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Abstract

Entrepreneurship is … nalities, such as promoting innovati… ledge spill-over. Governments increa… policy objective. Economists have fo… articularly income tax and capital gains tax. One form of taxation that has not been considered so far is the wealth tax. The wealth tax is likely to influence entrepreneurship negatively by affecting the pool of capital available for start-up businesses as well as reducing the net return to successful entrepreneurs. This article illustrates the impact of wealth tax on entrepreneurship using a simple model of the choice between becoming an entrepreneur or an employee. Actual data are then used to investigate whether the wealth tax indeed has a measurable effect on self-employment in Organisation for Economic Cooperation and Development (OECD) countries. A differences-in-differences type estimator using the abolition of the wealth tax as a 'natural experi-ment' points to a consistent pattern of perceptible, but small impact.

1. Venture capital is ignored here. The venture capital market is underdeveloped, especially in Europe, making it unrealistic for many potential entrepreneurs to receive outside fi-nancing (Keuschnigg & Nielsen, 2004).

2. Several studies have found that self-employed individuals enjoy higher utility than em-ployees (e.g., Blanchflower & Oswald, 1998).

3. The government can also redistribute the revenues back to the individuals in the form of lump sum transfers.

4. The distribution of capital endowments is assumed to be unaffected by the wealth tax.

5. Even if many countries that tax wealth exempt wealth held in firms from taxation. More consumable wealth, for instance property, is generally subject to wealth tax which negatively affects the returns of successful entrepreneurship. In France and Sweden for instance, a shareholder holding more than 25 per cent of the shares in a company is exempt from paying wealth taxes on the holding. In Spain, only 15 per cent is required to be exempt.

6. France taxes wealth as well. However, the tax was lifted between 1987 and 1988. Italy instituted a temporary wealth tax that was in effect between 1993 and 1997. Note that Turkey is not included in Figure 1.

7. Note that Belgium is the only country that did not tax wealth. However, excluding Belgium does not change the results noticeably.

8. See Note 5.

9. Note that self-employment driven by tax incentives is undesirable from a social perspec-tive. Those becoming self-employed for tax reasons may do so only part-time, however, reducing the problem.

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