stronger views on the policy matters in question. To this end, our survey will include a randomization in the placement of a series of factual questions pertaining to small business ownership. The idea being that pondering the answer to these questions will prime respondents’ SBO identity (see Kuo and Margalit 2012 for a demonstration of this identity channel). Whereas one group of respondents will be randomly assigned to receive these questions at the beginning of the survey, the other group will be prompted with the same set of questions but at the very end of the survey. If we do not observe a priming effect, then it suggests that the position of these questions in the survey did not matter.

The items that compose the prime will include: beginning\_year; end\_year\_former ; takeover; takeover\_year; employment\_number; business\_activities; job\_functions; involvement industry\_type

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Items:

* beginning\_year What year did you start your own business? If you do not currently own a business, what year did you start your last business?
* end\_year\_former When did your business stop operating? [IF employment\_status2 != 3 & (smallbiz\_ever == yes | beginning\_year != “I have never owned a business”)]
* takeover Did you start your own business or take it over from someone else, such as a family member? [beginning\_year ! = “I have never owned a business”]
* takeover\_year What year did you take over this business?
* employment\_number How many people does your business currently employ (excluding yourself)? If you are not sure, your best estimate is fine. If you do not currently own a business, how many people did your business regularly employ? Please enter a number. [beginning\_year ! = “I have never owned a business”]
* business\_activities. In a few sentences, please describe your business and 2 to 3 of its main activities. [beginning\_year ! = “I have never owned a business”]
* job\_functions In a few sentences, please describe 2 to 3 of your own job functions in the business. [beginning\_year ! = “I have never owned a business”]
* involvement How involved are you in the day-to-day management of your small business? If you do not currently own a business, how involved were you? [beginning\_year ! = “I have never owned a business”]
* industry\_type In what industry is your business? If you do not currently own a business, what industry was your business in? [beginning\_year ! = “I have never owned a business”]

**Empirical Approach**

To get at the factors underlying the oversized support of SBOs for the right, we will carry out several different comparisons. These comparisons can be made using simple difference of means tests, as well as linear regression models with controls. In models that use controls, we will include the following variables: age, income, race (white dummy variable), gender, and education. We may include other control variables (e.g., industry) but it will depend on statistical power and whether industry dummies add too many parameters into the regression models.

Specifically, we will:

* Compare measures of party identification and political ideology between SBOs vs Non-SBOs (1)
* Compare the treatment-related variables (taxation, regulation, and the social issues placebo) between SBOs vs. Non-SBOs (2);
* Assess whether the relationship between party identification and SBO status is attenuated when controlling for treatment-related variables (3). If the relationship between party identification and SBO status is attenuated, then it suggests that the reason why SBOs and non-SBOs have different party identification is because of the treatment-related variables

To explore the possible relationship between selection-related variables (i.e., personality traits), SBO-status and political preferences, we will consider two possibilities. *(A)* personality traits affect individuals’ choices to become SBOs, and the experience of being an SBO then shapes owners’ policy views and political preferences; *(B)* personality traits affect both the decision to become a SBO and people’s political preferences, but there is no causal impact of SBO status on political preferences (i.e., a spurious relationship).

To explore these competing options, we will first assess whether there is a clear empirical relationship between personality traits and SBO status (a necessary condition for option *A* above to be viable). To do so, we will:

* Compare the selection-related variables (risk acceptance, Protestant work ethic, individualism) between SBOs vs. NON-SBOs (4);

If the comparison shows clear differences between SBOs and Non-SBOs, then in the second stage we will:

* Compare measures of party identification and political ideology between SBOs vs Non-SBOs while sub-setting the comparison to groups that share a similar personality trait (e.g., high/low degree of risk acceptance, Protestant work ethic, or individualism). (5).

We may also carry out the same empirical analyses among relevant subgroups of the data (e.g., conservatives, Republicans) that allow us to condition on key variables. Yet we acknowledge a priori that these analyses may be underpowered.

The OLS regression model to assess relationship (1) takes the form:

Yi = α + βSi + **xi +** εi

where Yi is the party identification variable, Si ­is a dummy variable for SBO status, **xi** is a vector of control variables, and εi is stochastic error.

To test relationship (2), we estimate an OLS regression model of the form:

Ti = α + βSi + **xi +** εi

where Ti represents the treatment-related variables.

To test relationship (3), we estimate the following OLS regression model:

Yi = α + βSi + γ Ti **+ xi +** εi

To test relationship (4), we estimate an OLS regression model of the form:

Pi = α + βSi + **xi +** εi

where Pi represents the selection-related personality variables.

To test relationship (5), we estimate the following two OLS regression models:

Yi = α + βSi + **xi +** εi if Pi = low

Yi = α + βSi + **xi +** εi if Pi = high

Relationship (5) can also combine these two equations into a model with an interaction term, but we acknowledge a priori that this sort of model may be underpowered. We can also run similar tests using simple differences-in-means. For instance, we can compare the party identification of SBOs and non-SBOs conditioning on treatment-related variables. If we find that there is no difference in party identification once this conditioning takes place, it suggests that the mechanism by which SBO status translates into party identification are the treatment-related policy preferences.

**Description of Samples**

Dedicated Small Business Owner Sample: we aim to get a sample of 700 Small Business Owners. Verasight, a panel-based survey company, will facilitate the sampling process. We start with the most recent public record of U.S. Small Business Administration’s accounting of the Paycheck Protection Program (PPP) to build a sampling frame. Once the business and contact information are verified, a subsample of randomly selected Small Business Owners will be invited to take the survey via email and texts. Respondents who completed the survey will be compensated with $20.

General Population Sample: we aim to get a sample of 2,000 respondents who are US citizens of at least 18 years old. We will recruit and distribute the survey on Prolific, an online survey platform.

Pre-test Sample: In the summer of 2023, we carried out pre-tests on various platforms such as Prolific, MTurk, and Connect. We collected 2,107 valid responses, and have the option of pooling in these data points to increase power.