Institutions and Entrepreneurship: A Comparative Study of the United States and Sweden

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A thorough review of research published in the past two decades reveals that 90% of research has studied only one nation, and 88% of those single nation studies were conducted in the United States. However, we could more effectively examine the effects of institutional conditions on entrepreneurship by comparing the United States with other nations.

To bring comparative perspectives to the fore, I propose to examine how institutional conditions affect the process of founding entrepreneurial businesses in the United States and Sweden, a national context which many scholars view as particularly unfavorable to entrepreneurship. I first propose an institutional theory to explain how institutional support, taxation systems, and labor market regulations would impact entrepreneurial activities across countries. I then analyze big data encompassing the entire population of new businesses founded between 1989 and 2013 in Sweden to illustrate how the Swedish institutional environment has created substantial barriers to entrepreneurship entry and success. This project highlights the harmful effects of strong regulations and heavy taxes on entrepreneurs, and suggests government initiatives that may encourage entrepreneurship and stimulate job growth.

Theoretical Framework

The institutional environment affects individuals' entry into entrepreneurship and their chances to achieve success, because it substantially shapes individuals' incentives to pursue entrepreneurship and their ability to mobilize resources. Comparing the United States and Sweden, I hypothesize that three institutional conditions -- less institutional support, higher taxes on business ownership, and a more centralized wage-bargaining system – lower the entrepreneurship rate in Sweden by removing economic and cultural incentives to launch new businesses and by hindering business development.

First, in sharp contrast with the United States, the institutional environment in Sweden may have discouraged entrepreneurship. Multiple institutions in the United States —including public opinion, educational systems, governmental policies, and media coverage—have bolstered the cultural popularity of entrepreneurship. In contrast, Sweden has long had the cultural belief that market economy without individual capitalists and entrepreneurs creates more collective goods for the vast majority. Many advocates of the "capitalism without capitalists" asserted that large-scale production within the realm of the large industrial corporation and a social order with strong collectivist elements would promote economic development. In this setting, small firms and entrepreneurs would be marginalized in the processes of economic development. As a result, individual entrepreneurs in Sweden would have more difficulties surviving and growing, compared to those in the United States.

Second, the taxation system in Sweden may have constrained individual entrepreneurs by favoring institutional ownership and disfavoring household ownership. For example, households with new business are charged a much higher tax rate than insurance companies and tax-exempt institutions. The Swedish taxation system disadvantages household ownership to such an extraordinary extent that it levies a wealth tax on 30% of the net worth of a family-owned company. Since the wealth tax is not deductible at the firm level, funds required to pay the wealth tax are first subject to the personal income tax and then the mandatory payroll tax. Thus, the Swedish taxation system might cause firms owned by individual founders to be much smaller than their counterparts in the United States.

Third, a more centralized wage-bargaining system in Sweden may have disadvantaged entrepreneurs' abilities to recruit talent, compared to the less rigid labor market in the United States. Sweden has historically had a highly compressed wage structure compared with the United States, as a result of high labor union membership and collective agreement coverage. In 1980, 88% of the population in Sweden belonged to a labor union, whereas the same figure for the United States in 1983 was only 20%. Due to the high wages that result from negotiations between the employer confederation and the labor organization, entrepreneurs in Sweden suffer higher costs and are less able to grow their businesses than their counterparts in the United States.

Research Design

A systematic comparison of my three hypotheses requires comprehensive data on entrepreneurs and national contexts. I have obtained access to large-scale data that are well suited for my research questions, which are *panel data from multiple cohorts* on entrepreneurs and their businesses in all industries in Sweden from 1989 to 2013. Given that comparable data from the United States are highly limited, I will utilize three sets of data from the United States to gain more leverage in explaining the American context, including Panel Study of Entrepreneurship Dynamics (I & II), Business Employment Dynamics (BED), and the most confidential employer- employee linked microdata from the Longitudinal Employer-Household Dynamics (LEHD) program. My plan for publishing work from this project includes three articles in flagship journals, *Administrative Science Quarterly, American Economic Review, and American Sociological Review,* and a book comparing business dynamics in the United States and Sweden.