Where You Start and Your Race Matter: Labor Market Inequality and the Entrepreneurship Earnings Penalty Puzzle

Abstract

Introduction

There is ongoing debate among students of entrepreneurship and organization regarding whether entrepreneurship is associated with an earnings penalty compared to traditional wage-and-salary employment (Hamilton 2000; Manso 2016). Some narratives link entrepreneurship to an earnings penalty based on analyses showing median earnings to be 35% lower among self-employed individuals compared to their traditional wage-and-salary counterparts (Hamilton 2000). Considering that entrepreneurs bear higher risks compared to traditional employees, scholars questioned why people persist in entrepreneurship (Hamilton 2000; Moskowitz and Vissing-Jørgensen 2002). Yet answers to this question have been inconclusive, as scholars have provided competing explanations for the apparent earnings penalty associated with entrepreneurship. A common argument stresses non-pecuniary benefits embedded in entrepreneurship (Hamilton 2000), whereas a parallel narrative emphasizes option value linked to experimenting with entrepreneurship as core mechanisms underlying the persistence of individuals in entrepreneurship (Manso 2016).

For instance, research has suggested several non-pecuniary benefits that compensate for lower entrepreneurship earnings compared to traditional paid employment (Hamilton 2000). First, it is argued that *s*elf-employed people gain greater satisfaction in their work than their wage-and-salary counterparts (Blanchflower and Oswald 1992). Second, some claim that individuals who favor greater autonomy are more likely to become self-employed (Evans and Leighton 1989). Third, others speculate that entrepreneurs may enjoy being their own bosses (Blanchflower and Oswald 1992), and/or they may have a high tolerance for economic inequality (Kraus and Litzenberger 1976). However, these conclusions about the non-pecuniary benefits of

entrepreneurship are mainly based on speculations rather than systematic empirical analyses (Hamilton 2000). Contrasting the non-pecuniary benefits view, some research contends that individuals persist in entrepreneurship because it enables them to experiment with new ideas, as failed entrepreneurs are not penalized upon returning to traditional wage-and-salary employment (Manso 2016). The crux of this conclusion is the assumption that individuals with new ideas have two options: they may pursue their ideas as self-employed—which is the only way to find out whether their ideas are good—or as an alternative, they may remain in traditional wage or salary employment (Manso 2016).

However, together these narratives have failed to account for the crucial role of the opportunity structure of the labor market in shaping the decisions of individuals to undertake entrepreneurship and the economic returns they can generate after entry into entrepreneurship. For instance, assuming that individuals with new ideas can only choose entrepreneurship or stay in paid employment (Manso 2016), extant research has overlooked the reality that for some individuals, remaining in paid employment is not a real option due to blocked labor market mobility (Hwang and Damon, Forthcoming). In other words, for individuals experiencing blocked labor market mobility, entrepreneurship may be an alternative to unemployment. The reality that people often enter entrepreneurship as an alternative to unemployment problematizes the argument that people undertake entrepreneurship because it enables them to experiment with new ideas (Manso 2016) or because they gain non-pecuniary benefits that compensate for lower earnings associated with entrepreneurship (Manso 2016). Instead in this study, we show that it is plausible that people enter entrepreneurship as an alternative to unemployment, thereby being driven into entrepreneurship by necessity (Wassink and Hagan 2018). As a result, they are likely to lack the resources necessary to grow their ventures (Wassink and Hagan 2018), constraining

the extent of the returns they can generate from their ventures. Given that work experience and labor market mobility are key predictors of successful transition into entrepreneurship (Rider et al. 2019; Sørensen and Sharkey 2014), it is reasonable to presume entrepreneurship earnings to be lower among individuals who enter entrepreneurship due to lack of labor market mobility compared to those who stay in paid employment or transition into entrepreneurship from paid employment. This point is important here because (compared to individuals who enter entrepreneurship due to blocked labor market mobility) those who remain in traditional paid employment are likely to experience a high opportunity cost of abandoning paid employment for entrepreneurship. This suggests that models examining earnings differentials between entrepreneurs and wage-and-salary earners should incorporate the labor market standing of individuals prior to entering entrepreneurship. That is, accounting for the prior labor market standing of individuals is necessary to fully understand why earnings may seem to be lower among entrepreneurs than their wage-and-salary counterparts, thereby helping to shed light on the reasons thousands of people enter entrepreneurship every year (Auguste, Roll, and Despard 2023).

Further, stratification scholars have established that race and ethnicity are key dimensions of labor market stratification and that racial and ethnic minorities tend to be positioned in the lower mobility segment of the labor market compared to their non-minority counterparts (Jackson 2023; Massey 2007; Pedulla and Pager 2019). Race and ethnicity-based differences in labor market opportunity are likely to be consequential for how prior labor market standing of individuals affects entry into entrepreneurship and the extent of the economic returns that they can generate from their ventures. Indeed, research has established the importance of a career experience for entrepreneurship transition and success (Rider et al 2020; Sharkey and Sorenson

2014). Thus, it is surprising that existing models examining the apparent entrepreneurship earnings potential earnings disparity between entrepreneurs and paid employees have failed to incorporate differences in the labor market mobility of individuals prior to entering entrepreneurship (Hamilton 2000; Manso 2016).

We fill this gap in previous studies by proposing an alternative framework for understanding earnings disparity between entrepreneurs and traditional wage-and-salary employees that accounts for labor market inequality, and how it varies by race and ethnicity. Specifically, we consider the extent to which individuals transition into entrepreneurship from different opportunity segments of the labor market, the degree to which labor market opportunities differ by race and ethnicity, and their consequences for differential returns that people generate from their ventures (See Figure 1 for a summary of our Theoretical Framework). To this end, our framework incorporates unemployment (which is omitted in existing models [Hamilton 2000; Manso 2016]) as a reasonable pathway to entrepreneurship. We contend that unemployment is an entrepreneurship pathway imbued with structural constraints, limiting the extent of the rewards that individuals can gain upon entry into entrepreneurship, thereby shaping earnings differentials between entrepreneurs and people who remain in traditional wage-and-salary employment. We evaluate our framework by drawing on a sample of 38,837 traditional wage-and-salary employees and self-employed individuals from a unique longitudinal survey (the Survey of Income and Program Participation) spanning 2014-2018.

Mechanisms Underlying the Link between Prior Labor Market Standing and Earnings Differentials between the Self-Employed and Traditional Wage-and-Salary Employees

The crux of our framework is the reasonable assumption that the extent of the economic returns that entrepreneurs can generate from their ventures are influenced by their prior standing in the labor market, thereby shaping earnings differentials both among entrepreneurs and between entrepreneurs and traditional wage-and-salary employees (see Figure 1 for summary of Theoretical Framework). In this way, our theorizing treats entrepreneurship as a career stage—meaning that prior position in the labor market is consequential for how people experience the entrepreneurial process (Burton, Sørensen, and Dobrev 2016). This assumption is crucial for our model because a career connects people to social institutions—private and government organizations, as well as informal social networks (Burton, Sørensen, and Dobrev 2016)—that provide access to the necessary resources for business development and success. Our premise is reasonable considering that a successful transition into entrepreneurship is largely contingent on access to financial capital, social networks, and advanced skills in the industry in which entrepreneurs launch their ventures (Nanda and Sørensen 2010). In addition, at the early stages of the venture creation process, individuals tend to acquire these necessary resources throughout their career, and personal resources and networks (Burton, Sørensen, and Dobrev 2016). In fact, it has been shown that most entrepreneurs have had experience working in other organizations before transitioning into entrepreneurship (Beckman and Burton 2008; Dobrev and Barnett 2005; Sørensen and Fassiotto 2011), are more likely to start businesses in industries of their previous employment (Klepper and Sleeper 2005; Sorenson and Audia 2000), and that industry-specific skills are positively associated with entrepreneurship success (Delmar and Shane 2006; Eesley and Roberts 2012). Given that a career allows people to build the skills, and networks, as well as access the financial and institutional resources necessary for successful business launches, it is

fair to expect entrepreneurship returns to differ by individuals' labor market standing prior to entering entrepreneurship.

Further, our theoretical framework is grounded in the understanding of the labor market stratification process, where some individuals are positioned in high-earnings and occupational mobility segments of the market, whereas others are situated in labor market strata with little opportunity for earnings and occupational advancement (Kalleberg and Mouw 2018). For instance, research has shown that earnings structures in the overall labor market (Berkhout, Hartog, and van Praag 2016) and within organizations (Sørensen and Sharkey 2014) shape the likelihood that a given worker would undertake entrepreneurship as opposed to staying with their employers (Berkhout, Hartog, and van Praag 2016) or moving to another organization (Sørensen and Sharkey 2014). Drawing on a sample of 56,138 recent graduates in the Netherlands, scholars have examined the variance and skewness of earnings in the labor market to understand the likelihood of entering paid employment compared to transitioning into entrepreneurship (Berkhout, Hartog, and van Praag 2016). They conclude that highly skewed earning distribution in a labor market means that some people end up with very high earnings, thereby giving up paid employment for entrepreneurship means forgoing the chances of ending up in the high-earning group. In this respect, the opportunity cost of forgoing paid employment for entrepreneurship is likely to be high in labor markets where earning distribution is highly skewed. Therefore, in labor markets where earnings distribution is highly skewed, people will be less likely to leave traditional employment for entrepreneurship (Berkhout, Hartog, and van Praag 2016). In contrast, in labor markets where the variance of earning distribution is high, the likelihood of ending up in the high-earnings group is low. That is, the opportunity cost of giving up traditional paid employment is likely to be low in such labor markets, thereby increasing the likelihood that

workers would choose entrepreneurship over paid employment (Berkhout, Hartog, and van Praag 2016).

This argument is important for our theoretical framework because a key underlying assumption in our framework is that the opportunity cost of forgoing paid employment for entrepreneurship is likely to be high for individuals located in high-earning and-occupational mobility strata of the labor market compared to those located in the lower-earning and-occupational mobility segment of the labor market. That is, as opportunities for mobility in paid employment become less attractive or unavailable for some individuals, they are likely to pursue entrepreneurship either as a way to take advantage of economic opportunities unavailable in traditional wage-and-salary employment or as an alternative to unemployment. In other words, some people are likely to transition into entrepreneurship from paid employment to pursue greater opportunities unavailable in their organizations (Sørensen and Sharkey 2014), whereas others are likely to enter entrepreneurship due to blocked labor market opportunity—that is as an alternative to unemployment (Wassink and Hagan 2018).

Consequently, considering the relatively high opportunity cost of abandoning paid employment among people situated in the high-earning mobility strata of the labor market, one can predict that a smaller proportion of these individuals would forgo paid employment for self-employment compared to their counterparts located in the low-mobility strata of the labor market. In this respect, individuals who transition into entrepreneurship from the high-mobility strata of the labor market are likely to do so voluntarily and to take advantage of new economic opportunities. In contrast, individuals entering entrepreneurship from low-mobility segments of the labor market would tend to do so involuntarily or as an alternative to unemployment. Indeed,

research has shown that many people enter entrepreneurship because they have no better options for earning an income (Andersson Joona and Wadensjö 2013; Borjas and Bronars 1989), whereas others tend to be driven into entrepreneur by new economic opportunities (Andersson Joona and Wadensjö 2013; Carnahan, Agarwal, and Campbell 2012; Gimeno et al. 1997; Hartog, Van Praag, and Van Der Sluis 2010; Lofstrom, Bates, and Parker 2014; Sørensen and Sharkey 2014). This suggests that individuals who enter entrepreneurship to pursue new economic opportunities would tend to have a high opportunity cost of abandoning paid employment and, thereby would be likely to perceive economic returns that are greater than what they would gain by staying in traditional wage-and-salary employment.

Hypotheses

Based on our argument above, one can expect a greater proportion of individuals who choose traditional paid employment over entrepreneurship to be positioned in the higher-earning and occupational mobility segment of the labor market (Kalleberg and Mouw 2018), thereby experiencing a relatively high opportunity cost of abandoning paid employment for self-employment. In this way, overall earnings are likely to be lower among individuals at the lower end of the mobility segment of the labor market, causing their opportunity cost of abandoning paid employment for entrepreneurship to be lower compared to individuals located in the higher earnings mobility strata of the labor market. As a result, a greater proportion of workers in the low-mobility segment of the labor market would choose entrepreneurship compared to those in the high-earnings mobility strata of the labor market. Therefore, median earnings would tend to be lower among the self-employed compared to traditional wage-and-salaried employees, whereas mean earnings would likely be lower among traditional wage-and-salaried employees

than among their self-employed counterparts. Considering the relatively high earnings mobility of individuals remaining in traditional employment, and the higher likelihood of individuals in the low-mobility strata of the labor market to abandon traditional employment for self-employment, we formulate the following hypotheses about earnings differentials between traditional wage-and-salary employees and their self-employed counterparts.

Hypothesis 1: Median earnings will be lower among self-employed individuals than among their traditional wage-and-salary counterparts.

Hypothesis 2: Mean earnings will be higher among self-employed individuals than among their traditional wage-and-salary counterparts.

As we have established above, some workers transition into self-employment as an alternative to unemployment (Auguste, Roll, and Despard 2023; Wassink and Hagan 2018), and as a result, they are likely to lack the necessary resources for generating economic returns greater than overall earnings in traditional wage-and-salary employment. Considering that entrepreneurial success is contingent on the extent of the resources available to founders for launching and growing their ventures (Shane and Venkataraman 2000), one can predict that individuals who transition into entrepreneurship from traditional paid employment will generate greater economic returns from their ventures compared to those who have entrepreneurship as an alternative to unemployment. Thus, we formulate the following hypothesis.

Hypothesis 3: Earnings will be lower among entrepreneurs who transition into entrepreneurship from unemployment compared to their counterparts who transition from traditional wage-and-salary employment.

Accounting for Race and Ethnicity-based Labor Market Inequality and Racial-Ethnic Differences in Entrepreneurship Opportunities

Research has established that race and ethnicity are key factors shaping access to labor market opportunities—such as access to jobs and occupational and earning mobility (Pedulla and Pager 2019; Smith 2005). For instance, scholars have shown that (compared to their white counterparts) racial and ethnic minority populations tend to have little access to job referral networks, and those with job referral networks tend to gain little economic returns from their networks compared to their white counterparts (Mouw 2002; Pedulla and Pager 2019; Royster 2003; Smith 2005; 2007). Research on the importance of education for social mobility has suggested that human capital accumulation has done little to redress observed racial-ethnic disparity in labor market opportunity (Black et al. 2006; Zhou 2019). Utilizing data from a computerized audit study, research shows that among job seekers from the same elite universities, white applicants are more likely to receive a call back from potential employers than their black counterparts (Gaddis 2015). In fact, findings demonstrate that black applicants from elite universities perform just as well as their white counterparts from less selective universities(Gaddis 2015). Race-based labor market disparity is also reproduced beyond the job recruitment stage and at the organizational level as organizational actors often resist efforts to address racial and ethnic disparity in the workplace (Jackson 2023). For instance, examining an organization's efforts to address workplace race and ethnic-based disparity, Jackson (2023) found that existing employees resisted organizational initiatives aimed at hiring racial minorities for high-growth, and high-wage technical jobs (Jackson 2023).

Considering the importance of career experience for entrepreneurship development and success (Rider et al. 2019; Sørensen and Sharkey 2014), it is reasonable to expect racial disparity in access to employment opportunities and occupational mobility to generate racial and ethnic differences in entrepreneurship. That is, we can presume that given the fact that racial minority individuals are more likely to be positioned in the lower mobility segments of the labor market compared to their white counterparts (Gaddis 2015; Pedulla and Pager 2019), they will have a greater risk of entering entrepreneurship due to necessity or from unemployment than their white counterparts. In this way, racial minority-owned ventures would tend to underperform their white-owned counterparts. In the same vein, racial-ethnic minority entrepreneurs would be less likely (compared to white entrepreneurs) to generate earnings that would be above overall earnings among traditional wage-and-salary employees. Indeed, research has shown that racial-ethnic minority entrepreneurs tend to create less profitable ventures compared to their white counterparts (Fairlie and Woodruff 2010; Shapiro, Meschede, and Osoro 2013). Given this reality, it is unfortunate that existing models, investigating sources of the ostensible entrepreneurial earnings penalty, have failed to account for potential influences of race and ethnicity-based labor market disparity. We address this omission in previous research by accounting for the extent to which racial-ethnic disparity in labor market opportunities potentially contributes to the disparity in economic returns that individuals gain from their ventures. To this end, we formulate the following hypotheses about racial-ethnic differences in earnings among entrepreneurship and traditional wage-and-salaried individuals.

Hypothesis 4. Racial-ethnic minorities are more likely to transition into entrepreneurship from unemployment or by necessity than their white counterparts. Therefore, earnings will be lower among racial-ethnic minority entrepreneurs than their white counterparts.

Hypothesis 5. Racial-ethnic minorities are more likely to be located in the low-mobility segment of the labor market. Consequently, among wage-and-salary employees, racial-ethnic minority employees will have lower earnings than their white counterparts.

DATA, MEASUREMENT AND METHOD

We evaluate our theoretical framework using data from the Survey of Income and Program Participation (SIPP). SIPP is a longitudinal survey designed to assess the economic well-being of American households by following individuals and households for a period of four years, where each set of four years constitutes a panel. For this analysis, we draw on the most recent and completed panels, the 2014 and 2018 panels. SIPP collects monthly individual-level employment data, which we use to construct our analytic sample of 38,837 traditional wage-and-salaried and self-employed individuals, aged 18 to 64. We restrict the sample to individuals' primary jobs, captured by the job in which they report working the greatest number of hours.

Measuring Prior Employment Status

The crux of our theoretical framework is that people are located in different opportunity segments of the labor market (Kalleberg and Mouw 2018) and that a career equips people with the resources (financial, institutional, and knowledge resources) necessary for a successful transition into entrepreneurship (Burton, Sørensen, and Dobrev 2016). As a result, an individual's prior standing in the labor market is likely to shape the extent of the returns they can generate from their ventures. We identify three measures of prior employment status (paid employee, unemployed, and self-employed), using individuals' employment information during

the first twelve months we observe them in the data[1]. First, we create a binary variable capturing whether an individual was unemployed (coded 1), or employed in a traditional paid position (coded 0) during the first twelve months we observe them in the data. For this variable, an individual's prior employment status is treated as unemployed if the individual was unemployed for at least six consecutive months during the first twelve months in the data[2]. Next, we construct a second prior employment status variable by dividing respondents' employment statuses during their first twelve months in the survey into three categories based on their modal (most common) employment status: (1) *paid employee* (coded 1), *self-employed* (coded 2), or *unemployed* (coded 3).

Constructing the Wage-and-Salary Employee and Self-employed Subsamples

Research has shown that analyses based on cross-sectional data overemphasized entrepreneurs who have remained longer in entrepreneurship, as well as failing to account for the fact that unsuccessful entrepreneurs would likely return to paid employment or experiment with new business ideas (Manso 2016). In addition, previous analyses have overrepresented the number of self-employed by treating an individual as self-employed if the individual reported self-employment being their primary job for at least three months in a given 12-month period (Hamilton 2000: 609). Considering that about 52% of self-employment spells last less than two years (Manso 2016), this measurement of self-employment is likely to overcount the number of self-employed individuals in the sample (Hamilton 2000). That is individuals would tend to

[1] To this end, we exclude respondents who are in the data for only twelve months as these people will not have any employment data for the period after the initial twelve-month window that we use to identify their prior employment status.

[2] In this analysis, an individual is considered unemployed in a given month if they were missing a value for the employment type indicator and was reported as having a no-job spell during that month.

switch between wage-and-salary employment and self-employment after the three-month cut-off used in this previous research (Hamilton 2000). Together, these would have likely caused survivor and experimentation biases in the estimates of earnings differentials between self-employed and wage-and-salaried individuals.

We address these biases by restricting our analytic sample to individuals who have remained in traditional wage-and-salary employment, and to those who have stayed self-employed during the four years of the survey. We do so, by first, limiting the subsample of wage-and-salary employees to individuals who reported being employed in a wage or salaried position every month after the first twelve months we observe them in the data (i.e., the 13th month onwards). Second, we restrict the self-employed subsample to respondents who indicated that they were self-employed every month after the first twelve months in the data (i.e., the 13th month onwards). These restrictions mean that, from their 13th month in the data onwards, individuals in our analytic sample have never experienced unemployment or switched from self-employment to wage-and-salary employment or vice versa. In doing so, we ensure that estimates of earnings differences are not due to differences in the duration of traditional employment and /or self-employment. These restrictions also enable us to evaluate the claim that people use entrepreneurship to experiment with new ideas and that when accounting for the option value associated with experimenting with new ideas, entrepreneurship is associated with an earning premium (Manso 2016). Accounting for the above restrictions, our analytic sample is reduced to 38,837 individuals, of which 35,441 are wage-and-salary employees, and 3,396 are self-employed (Table 2). In the full analytic sample of 38,837 individuals, 32,650 worked in a wage

or salaried position, 3,157 were self-employed, and 3,030 were unemployed during the first twelve months we observe them in the data (Table 1)[3].

Measuring Earnings and Profit

We measure earnings as individual annual earnings in U.S. dollars. Profits are reported annually for the self-employed and contain negative values. Based on the information that they report on their race and ethnicity, we group respondents into five racial and ethnic groups: (1) White non-Hispanic, (2) Black non-Hispanic, (3) Asian non-Hispanic, (4) Hispanic, and (5) Other. White, Black, Asian, and Hispanic respondents represent, respectively, 69.20% (2,350), 7.10% (240), 5.50% (188), and 16.10% (548) of the self-employed (Table 2). And White, Black, Asian, and Hispanic survey participants make up, respectively, 63.80% (22,597), 11.50% (4,090), 5.20% (1,849), and 16.90% (5,994) of the wage-and-salary employees in our sample (Table 2). We also account for various factors that are crucial for entrepreneurship participation and success: (1) educational attainment, (2) industry, (3) gender, (4) age, age-squared, and (5) parental and (6) immigration status (Table 2).

Estimation Techniques

Our key objective in this study is to examine the role that the prior labor market standing of individuals plays in shaping the returns that they gain upon transition into entrepreneurship, and how these returns differ by race and ethnicity (see Figure 1 for a summary of theoretical mechanism). Given this focus, our key independent variable (prior employment status) does not

[3] Consistent with previous research (Fairlie 2018), we further limit the analytic sample to individuals working 15 or more hours a week in their paid employment or businesses. In doing so, we exclude survivalist self-employment and very small-scale businesses used as an alternative to unemployment.

change over time, whereas the dependent variables (earnings, and profit) vary over time. Thus, we evaluate our framework using both random effects modeling (RM) with robust standard errors, and mixed-effects modeling[4]. Given that the results are virtually identical for both estimation techniques, for simplicity, we discuss the findings from the RM with robust standard errors and report the results from the mixed-effects regressions in the appendix for the reader (Appendix B). We estimated the following formal REMs.

$$\mathrm{Y}_{it} = \gamma_0 PriorEmp_i + \gamma_1 RaceEth_i + \boldsymbol{X}_{it}\boldsymbol{\delta} + \alpha_i + \mu_{it} \quad (1)$$

$$\Pr\,(p_{it} = 1) = \gamma_2 PriorEmp_i + \gamma_3 RaceEth_i + \boldsymbol{X}_{it}\boldsymbol{\delta} + \alpha_i + \mu_{it} \quad (2)$$

In models 1 and 2, Y_{it} and p_{it} are, respectively, logged earnings and probability of having a positive profit or at least $10,000 in profit. The parameters γ_0 and γ_1 estimate differences in logged earnings between individuals who transitioned into entrepreneurship from unemployment and those entering from a traditional wage or salary employment, and between racial-ethnic minorities and non-racial-ethnic minorities, respectively. The parameters γ_2 and γ_3 estimate the odds of making a positive profit and at least $10,000 in profit for individuals who transitioned into entrepreneurship from unemployment compared to those who entered from paid employment, and well as difference between racial-ethnic minorities and their non-minority counterparts, respectively. Subscripts i and t denote individuals and survey years, respectively. Variable *RaceEth* stands for Whites (coded 1), Blacks (coded 2), Hispanics (coded 3), and Asians (coded 4). **X** is a vector of the individual demographic (e.g., gender, age, and immigrant

[4] The mixed-effects modeling accounts for both between and within individual differences in the estimates of earnings and profit.

status, education) industry and year variables described above. Further, α_i and μ_{it} are, respectively, individual random effects and clustered robust standard errors.

Results

Descriptive Results

Examining earning differences between wage-and-salaried and self-employed Individuals

Table 1 shows the mean and median earnings for self-employed individuals and wage-and-salary employees. Average earnings are substantially higher ($74,828) among the self-employed than among wage-and-salary employees ($56,387), whereas median earnings are higher among wage-and-salary employees ($41,941.668) than among their self-employed counterparts ($33,798.250). These results support our first and second hypotheses that median earnings would be higher among wage-and-salaried individuals compared to their self-employed counterparts (Hypothesis 1), and that mean earnings would be higher among self-employed individuals than their wage-and-salary counterparts (Hypothesis 2). The results suggest that few entrepreneurs gain returns that are above overall earnings in the labor market. This is consistent with our theoretical framework that a greater proportion of people in the lower end of the mobility strata of the labor market would tend to undertake self-employment compared to those in the upper mobility segment of the market. This is likely because personal capital, which is generally built throughout an individual career, is crucial for the extent to which people can grow their venture—particularly at the early stages of the venture creation. Individuals who enter entrepreneurship from the low-earning mobility segment of the labor market are likely to lack the

necessary resources to generate entrepreneurship returns above overall earnings in the labor market.

Table 2 further evaluates our conclusion by examining earning differences based on individuals' prior standing in the labor market (measured during the first 12 months we observed them in the data). Table 2 shows that individuals whose prior employment status was unemployed have average earnings of $28,218.17 and median earnings of $19,282.625. In contrast, those who initially worked in a traditional paid position, and who were self-employed have, respectively, average earnings of $58,711.76 and $79,323.24. They also have median earnings of $44,022 and $35,751.50, respectively. These results also indicate that individuals whose prior employment was in a wage or salary position have lower average earnings ($58,711.76) than those who were initially self-employed ($79,323.24). However, median earnings are higher among individuals whose initial employment status was in traditional paid employment ($44,022) than those whose prior employment status was in self-employment (35,751.500). We further examine these results in the multivariate analysis by controlling for the other factors described in Table 1.

Examining Racial-Ethnic Differences in Earnings by Prior Employment Status

Table 3 presents racial-ethnic differences in earnings among wage-and-salary employees by their prior employment statuses. Among individuals who previously worked in traditional wage or salary positions, Blacks and Hispanics have, respectively, $17,014.20 (26.83%) and $20,221 (31.90%) less in average earnings than Whites, whereas Asians have $13,556.10 (21.40%) more in earnings than their white counterparts ($63,405.90). Among individuals who transition into wage-and-salary employment from self-employed, Blacks and Hispanics have,

respectively, $20,430.5(26.18%) and $40,968.80(52.50%) less in earnings than their White counterparts ($78,033.50). Yet, earnings are $15,884.4(20.35%) higher among Asians than their Whites ($78,033.50), who transition into wage-and-salary employment from self-employment. Among individuals who move to wage-and-salary employment from unemployment, Blacks and Hispanics have, respectively, $5,106.2(17.25%) and $4,232.1(14.30%) less in earnings than their White counterparts ($29,601.90), whereas Asians have a $10,378.1(35.06%) more in earnings than Whites.

Table 4 shows racial-ethnic differences in earnings among self-employed individuals by their prior employment statuses. Among individuals who entered self-employment from a traditional wage-and-salary position, Blacks, Asians, and Hispanic have, respectively, $36,969.9(46.97%), $19,580.90(24.90%), and $39,695.7(50.44%) less in earnings than their White counterparts ($78,701.60). Moreover, among those who were initially self-employed, Blacks, Asians, and Hispanics have, respectively, $47,986(52.42%), $7,586.5(8.30%), and $42,524.9(46.45%) lower in average earnings than their White counterparts ($91,542.70). Blacks and Hispanics who transition into self-employment from unemployed have, respectively, $15,729.1(53.75%) and $10,397.10(35.53%) less in earnings than their White counterparts ($29,260.90). However, Asian individuals, who entered self-employment from unemployment have $10,953.2(37.43%) higher in earnings than their White counterparts ($29,260.90).

We find similar racial and ethnic differences in profit by prior employment status of individuals (Tables 3A and 4A, Appendix A). For instance, individuals who transitioned into self-employment from unemployment have substantially lower business profit than those who transitioned into entrepreneurship from a traditional wage or salary employment. Next, we

examine the robustness of these descriptive findings controlling for the array of demographic and industry factors described in Table 1.

Multivariate analysis

Modeling Differences in Earnings by Prior Employment Status, Race and Ethnicity

Table 5 presents estimates of earnings differences between people who transition from employment and unemployment, as well as by race and ethnicity. Models 1-3 estimate the earnings differences in the combined sample of self-employed and wage-and-salary employees. Model 1 is the base model and shows the coefficient of the unemployed variable is negative and significant (b= -0.0752, $p < 0.001$), indicating that earnings are 7.24% lower among individuals who were previously unemployed than their counterparts who were initially employed. Though including education, industry and the other control variables in Model 2 reduces the coefficient, the earnings differences remain statistically significant at 3.60% (-0.0365, $p < 0.001$) lower among those who were previously unemployed compared to those who were unemployed. Model 3 estimates racial and ethnic differences in earnings and shows the coefficient for Black (-0.0220, $p < 0.001$) and Hispanic (b=-0.0177, $p < 0.001$) are negative and significant, whereas the one for Asians is positive and significant (0.00667; $p < 0.05$). These estimates mean that in the combined sample of wage-and-salary employees and the self-employed, earnings are, respectively, 2.18%, and 1.18% lower among Blacks and Hispanics than their White counterparts.

Models 4-6 estimate differences in earnings between individuals who transition into self-employment from unemployment and those who enter from employment. These models also

examine earnings differences among self-employed individuals by race and ethnicity. Model 4 is the base model and indicates that the coefficient for the unemployed is negative and significant (-0.103, $p < 0.001$), meaning that earnings are 9.80% lower among self-employed individuals who transition into entrepreneurship from unemployment than those who enter entrepreneurship from employment. In Model 5, the difference decreases to 6.65% (b=-0.0688, $p < 0.001$) after controlling for education, industry, and the other demographic variables. Model 6 shows that among the self-employed, Black and Hispanic individuals have, respectively, 5.62% (-0.0578, $p < 0.001$) and 2.13% (b=-0.0215, $p < 0.05$) lower in earnings than their white counterparts. Model 6 shows that there are no significant differences in earnings between self-employed Asians and their White counterparts.

Models 7-9 estimate the earnings gap among wage-and-salary employees by their prior employment status. They also examine racial and ethnic differences in earnings in this sample. Model 7 shows that earnings are 7% lower among wage-and-salary employees whose prior employment status was unemployed than those who were previously employed (-0.0727, $p < 0.001$). In Model 8, this difference decreases to 3.28% after including the control variables (-0.0333, $p < 0.001$). Model 9 shows that among wage-and-salaried individuals, Blacks and Hispanics have, respectively, 2% and 1.7% lower in average earnings than their White counterparts (b=-0.0203, $p < 0.001$; b=-0.0175, $p < 0.001$), whereas Asians have a small 0.70% higher in overall earning than white employees (b=0.00697, $p < 0.05$).

In Table 6, Models 10-18 estimate earnings among self-employed and paid employees by race, ethnicity, and employment status using three indicators of prior employment status: (1) Wage-and-salary employment, (2) Unemployment, and (3) self-employment. Individuals whose

previous employment was a wage or salaried position are the reference category. Models 10-12 estimate the earnings differences by initial employment status in the full sample of self-employed and wage-and-salary employees. The base Model 10 shows that earnings are about 1.37% higher among individuals whose initial employment status was self-employment than their counterparts who previously worked in wage or salary positions (b=0.0136, $p < 0.001$). But this difference disappeared after controlling for education, industry, and other demographic controls in Model 11. Yet, Model 10 shows that individuals who were previously unemployed have 7.40% (-0.0769, $p < 0.001$) less in earnings than those whose prior employment was in wage or salaried positions, and this difference remains significant at 3.66% (-0.0373, $p < 0.001$) including the control variables in Model 11. Model 12 shows that earnings are, respectively, 2.17% and 1.80% lower among Black (-0.0221, $p < 0.001$) and Hispanic (-0.0179, $p < 0.001$) than among their White counterparts. But Model 12 shows that Asians have a relatively small advantage of 0.70% in earnings over their white counterpart (0.00646, $p < 0.05$).

Models 13-15 estimate differences in earnings among the self-employed individuals by their initial employment status, and by race and ethnicity. Models 13 and 14 show that there is no difference in earnings between individuals who started in self-employment and stayed self-employed throughout the survey and those who transitioned into self-employment from a wage-and-salary position. Yet Model 13 shows that people who transition into self-employment from unemployment have 8.80% (-0.0920, $p < 0.001$) less in earnings compared to their counterparts who transitioned into entrepreneurship from wage-and-salary employment. This difference remains substantial at 6.22% (-0.0642, $p < 0.001$) after including the control factors in Model 14. Model 15 shows that earnings are 5.60% (-0.0575, $p < 0.001$) lower for Black entrepreneurs and 2.10% (-0.0209, $p < 0.05$) lower among Hispanic entrepreneurs than among their White

counterparts. However, Model 14 shows no significant earnings differences between White and Asian entrepreneurs. Models 16-18 examine earnings differences among wage-and-salary employees. Models 16-18 show that coefficients for self-employed are not statistically significant, indicating that there is no difference between individuals who move from entrepreneurship to traditional wage-and-salary employment and those who have remained in wage-and-salary employment. This suggests that people who transition from entrepreneurship to wage-and-salary employment do not earn an entrepreneurship premium as argued in previous research. Yet, in Model 16, the coefficient for unemployment is negative and significant (-0.0756, $p < 0.001$), indicating that individuals who were previously unemployed have 7.28% less in earnings than their counterparts who initially worked in wage or salary positions. This gap remains statistically significant at 3.34% (-0.0340, $p < 0.001$) after including the control variables in Model 17. Model 18 includes the race and ethnicity variables and shows that among wage-and-salary individuals, Blacks and Hispanics have, respectively, 2.10% (-0.0204, $p < 0.001$) and 1.80% (-0.0177, $p < 0.001$) less in earning than their White counterparts, whereas Asians have a relatively small earning advantage of 0.70% over their White counterparts (0.00682, $p < 0.05$).

Modeling Differences in Business Profitability by Prior Employment Status, Race and Ethnicity

In Table 7, Models 19-21 estimate differences in the likelihood of making a positive profit between entrepreneurs who transition into entrepreneurship from unemployment and their counterparts who transition from unemployment. Model 19 shows the coefficient for unemployment is negative and significant (-0.916, $p < 0.001$), indicating that the odds of making a positive profit are 60% lower among business owners who transition into entrepreneurship from unemployment than their counterparts who entered from employment. This gap remains

substantial at 56.83% (-0.840, $p < 0.001$) after including the control variables in Model 20. Model 21 shows a negative and significant coefficient for blacks (-1.200, $p < 0.001$) and Hispanics (-0.382, $p < 0.001$), but the coefficient for Asians is not statistically significant. These estimates mean that the odds of making a positive profit are, respectively, 70% and 31.75% lower among Black and Hispanic owners compared to their White counterparts.

Models 22-24 estimate differences in the likelihood of making at least $10,000 in profit between business owners who transitioned from unemployment and those who entered entrepreneurship from employment. Model 22 shows that the coefficient for the unemployment variable is negative and significant ((-1.054, $p < 0.001$), meaning that business owners who transitioned into entrepreneurship from unemployment have 65.14% lower odds of making a profit of at least $10,000 than those who entered from employment. Though including the control variables in Model 23 reduces the unemployment coefficient, the gap in the odds of making at least $10,000 in profit remains substantial at 56.74% (-0.838, $p < 0.001$). Model 24 includes the race and ethnicity variables and shows the coefficient for Black (-1.088, $p < 0.001$) and Hispanic (-0.352, $p < 0.001$) are negative and statistically significant, but the one for Asians is not statistically significant. The coefficients for Blacks and Hispanics indicate that the odds of making at least $10,000 in profit are, respectively, 66.31% and 30% lower among Black and Hispanic owners than among their White counterparts.

Models 25-30 in Table 8 evaluate the extent of the differences in business profitability among owners who have transitioned into entrepreneurship from unemployment and those who have started in entrepreneurship and remained in entrepreneurship through the end of the survey compared to those who have transitioned into entrepreneurship from a wage or salary position.

Model 25 shows that the coefficient for variable self-employed is positive and significant (0.417, $p < 0.01$), indicating that the odds of making a positive profit are 51.74% higher among business owners who were initially self-employed and stayed self-employed through the end of the survey than those who transition into self-employment from a paid position. In contrast, the odds of making a positive profit are 41.78% (-0.541, $p < 0.05$) lower among business owners who have entered entrepreneurship from unemployment compared to those who have transitioned from wage or salary employment. Though the gaps decrease after including the control variables in Model 26, they remain substantial at 50.38% higher odds (0.376, $p < 0.01$) and 38.31% lower odds (-0.483, $p < 0.05$), respectively, for those who were initially self-employed and individuals who entered entrepreneurship from a wage or salary position. Model 27 indicates that Black and Hispanic owners have, respectively, 69.58% (-1.190, $p < 0.001$) and 31% (-0.369, $p < 0.01$) lower odds of making a positive profit than their White counterparts. There is not a significant difference in the likelihood of making a positive profit between Asian and White owners.

Models 28-30 examine differences in the likelihood of making at least $10,000 in profit by prior employment status of the owners. Model 28 shows that (compared to those who transitioned into entrepreneurship from a paid position) individuals who stated as self-employed have 54% (0.432, $p < 0.001$) higher odds of making at least $10,000 in profit, whereas the odds are 50.59% (-0.705, $p < 0.001$) lower among owners who entered entrepreneurship from unemployment. Though these differences slightly decrease after including the control variables in model 29, they remain substantial at 51% (0.412, $p < 0.01$) higher among those who started as self-employed, and 44.12% lower among owners who transitioned from unemployment than those who entered from paid employment. Finally, in Model 30, Black and Hispanic owners have, respectively, 66% (-1.079, $p < 0.001$) and 28.75% (-0.339, $p < 0.01$) lower odds of making

at least $10,000 in profit than White owners, whereas there are no significant differences between Asian and White owners. Figures 2 and 3 present racial-ethnic differences in business profit by prior employment, and show that Black and Hipanic owners are less likely to be profitable and making at $10,000 in profit than their white counterparts regardless of initial employment status.

Discussion

Drawing on sociological research tradition on the structural basis of social inequalities, we bring new theoretical insights and empirical evidence to bear on the debate about sources of apparent earning penalties associated with entrepreneurship compared to traditional wage-and-salary employment. Specifically, we propose a theoretical framework that incorporates the structural position of individuals, in the labor market prior to transitioning into entrepreneurship, as a mechanism that conditions the extent of the economic returns that individuals can generate from their ventures. Our framework departs from previous models contending that people persist in entrepreneurship because entrepreneurship is associated with non-pecuniary benefits that compensate for lower entrepreneurship earnings compared to that from traditional wage-and-salary employment (Hamilton 2000). Grounded in labor market stratification theory (Kalleberg and Mouw 2018; Mouw 2002; Pedulla and Pager 2019), our framework accounts for the reality that some individuals are driven into entrepreneurship due to blocked labor market mobility. In doing so, our argument contrasts existing models claiming that people undertake entrepreneurship because it allows them to experiment with new ideas since individuals with new ideas have two choices: (1) they can enter entrepreneurship (the only way to know if their ideas are good) or as an alternative, they can remain in traditional wage-and-salary employment

(Manso 2016). Instead, we contend that individuals transition into entrepreneurship from different opportunity segments of the labor market that influence their ability to grow their venture, thereby fueling differential economic returns among entrepreneurs, as well as between entrepreneurs and wage-and-salary individuals.

We evaluate our framework, drawing on a sample of 38,837 employees and entrepreneurs from the longitudinal Survey of Income and Program Participation spanning 2014 to 2018. The findings support our hypotheses about the relationship between prior labor market positions of individuals and earnings differentials of the self-employed and between wage-and-salaried and self-employed individuals. We find that individuals who have transitioned into entrepreneurship from unemployment have substantially lower overall earnings than those who have transitioned into entrepreneurship from wage-and-salary employment. The results show that median earnings are substantially lower among the self-employed than among their wage-and-salaried counterparts. Yet, we find that mean earnings are significantly higher among entrepreneurs than among wage-and-salary individuals. The results also show that well-documented racial-ethnic earnings disparities in the labor market are reproduced in the entrepreneurship arena. Specifically, we find that Black and Hispanic individuals have substantially lower earnings than their White counterparts. Such racial-ethnic disparity persists among entrepreneurs, whether they transition into entrepreneurship from wage-and-salary employment or unemployment.

Contributions and Implications

Our study brings labor market stratification to the forefront of the debate about factors shaping entrepreneurship participation, and the differential economic returns that entrepreneurs generate from their ventures in ways that existing analyses have been unable to accomplish

(Sorensen and Sharkey 2014; Hamilton 2000; Manso 2016; Rider et al 2019)). The empirical analyses suggest that structural barriers blocking labor market opportunities to individuals spill over into the entrepreneurship arena fueling inequality in economic returns both among entrepreneurs and between entrepreneurs and their wage-and-salary counterparts. Our conclusion is supported by the finding that individuals who transition into entrepreneurship from unemployment generate substantially lower economic gain from their ventures compared to those who entered entrepreneurship from a traditional wage-and-salary position. Specifically, business owners who entered entrepreneurship from unemployment gain on average 7% lower in earnings and have 57% and 56.74% lower odds of making a positive profit and at least $1000 in profit, respectively, compared to their counterparts who transitioned from wage-and-salary employment. In this respect, our analysis advances the literature on the interplay between career experience, organizational inequality, and entrepreneurship process in several ways. Specifically, our findings contribute to research examining the importance of career experience for entrepreneurial entry, which concludes that in organizations where earning growth is limited, employees with firm-specific skills are likely to transition into entrepreneurship as opposed to moving to another organization (Sorensen and Sharkey 2014). Our findings also speak to research emphasizing the importance of cumulative career experience for entrepreneurship, concluding that individuals with low and high cumulative work experience are less likely to enter entrepreneurship compared to their counterparts with moderate cumulative work experience (Rider et al. 2019).

Our analysis advances these previous studies by moving the debate beyond entrepreneurial entry and examining the relative economic standing of individuals after transitioning into entrepreneurship. In doing so, we investigate the consequences of prior labor

market position on how well individuals do upon transitioning into entrepreneurship. The results reveal that transition into entrepreneurship due to a lack of labor market opportunity is associated with an economic disadvantage (i.e., lower earnings and profit) compared to entrepreneurial entry from traditional wage-and-salary employment. In this respect, our study stresses the need to place a greater emphasis on the impact of labor market inequality on an individual's entrepreneurial experience beyond the previously documented influence of an organization's opportunity structure on entrepreneurial entry (Sørensen and Sharkey 2014). That is, research needs to account for labor market inequality before individuals become members of an organization and its consequences on individuals' entrepreneurial decisions to fully understand the extent to which career experience influences how individuals experience the entrepreneurial process. Accounting for the labor market position before becoming a member of an organization is crucial because entrepreneurial experiences emerging from differential access to labor market opportunities are likely to differ from the entrepreneurial experiences of organization members manufactured by the opportunity structure within the organization. This is partly due to well-documented barriers to organizational entry, causing many people to enter entrepreneurship as an alternative to unemployment, which deprives people of entrepreneurship-relevant resources and experiences (i.e., less knowledge/skills upgrading, and business network connections) commonly acquired through a career. Individuals who transition voluntarily into entrepreneurship (from a firm or because opportunities for career advancement in their organizations are limited) are likely to have acquired the necessary entrepreneurial resources and skills, thereby causing their entrepreneurial experience to be different from those transitioning due to a lack of employment opportunities.

Further, our findings suggest that the relatively low earnings previous research has documented among entrepreneurs compared to their wage-and-salary counterparts may be due to inequality in labor market opportunity. This conclusion is supported by the fact that our analysis shows consistently lower economic returns among entrepreneurs who transitioned from unemployment than those who entered entrepreneurship from paid employment even though our analytic sample only includes individuals who have remained in entrepreneurship or wage-and-salary employment for the duration of the survey. Given that people frequently move between self-employment, unemployment, and paid employment, in doing so, our analysis has accounted for survival bias in the earnings estimates in ways that previous analyses have failed to accomplish (Hamilton 2000). Accounting for survival bias, our finding shows that having experienced unemployment negatively affects earnings and business profit compared to transitioning into entrepreneurship from paid employment. This implies that labor market inequality likely creates inefficient entrepreneurial outcomes by pushing people into entrepreneurship due to necessity and without the necessary tools—acquired through stable traditional employment—for generating optimal entrepreneurial returns. That is, the results suggest that when people transition into entrepreneurship from good and stable employment arrangements, they are likely to achieve positive entrepreneurial outcomes. This suggests that factors reducing disparity in labor market opportunities are likely to increase efficiency in entrepreneurial outcomes.

It means that in labor markets characterized by low barriers to employment opportunities and career mobility, few people would transition into entrepreneurship due to necessity or as an alternative to unemployment. Consequently, entrepreneurship is likely to be characterized by efficient economic outcomes in high-mobility labor markets, causing both the median and

average entrepreneurship earnings to be high. Our conclusion is consistent with research showing that individuals who have experienced the criminal justice system tend to enter entrepreneurship as an alternative to unemployment due to labor market discrimination (Hwang and Phillip 2024). Our analyses advance this previous study as the results suggest that individuals, who entered entrepreneurship because they were blocked from the formal labor market due to criminal record-related discrimination (Hwang and Phillip 2024), for example, would likely generate lower economic returns from their ventures than their counterparts transitioning from a traditional wage-and-salary employment. Previous research has improved our understanding of the extent to which populations experiencing the criminal justice system use entrepreneurship to overcome labor market discrimination and achieve economic mobility (Hwang and Phillip 2024). Our analysis advances this previous research by demonstrating the need to examine the relative economic standing of business owners who use entrepreneurship as a way to overcome labor market discrimination compared to their counterparts who do not enter entrepreneurship due to blocked labor market opportunities to fully understand the extent to which entrepreneurship serves as a path to social mobility for these individuals.

Considering the importance of industry-specific work experience, the network built during one's career, and personal capital for successful business launches (Burton, Sørensen, and Dobrev 2016; Eesley and Roberts 2012; Nanda and Sørensen 2010), being positioned in high-mobility segments of the labor market is likely to increase the extent of the economic returns individuals can generate upon transition into entrepreneurship. Thus, our finding, that the median earnings are substantially lower among entrepreneurs compared to their wage-and-salary counterparts, implies that a greater proportion of individuals transition into entrepreneurship from a low-opportunity segment of the labor market compared to high-opportunity strata of the

labor market. In parallel, the result, that average earnings are substantially higher among entrepreneurs compared to wage-and-salary workers indicates that fewer entrepreneurs generate large economic returns from their ventures. In this respect, our analysis provides new empirical evidence, helping to reconcile common and conflicting narratives focusing on the characteristics of the entrepreneurs for explaining sources of earnings differentials between entrepreneurs and traditional wage-and-salary employees. For instance, one narrative holds that entrepreneurship is associated with an earnings penalty while providing non-economic benefits that attract people into entrepreneurship (Hamilton 2000). Yet, a parallel argument contends that entrepreneurship is associated with an earning premium because of the option value associated with experimenting with new ideas, therefore people undertake entrepreneurship because it allows them to experiment with new ideas (Manso 2016). Our analysis reconciles these arguments by indicating that lower earnings observed among entrepreneurs compared to wage-and-salary individuals is likely because larger proportions of individuals enter entrepreneurship from the low-earning and occupational mobility segments of the labor market. That is, a larger proportion of individuals enter entrepreneurship due to a lack of labor market opportunities, thereby lacking the necessary resources for maximizing the economic returns they can generate from their ventures. This is partly due to the fact that the opportunity cost of entrepreneurship is likely lower in the low-earning occupational mobility segments of the labor market than in the high-earning and occupational mobility strata of the labor market. Since employment allows people to build the capital, networks, and skills necessary for successful venture creation (Burton, Sørensen, and Dobrev 2016; Eesley and Roberts 2012), it is reasonable to expect individuals in the lower-mobility strata of the labor market to lack these resources, causing them to underperform in the

economic returns they generate from their ventures. Such underperformance is likely to reduce overall earnings among these entrepreneurs compared to their wage-and-salary counterparts.

Our analysis also contributes to research calling for a greater focus on the understanding of structural mechanisms underlying racial-ethnic stratification in entrepreneurship (Bruton et al. 2022). Specifically, our findings highlight the need for scholars to account for the potential influence of race and ethnicity-based labor market disparities when modeling the link between career and the entrepreneurial process (Rider et al. 2019; Sørensen and Sharkey 2014). Research has shown that labor market opportunities (such as access to employment, earnings, earnings growth, and occupational mobility) differ substantially by race and ethnicity (Gaddis 2015; Jackson 2023; Pedulla and Pager 2019). Accounting for education and work experience, racial-ethnic minority individuals tend to gain lower earnings and are more likely to experience blocked labor market mobility than their white counterparts (Gaddis 2015). Data from the Bureau of Labor Statistics show that the national unemployment rate was 3.6 % in 2023. Yet, the unemployment rate was 5.5% among Black Americans compared to 3.3 % among White Americans [update with current number***]. Thus, one can expect a greater proportion of racial-ethnic minorities to transition into entrepreneurship from the low earnings and occupational mobility segments of the labor market compared to their white counterparts. Consequently, racial-ethnic minority entrepreneurs would be more likely to lack the resources necessary to maximize the economic returns that they can generate from their ventures upon transition into entrepreneurship. In the same vein, they would be more likely (compared to their white counterparts) to generate earnings below the overall earnings in the labor market.

Thus, our theoretical framework emphasizes the need to place a greater emphasis on the extent to which well-documented racial-ethnic differences in labor market opportunities potentially spill over into the entrepreneurship arena (Jackson 2023; Gaddis 2014), contributing to racial-ethnic disparity in the economic returns that individuals obtain from their ventures. Supporting this conclusion, our analysis shows that racial-ethnic minority individuals (compared to their white counterparts) gain substantially lower economic returns as wage-and-salary employees, as well as upon transitioning into entrepreneurship. Considering these findings, it is unfortunate that existing research, examining the link between organizational opportunity structure, employment experience, and the entrepreneurial process, overlooked theorizing about and evaluating the potential influence of race-and ethnicity-based labor market disparity on entrepreneurial inequality (Hamilton 2000; Manso 2016; Sorensen and Sharkey 2014; Rider et al 2019). By overlooking the potential role of race- and ethnicity-based labor market inequality in shaping entrepreneurial opportunity, extant research implicitly assumes similarity in access to labor market opportunities across racial and ethnic groups. Consequently, research presumes uniformity in mechanisms underlying the entrepreneurial process across racial and ethnic populations. Addressing such limitation in existing research, our model suggests that to fully understand why people persist in entrepreneurship, and why earnings are seemingly lower among entrepreneurs compared to among wage-and-salary employees, scholars need to account for the extent to which the mechanisms underlying the link between career and the entrepreneurship process differ across racial and ethnic categories.

Limitations

The key objective of our study is to shed light on the extent to which inequality in labor market opportunities spill over into the entrepreneurship arena influencing differences in how people experience the entrepreneurship process. We show how entry into entrepreneurship due to a lack of labor market opportunities reduces the economic returns that business owners generate from their ventures compared to transitioning from traditional wage or salary employment. Yet, due to this focus, our empirical analyses omitted the examination of other theoretically consequential aspects of labor market stratification for the entrepreneurial process beyond our investigation of earnings and profit differences among entrepreneurs. As a result, we recommend that future research, building on our theoretical framework and established research regarding the importance of labor market mobility for successful business launches (Soren and Sharkey 2014), investigate the extent to which individual prior position in the labor market influences the nature of the businesses that they create.

Considering the importance of industry-specific experience, social networks built while working, and access to capital for effective entrepreneurial team formation and new venture launches, future research may find that people who transition into entrepreneurship from unemployment are more likely to experience business failure than their counterparts who enter entrepreneurship voluntary and/or from tenure in an established firm. In the same vein, since innovation often consists of individuals improving on existing ideas or products that they have engaged with throughout their careers (CITATION), future research may find that individuals who transition into entrepreneurship from an established firm—with industry-specific experience—are more likely to found innovative ventures than those who transition into entrepreneurship due to necessity or as an alternative to unemployment.

Further, racial-ethnic minorities and women experience system disadvantages in access to labor opportunities, thereby are more likely to lack exposure to relevant industry-specific knowledge and necessary resources for new ideas generation compared to men and their non-minority individuals. Building on our theoretical framework and empirical analysis, future research may shed light on the extent to which racial-ethnic and gender-based labor market inequality potentially affects racial-ethnic and gender disparity in the innovative nature and survival of new ventures. Finally, while further research is needed to fully unpack the extent of the consequences of labor market stratification for the type and innovative nature of new venture creation, our empirical findings make great strides in this area as they indicate that the labor market position from which people transition into entrepreneurship matters substantially for the economic benefits they can obtain from their ventures.

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Table 1. Descriptive Statistics by Initial Employment Status

Note: Average earnings are grand means of individuals' average annual earnings for any type of employment. Median earnings are the median of individual average annual earnings. Initial employment status determined by individuals' most common employment status during first 12 months observed in data. Excluded from the sample are those who dropped out of the SIPP sample after only one year of participation. Sample is also restricted to those who were continuously employed in either self-employment, or wage and salaried employment after the first 12-months observed in the data.

	Wage and Salary (N=32,329)	Self-Employed (N=3,022)	Unemployed (N=3,000)	Full Sample (N=38,351)
Mean Annual Earnings	**58,711.76** (53246.92)	**79,323.24** (1.6e+05)	**28,218.17** (35551.16)	**57,950.56** (67776.60)
Median Annual Earnings	**44,022.00**	**35,751.50**	**19,282.63**	**41,520.00**
Sex				
Male	17,202 (53.2%)	1,972 (65.3%)	1,449 (48.3%)	20,623 (53.8%)
Female	15,127 (46.8%)	1,050 (34.7%)	1,551 (51.7%)	17,728 (46.2%)
Race/Ethnicity				
White	20,915 (64.7%)	2,085 (69.0%)	1,639 (54.6%)	24,639 (64.2%)
Black	3,669 (11.3%)	214 (7.1%)	423 (14.1%)	4,306 (11.2%)
Asian	1,672 (5.2%)	172 (5.7%)	187 (6.2%)	2,031 (5.3%)
Hispanic	5,264 (16.3%)	496 (16.4%)	644 (21.5%)	6,404 (16.7%)
Education				
High School or Less	10,885 (33.7%)	1,044 (34.5%)	1,369 (45.6%)	13,298 (34.7%)
Associates or Less	9,247 (28.6%)	810 (26.8%)	951 (31.7%)	11,008 (28.7%)
4-year Degree	7,688 (23.8%)	710 (23.5%)	470 (15.7%)	8,868 (23.1%)
Graduate Degree	4,509 (13.9%)	458 (15.2%)	210 (7.0%)	5,177 (13.5%)
Immigrant				
Native Born	26,803 (82.9%)	2,335 (77.3%)	2,445 (81.5%)	31,583 (82.4%)
Immigrant	5,526 (17.1%)	687 (22.7%)	555 (18.5%)	6,768 (17.6%)
Parent				
Not Parent	11,462 (35.5%)	692 (22.9%)	1,649 (55.0%)	13,803 (36.0%)
Parent	20,867 (64.5%)	2,330 (77.1%)	1,351 (45.0%)	24,548 (64.0%)
Industry				
Forestry, Fishing, and Mining	302 (0.9%)	38 (1.3%)	19 (0.6%)	359 (0.9%)
Construction	1,689 (5.2%)	532 (17.6%)	176 (5.9%)	2,397 (6.3%)
Manufacturing	4,221 (13.1%)	152 (5.0%)	256 (8.5%)	4,629 (12.1%)
Wholesale Trade	853 (2.6%)	81 (2.7%)	53 (1.8%)	987 (2.6%)
Retail Trade	3,412 (10.6%)	230 (7.6%)	448 (14.9%)	4,090 (10.7%)
Transportation and Utilities	1,810 (5.6%)	137 (4.5%)	128 (4.3%)	2,075 (5.4%)
Information	651 (2.0%)	58 (1.9%)	51 (1.7%)	760 (2.0%)
Finance and Real Estate	1,991 (6.2%)	224 (7.4%)	122 (4.1%)	2,337 (6.1%)
Professional Services	3,415 (10.6%)	663 (21.9%)	343 (11.4%)	4,421 (11.5%)
Educational Health and Social Service	8,126 (25.1%)	290 (9.6%)	649 (21.6%)	9,065 (23.6%)
Arts, Entertainment, and Recreation	2,688 (8.3%)	230 (7.6%)	525 (17.5%)	3,443 (9.0%)
Other Services (except Public Administration)	1,147 (3.5%)	377 (12.5%)	144 (4.8%)	1,668 (4.3%)
Public Administration	2,024 (6.3%)	10 (0.3%)	86 (2.9%)	2,120 (5.5%)

Table 2. Descriptive Statistics for Self-Employed Only and Wage-and-Salary Only Samples

Note: Self-Employed refers to those who from the 13th month of observation onwards were never unemployed and reported being self-employed for each month. Similarly, wage and salary refers to those who from the 13th month of observation onwards were never unemployed and reported being employed in a waged or salaried position for each month. Average earnings are grand means of individuals' average annual earnings for any type of employment. Median earnings are the median of individual average annual earnings. Excluded from sample are those who dropped out of the SIPP sample after only one year of participation. Sample is also restricted to those who were continuously employed in either self-employment or wage and salaried employment after the first 12-months observed in the data.

	Self-Employed (N=3,250)	Wage-Salaried (N=35,101)	Full Sample (N=38,351)
Mean Annual Earnings	**74,828** -153,265	**56,387** -53,064	**57,950** -67,776
Median Annual Earnings	**33,798.25**	**41,941.67**	**41,520.00**
Sex			
Male	2,088 (64.2%)	18,535 (52.8%)	20,623 (53.8%)
Female	1,162 (35.8%)	16,566 (47.2%)	17,728 (46.2%)
Race/Ethnicity			
White	2,210 (68.0%)	22,429 (63.9%)	24,639 (64.2%)
Black	239 (7.4%)	4,067 (11.6%)	4,306 (11.2%)
Asian	186 (5.7%)	1,845 (5.3%)	2,031 (5.3%)
Hispanic	548 (16.9%)	5,856 (16.7%)	6,404 (16.7%)
Education			
High School or Less	1,162 (35.8%)	12,136 (34.6%)	13,298 (34.7%)
Associates or Less	860 (26.5%)	10,148 (28.9%)	11,008 (28.7%)
4-year Degree	745 (22.9%)	8,123 (23.1%)	8,868 (23.1%)
Graduate Degree	483 (14.9%)	4,694 (13.4%)	5,177 (13.5%)
Immigrant			
Native Born	2,518 (77.5%)	29,065 (82.8%)	31,583 (82.4%)
Immigrant	732 (22.5%)	6,036 (17.2%)	6,768 (17.6%)
Parent			
Not Parent	776 (23.9%)	13,027 (37.1%)	13,803 (36.0%)
Parent	2,474 (76.1%)	22,074 (62.9%)	24,548 (64.0%)
Industry			
Forestry, Fishing, and Mining	41 (1.3%)	318 (0.9%)	359 (0.9%)
Construction	541 (16.6%)	1,856 (5.3%)	2,397 (6.3%)
Manufacturing	175 (5.4%)	4,454 (12.7%)	4,629 (12.1%)
Wholesale Trade	85 (2.6%)	902 (2.6%)	987 (2.6%)
Retail Trade	263 (8.1%)	3,827 (10.9%)	4,090 (10.7%)
Transportation and Utilities	152 (4.7%)	1,923 (5.5%)	2,075 (5.4%)
Information	62 (1.9%)	698 (2.0%)	760 (2.0%)
Finance and Real Estate	244 (7.5%)	2,093 (6.0%)	2,337 (6.1%)
Professional Services	689 (21.2%)	3,732 (10.6%)	4,421 (11.5%)
Educational Health and Social Service	330 (10.2%)	8,735 (24.9%)	9,065 (23.6%)
Arts, Entertainment, and Recreation	242 (7.4%)	3,201 (9.1%)	3,443 (9.0%)
Other Services (except Public Administration)	404 (12.4%)	1,264 (3.6%)	1,668 (4.3%)

Public Administration	22 (0.7%)	2,098 (6.0%)	2,120 (5.5%)

Table 3. Annual Earnings Comparisons by Race/Ethnicity and Initial Employment Status (Wage/Salary Sample)

Note: Initial employment status is determined by individuals' most common employment status during first 12 months they are observed in the data. Wage-and-salary refers to individuals who were continuously employed in wage or salary positions from month 13th onwards. Mean earnings are calculated as a grand mean of person-level average annual earnings. T-tests run comparing average annual earnings using Dunnett multiple comparison correction.

	Wage & Salary			**Self-Employed**			**Unemployed**		
	Mean	Difference	Std. Error	Mean	Difference	Std. Error	Mean	Difference	Std. Error
White	63406			78034			29602		
Black	46392	-17014(26.83%)	935	57603	-20430.5(26.18%)	19541	24496	-5106.2(17.25%)	1856
Asian	76962	13556.1(21.40%)	1329	93918	15884.4(20.35%)	25085	39980	10378.1(35.06%)	2638
Hispanic	43185	-20221(31.90%)	807	37065	-40968.8(52.50%)	14280	25370	-4232.1(14.30%)	1588
Other	53816	-9590	1871	134859	56826	44454	25419	-4183	3459

Table 4. Annual Earnings Comparisons by Race/Ethnicity and Initial Employment Status (Self-Employed Sample)

Note: Initial employment status is determined by individuals' most common employment status during first 12 months observed in data. Self-Employed refers to those who were continuously self-employed from month 13 onwards. Mean earnings are calculated as a grand mean of person level average annual earnings. T-tests run comparing average annual earnings using Dunnett multiple comparison correction.

	Wage & Salary			**Self-Employed**			**Unemployed**		
	Mean	Difference	Std. Error	Mean	Difference	Std. Error	Mean	Difference	Std. Error
White	78702			91543			29261		
Black	41732	-36969.9(46.97%)	15400	43557	-47986(52.42%)	12834	13532	-15729.1(53.75%)	11996
Asian	59121	-19580.9(24.90%)	19233	83956	-7586.5(-8.30%)	13835	40214	10953.2(37.43%)	16006
Hispanic	39006	-39695.7(50.44%)	10682	49018	-42524.9(46.45%)	8859	18864	-10397.1(35.53%)	9775
Other	43421	-35281	31557	64924	-26619	23736	14070	-15191	17883

Table 5: Relationship between Unemployment and Log Annual Earnings

	Full Sample			Self-Employed			Salaried		
	1	2	3	4	5	6	7	8	9
Unemployed	-0.0752***	-0.0365***	-0.0356***	-0.103***	-0.0688***	-0.0657***	-0.0727***	-0.0333***	-0.0325***
	(-44.66)	(-21.60)	(-20.87)	(-10.95)	(-7.17)	(-6.85)	(-44.48)	(-20.54)	(-19.80)
Black			-0.0220***			-0.0578***			-0.0203***
			(-15.85)			(-6.16)			(-15.23)
Asian			0.00667*			0.00466			0.00697*
			-2.13			-0.29			-2.28
Hispanic			-0.0177***			-0.0215*			-0.0175***
			(-11.86)			(-2.12)			(-12.62)
Other			-0.0123*			-0.0194			-0.0114
			(-2.16)			(-0.92)			(-1.92)
Some College or Assoc.		0.0268***	0.0254***		0.0370***	0.0350***		0.0258***	0.0243***
		-23.01	-21.9		-5.04	-4.73		-23.65	-22.53
4-year College		0.0891***	0.0851***		0.115***	0.110***		0.0865***	0.0826***
		-56.91	-54.29		-11.92	-11.33		-59.63	-56.87
Graduate Degree		0.143***	0.138***		0.190***	0.185***		0.138***	0.133***
		(61 .08)	-58.55		-14.7	-14.29		-62.4	-59.8
Female		-0.0485***	-0.0477***		-0.0705***	-0.0707***		-0.0468***	-0.0460***
		(-42.52)	(-41.97)		(-9.61)	(-9.66)		(-44.71)	(-44.10)
Age		0.00810***	0.00815***		0.00725**	0.00715**		0.00829***	0.00834***
		-24.22	-24.35		-3.11	-3.07		-26.42	-26.5
Age squared		-0.000079***	-0.000080***		-0.0000755**	-0.0000760**		-0.0001***	-0.0001***
		(-19.80)	(-20.07)		(-2.87)	(-2.89)		(-21.58)	(-21.80)
Immigrant		-0.0137***	-0.00934***		-0.0435***	-0.0375***		-0.0102***	-0.0059***
		(-9.41)	(-5.13)		(-5.99)	(-3.86)		(-7.23)	(-3.36)
Parent		0.0121***	0.0128***		0.0328***	0.0342***		0.0103***	0.0111***
		-10.33	-11		-4.11	-4.29		-9.6	-10.3
Industry		-0.00192***	-0.00180***		-0.00227*	-0.00191*		-0.0018***	-0.0017***
		(-11.82)	(-10.99)		(-2.48)	(-2.07)		(-11.64)	(-10.83)
Year		0.00564***	0.00564***		0.00515***	0.00506***		0.00574***	0.00574***
		-27.42	-27.29		-4.22	-4.13		-29.39	-29.21
Constant	12.88***	1.291**	1.298**	12.89***	2.291	2.497	12.88***	1.090**	1.099**
	-19105	-3.1	-3.1	-3298	-0.93	-1.01	-20100	-2.75	-2.76
Observations	104676	104676	104676	8678	8678	8678	95998	95998	95998

t statistics in parentheses. * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Table 6: Relationship between Initial Employment Status and Log Annual Earnings

	Full Sample			Self-Employed Sample			Salaried Sample		
	10	11	12	13	14	15	16	17	18
Self-Employed	0.0136***	-0.00325	-0.00412	0.0146	0.00812	0.00584	0.00613	-0.00605	-0.00563
	-3.41	(-0.88)	(-1.12)	-1.57	-0.97	-0.7	-0.68	(-0.75)	(-0.70)
Unemployed	-0.0769***	-0.0373***	-0.0366***	-0.0920***	-0.0642***	-0.0632***	-0.0756***	-0.0340***	-0.0334***
	(-48.88)	(-23.21)	(-22.57)	(-7.91)	(-5.66)	(-5.57)	(-49.04)	(-22.02)	(-21.37)
Black			-0.0221***			-0.0575***			-0.0204***
			(-16.06)			(-6.12)			(-15.26)
Asian			0.00646*			0.00492			0.00682*
			-2.07			-0.3			-2.24
Hispanic			-0.0179***			-0.0209*			-0.0177***
			(-12.03)			(-2.05)			(-12.74)
Other			-0.0124*			-0.0193			-0.0114
			(-2.18)			(-0.92)			(-1.94)
Some College or Assoc.		0.0269***	0.0255***		0.0366***	0.0346***		0.0259***	0.0244***
		-23.13	-22		-4.98	-4.68		-23.76	-22.63
4-year College		0.0891***	0.0850***		0.115***	0.110***		0.0865***	0.0825***
		-56.97	-54.31		-11.87	-11.28		-59.62	-56.85
Graduate Degree		0.143***	0.138***		0.190***	0.185***		0.138***	0.133***
		-61.12	-58.54		-14.66	-14.25		-62.38	-59.78
Female		-0.0485***	-0.0477***		-0.0705***	-0.0707***		-0.0467***	-0.0459***
		(-43.24)	(-42.69)		(-9.63)	(-9.68)		(-44.70)	(-44.09)
Age		0.00793***	0.00798***		0.00687**	0.00681**		0.00813***	0.00818***
		-23.59	-23.72		-2.94	-2.92		-25.73	-25.8
Age squared		-0.0001***	-0.0001***		-0.000072**	-0.000073**		-0.000079***	-0.0000800***
		(-19.25)	(-19.52)		(-2.74)	(-2.77)		(-21.02)	(-21.23)
Immigrant		-0.0137***	-0.0092***		-0.0437***	-0.0380***		-0.0102***	-0.00588***
		(-9.37)	(-5.03)		(-6.01)	(-3.91)		(-7.27)	(-3.33)
Parent		0.0121***	0.0129***		0.0328***	0.0342***		0.0103***	0.0111***
		-10.35	-11.03		-4.1	-4.29		-9.57	-10.28
Industry		-0.0019***	-0.0018***		-0.00226*	-0.00191*		-0.00183***	-0.00172***
		(-11.81)	(-10.97)		(-2.48)	(-2.08)		(-11.62)	(-10.80)
Year		0.00565***	0.00565***		0.00521***	0.00510***		0.00575***	0.00575***
		-27.41	-27.29		-4.26	-4.16		-29.49	-29.31
Constant	12.88***	1.278**	1.285**	12.88***	2.184	2.412	12.88***	1.067**	1.074**
	-20042.99	-3.06	-3.07	-1550.06	-0.89	-0.97	-20024.53	-2.7	-2.7
Observations	104676	104676	104676	8678	8678	8678	95998	95998	95998

t statistics in parentheses. * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Table 7. Logistic Regressions Profit on Unemployment

	Positive Profit			Profit = $10k+		
	19	20	21	22	23	24
Unemployed	-0.916***	-0.840***	-0.768***	-1.054***	-0.900***	-0.846***
	(-5.32)	(-4.93)	(-4.51)	(-5.96)	(-5.16)	(-4.91)
Black			-1.200***			-1.088***
			(-8.56)			(-7.55)
Asian			-0.0752			0.0551
			(-0.41)			-0.31
Hispanic			-0.382**			-0.352**
			(-3.06)			(-2.81)
Other			-0.722**			-0.536*
			(-2.69)			(-2.13)
Some College or Assoc.		0.227*	0.201*		0.282**	0.255**
		-2.42	-2.15		-3.06	-2.75
4-year College Graduate Degree		0.602***	0.516***		0.601***	0.518***
		-5.97	-5.05		-6.05	-5.17
		0.819***	0.736***		0.832***	0.752***
		-6.97	-6.25		-7.22	-6.5
Female		0.0572	0.0556		-0.236**	-0.239**
		-0.71	-0.7		(-2.96)	(-3.02)
Age		-0.0431	-0.0445		0.00492	0.00453
		(-1.39)	(-1.46)		-0.16	-0.15
Age squared		0.000453	0.000437		-0.0000493	-0.0000727
		-1.37	-1.33		(-0.15)	(-0.22)
Immigrant		-0.360***	-0.217		-0.345***	-0.239*
		(-4.20)	(-1.93)		(-4.10)	(-2.12)
Parent		0.109	0.136		0.0525	0.0773
		-1.18	-1.48		-0.59	-0.87
Industry		-0.0266*	-0.0174		-0.0247*	-0.0172
		(-2.46)	(-1.62)		(-2.37)	(-1.64)
Year		-0.0294*	-0.0316*		-0.0297*	-0.0318*
		(-2.05)	(-2.20)		(-2.10)	(-2.26)
Constant	0.342***	60.52*	64.98*	-0.318***	59.50*	63.76*
	-9.01	-2.09	-2.24	(-8.46)	-2.08	-2.24
Observations	8345	8345	8345	8345	8345	8345

t statistics in parentheses. * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Table 8. Logistic Regressions of Profit on Initial Employment Status

	Positive Profit			Profit = $10k+		
	25	26	27	28	29	30
Self-Employed	0.417**	0.408**	0.374**	0.432**	0.412**	0.381**
	(-3.04)	(-2.95)	(-2.72)	(-3.08)	(-2.93)	(-2.72)
Unemployed	-0.541**	-0.483*	-0.443*	-0.705**	-0.582**	-0.558**
	(-2.59)	(-2.33)	(-2.14)	(-3.26)	(-2.72)	(-2.63)
Black			-1.190***			-1.079***
			(-8.49)			(-7.49)
Asian			-0.0771			0.0532
			(-0.43)			-0.3
Hispanic			-0.369**			-0.339**
			(-2.97)			(-2.71)
Other			-0.722**			-0.535*
			(-2.70)			(-2.13)
Some College or Assoc.		0.222*	0.197*		0.276**	0.250**
		-2.36	-2.11		-3	-2.71
4-year College		0.599***	0.515***		0.597***	0.517***
		-5.95	-5.05		-6.02	-5.16
Graduate Degree		0.822***	0.742***		0.835***	0.757***
		-7	-6.3		-7.24	-6.54
Female		0.0544	0.0531		-0.237**	-0.240**
		-0.68	-0.67		(-2.98)	(-3.04)
Age		-0.0477	-0.0487		-0.000477	-0.000365
		(-1.54)	(-1.59)		(-0.02)	(-0.01)
Age squared		0.00049	0.000471		-0.00000433	-0.0000312
		-1.47	-1.43		(-0.01)	(-0.10)
Immigrant		-0.359***	-0.221*		-0.345***	-0.242*
		(-4.20)	(-1.96)		(-4.10)	(-2.16)
Parent		0.103	0.13		0.0461	0.0709
		-1.12	-1.42		-0.52	-0.8
Industry		-0.0258*	-0.0167		-0.0239*	-0.0165
		(-2.39)	(-1.55)		(-2.29)	(-1.58)
Year		-0.0253	-0.0278		-0.0256	-0.0280*
		(-1.76)	(-1.93)		(-1.81)	(-1.98)
Constant	-0.0417	51.96	57.24*	-0.713***	50.85	55.85*
	(-0.32)	-1.79	-1.97	(-5.27)	-1.78	-1.96
Observations	8345	8345	8345	8345	8345	8345

t statistics in parentheses. * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Figure 1. Theoretical Mechanism Linking Prior Labor Market Position and Economic Returns from Entrepreneurship

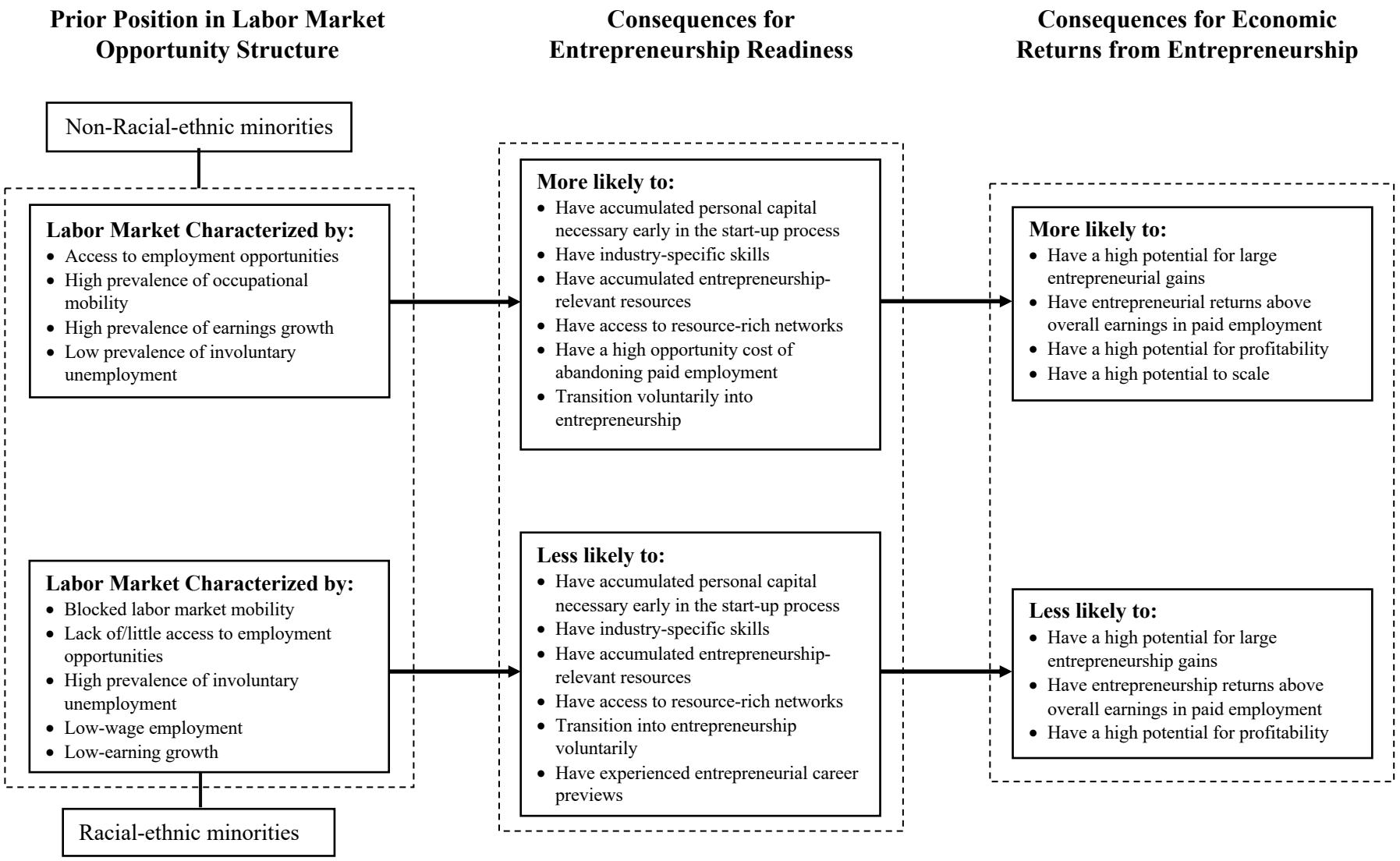


Figure 2: Predicted Probability of Making a Positive Profit by Prior Employment Status, Race and Ethnicity

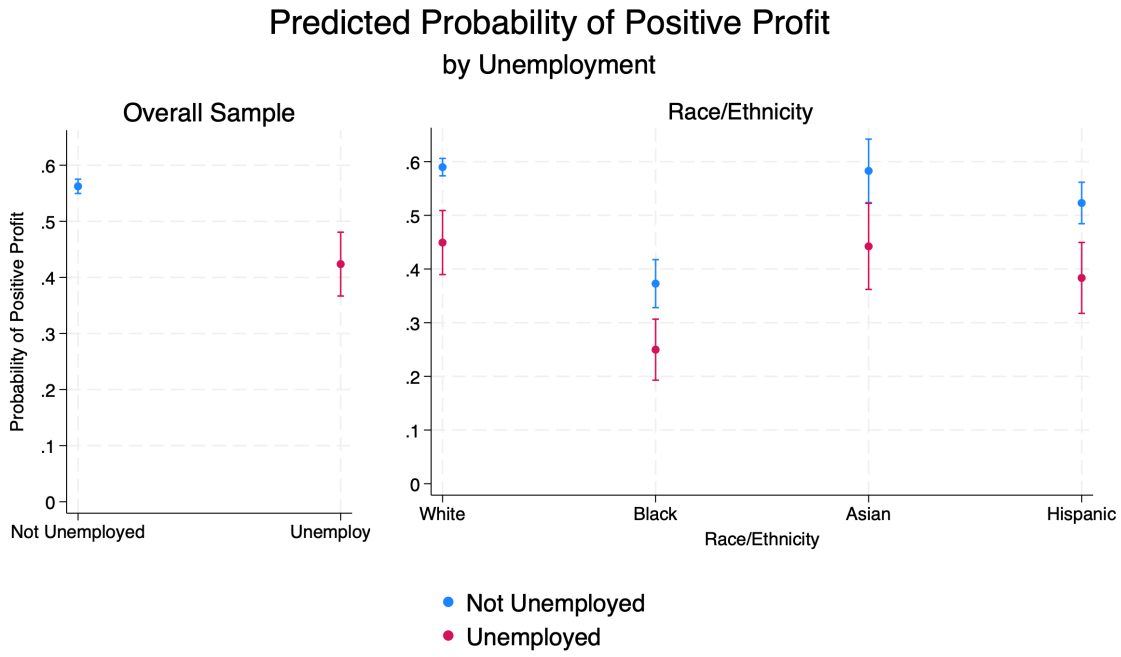
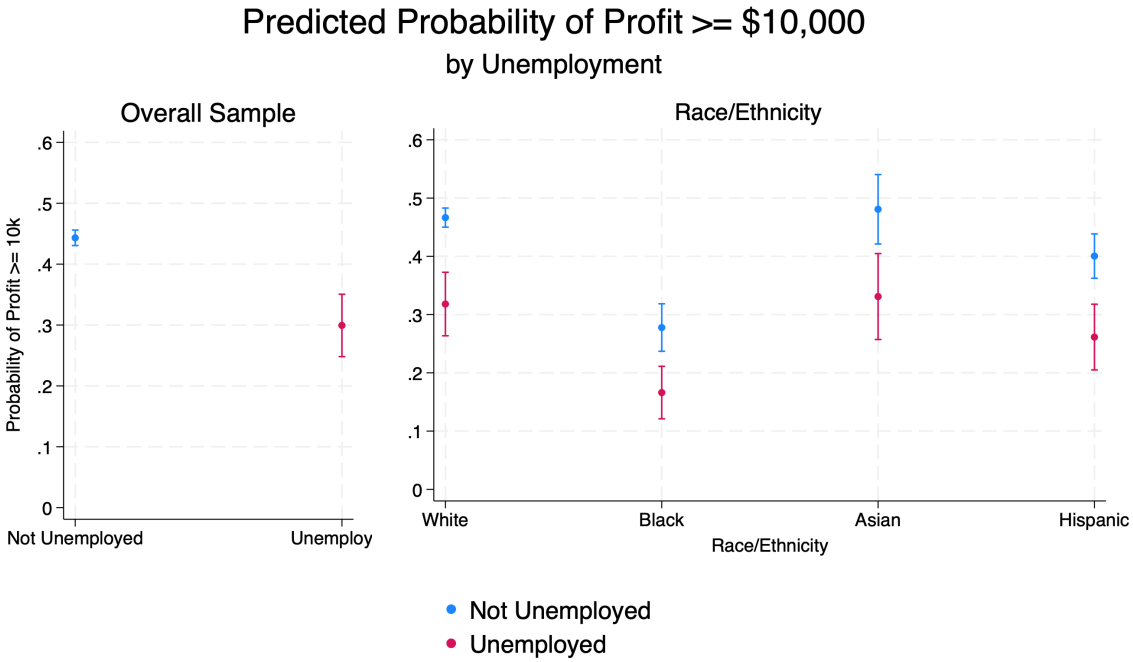


Figure 3: Predicted Probability of Making at least $10,000 Profit by Prior Employment Status, Race and Ethnicity



Appendix

Table 1A. Regressions of Business Value on Unemployment

	Log Business Value		
Unemployed	-1.322***	-0.860**	-0.832**
	(-4.87)	(-3.20)	(-3.12)
White			0
			(.)
Black			-0.832***
			(-3.31)
Asian			0.629
			-1.95
Hispanic			-1.092***
			(-5.06)
Other			-0.203
			(-0.47)
Some College or Assoc.		0.683***	0.572***
		-4.25	-3.57
4-year College Graduate Degree		1.334***	1.117***
		-7.79	-6.47
		1.097***	0.880***
		-5.13	-4.09
Female		-0.883***	-0.879***
		(-6.26)	(-6.29)
Age		0.146**	0.149**
		-2.81	-2.86
Age squared		-0.00136*	-0.00146**
		(-2.44)	(-2.60)
Immigrant		-0.874***	-0.595**
		(-5.56)	(-2.92)
Parent		0.411**	0.456**
		-2.75	-3.07
Industry		-0.123***	-0.119***
		(-6.99)	(-6.78)
Year		0.0105	0.015
		-0.46	-0.66
Constant	9.059***	-15.46	-24.29
	-133.98	(-0.34)	(-0.53)
Observations	7893	7893	7893

Source: SIPP Data. * p < 0.05, ** p < 0.01, *** p < 0.001

Table 2A. Regressions Business Value on Initial Employment Status

	Log Business Value		
Self-Employed	1.445***	1.274***	1.200***
	-5.28	-4.61	-4.39
Unemployed	-0.0406	0.226	0.187
	(-0.11)	-0.61	-0.51
Black			-0.792**
			(-3.15)
Asian			0.622
			-1.92
Hispanic			-1.053***
			(-4.91)
Other			-0.193
			(-0.46)
Some College or Assoc.		0.671***	0.565***
		-4.2	-3.54
4-year College		1.330***	1.120***
		-7.81	-6.53
Graduate Degree		1.112***	0.901***
		-5.21	-4.2
Female		-0.886***	-0.882***
		(-6.30)	(-6.32)
age		0.136**	0.140**
		-2.61	-2.67
Age squared		-0.00129*	-0.00139*
		(-2.31)	(-2.47)
Immigrant		-0.864***	-0.598**
		(-5.54)	(-2.94)
Parent		0.397**	0.441**
		-2.66	-2.97
Industry		-0.121***	-0.117***
		(-6.87)	(-6.68)
Year		0.023	0.0267
		-1.01	-1.17
Constant	7.733***	-41.6	-48.67
	-29.2	(-0.90)	(-1.06)
Observations	7893	7893	7893

Source: SIPP Data. * p < 0.05, ** p < 0.01, *** p < 0.001

Table 3A. Profit within Race/Ethnicity by Initial Employment Status

Initial employment status is determined by individuals' most common employment status during first 12 months observed in data. Mean profit is calculated as a grand mean of person level average annual profit as reported in the profit variable. T-tests are run comparing average profit using Dunnett multiple comparison correction.

		Wage/Salary	Self-Employed	Unemployed
Full Sample (n = 3250)	Mean	19931	27216	8948
	Difference		7286	-10983
	Std. Error		4239	6160
White (n = 2210)	Mean	28295	31063	12181
	Difference		2768	-16114
	Std. Error		6068	8888
Black (n = 239)	Mean	7307	11307	-2804
	Difference		4000	-10111
	Std. Error		8250	11132
Asian (n = 186)	Mean	-4529	26113	11929
	Difference		30642	16457
	Std. Error		13678	19554
Hispanic (n = 548)	Mean	11136	17638	6117
	Difference		6502	-5019
	Std. Error		6140	9368
Other (n= 67)	Mean	2200	24618	3446
	Difference		22418	1246
	Std. Error		22263	26124

Table 4A. Profit Comparisons by Race/Ethnicity and Initial Employment Status
Initial employment status is determined by individuals' most common employment status during the first 12 months observed in data. Mean profit are calculated as a grand mean of person level average annual profits as reported in the profit variable. T-tests run comparing average monthly earnings using Dunnett multiple comparison correction.

	Wage & Salary			Self-Employed			Unemployed		
	Mean	Difference	Std. Error	Mean	Difference	Std. Error	Mean	Difference	Std. Error
White	28295			31063			12181		
Black	7307	-20988	14508	11307	-19755	5720	-2804	-14985	7574
Asian	-4529	-32824	17942	26113	-4950	6166	11929	-252	9937
Hispanic	11136	-17159	9931	17638	-13425	3948	6117	-6064	6187
Other	2200	-26095	30157	24618	-6445	10578	3446	-8735	11099