Troubled Teens Make More Successful Entrepreneurs

By Khadeeja Safdar

Smart, rule-abiding teenagers are less likely to become successful entrepreneurs than equally intelligent teens who engage in illicit activities, according to new research.



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In a [working paper](https://owa.dowjones.com/owa/redir.aspx?C=te8r4MOg_EqAc2sFQT0egoj8wDVmbNAI3m2HcwxdEKweAeAltnIac1eHv6l_Or4JXz2SZievpQk.&URL=http%3a%2f%2fpapers.nber.org%2ftmp%2f87124-w19276.pdf) published by the**National Bureau of Economic Research**, economists **Ross Levine**and **Yona Rubinstein** examine what it takes to become an entrepreneur and whether entrepreneurship pays off in terms of wages. Using data from the March Supplements of the U.S. **Census Bureau**‘s Current Population Survey and the [National Longitudinal Survey of Youth](http://www.bls.gov/nls/nlsy79.htm), they look at the cognitive, noncognitive and family traits of self-employed individuals who have incorporated businesses and compare it to the characteristics of salaried workers and the self-employed who don’t have incorporated businesses.

Previous research on entrepreneurs has looked at the entire population of self-employed workers, which, Messrs. Levine and Rubinstein say, doesn’t distinguish between a hot dog vendor and Michael Bloomberg. The process of incorporating a business — making it a separate entity under the law — can be lengthy and expensive. The economists argue that self-employed workers who incorporate their businesses show the intent and agency to start a new, profitable venture and are therefore more representative of entrepreneurship than those who haven’t incorporated their businesses. Furthermore, not many self-employed workers switch from unincorporated to incorporated and vice versa, the economists say, providing more support for the idea that incorporation coincides with an entrepreneurial venture. ”The nature of the business tells you about the nature of the person,” says Mr. Rubinstein.

The economists find that self-employed workers with incorporated businesses were almost three times more likely to engage in illicit and risky activities as youth than were salaried workers. These behaviors include but aren’t limited to shoplifting, marijuana use, playing hooky at school, drug dealing and assault. In addition, the self-employed with incorporated businesses exhibited greater self-esteem, scored higher on learning aptitude tests, were more educated and were more likely to come from high-earning, two-parent families than other employment types. “Of course, you have to be smart,” says Mr. Levine. “But it’s a unique combination of breaking rules and being smart that helps you become an entrepreneur.”

These qualities also have a downside. Risk-taking tendencies in combination with high self-esteem make successful entrepreneurs prone to dangerous lapses in judgment, the[Wall Street Journal reported in June](https://owa.dowjones.com/owa/redir.aspx?C=te8r4MOg_EqAc2sFQT0egoj8wDVmbNAI3m2HcwxdEKweAeAltnIac1eHv6l_Or4JXz2SZievpQk.&URL=http%3a%2f%2fonline.wsj.com%2farticle%2fSB10001424127887324789504578382621838380836.html), finding that many financial advisers have to keep their entrepreneur clients in check.

But on the whole, entrepreneurship does pay off. The economists find that individuals who left their salaried jobs to start incorporated businesses work more hours but also earn more per hour than other employment types, and those who start successful incorporated enterprises enjoy substantially larger boosts in earnings relative to their own wages as salaried workers. The results show “that entrepreneurship, at the median, pays — and it offers the possibility of comparably enormous returns,” the researchers write.

Self-employed workers who don’t incorporate their businesses earn less than salaried workers, the economists find. Prior research, which uses all self-employed workers as a proxy for entrepreneurship, has found that salaried workers make more than entrepreneurs, but have similar levels of educational attainment. Messrs. Levine and Rubinstein say that separating self-employed workers into incorporated and unincorporated categories resolves this discrepancy.

The economists note that entrepreneurs come from wealthier families, which may give them an advantage with raising capital. The [Journal recently reported](https://owa.dowjones.com/owa/redir.aspx?C=te8r4MOg_EqAc2sFQT0egoj8wDVmbNAI3m2HcwxdEKweAeAltnIac1eHv6l_Or4JXz2SZievpQk.&URL=http%3a%2f%2fonline.wsj.com%2farticle%2fSB10001424127887323446404579008930399820764.html) that growing student loan burdens have been killing startup dreams for many young people.