APPENDIX 1

Table A1. Reform enactment dates

Municipality	Year
Aveiro	2005
Barreiro	2005
Beja	2005
Braga	2005
Bragança	2005
Coimbra	2005
Guarda	2005
Lisboa	2005
Loulé	2005
Moita	2005
Sintra	2005
Vila Nova de Gaia	2005
Viseu	2005
Angra Do Heroísmo	2006
Bombarral	2006
Cascais	2006
Castelo Branco	2006
Chaves	2006
Évora	2006
Faro	2006
Funchal	2006
Gondomar	2006
Guimarães	2006
Leiria	2006
Maia	2006
Odivelas	2006
Ponta Delgada	2006
Portalegre	2006
Portimão	2006
Porto	2006
Santarém	2006
São João Da Madeira	2006
Setúbal	2006
Viana Do Castelo	2006
Vila Franca De Xira	2006
Vila Nova De Cerveira	2006
Vila Real	2006
Abrantes	2007
Águeda	2007
Alcácer Do Sal	2007
Caldas Da Rainha	2007
Celorico De Basto	2007
Covilhã	2007
Elvas	2007
Estremoz	2007
Figueira da Foz	2007
Fornos De Algodres	2007
Grândola	2007
Horta	2007
Lagos	2007
Lamego	2007
Mirandela	2007
Monção	2007
Montemor-O-Novo	2007
Oliveira do Bairro	2007
Pombal	2007
Santiago do Cacém	2007
Seia	2007
Serta	2007
Tomar	2007
Torres Vedras	2007
Vila Do Conde	2007
Vila Nova de Famalicão	2007
Vila Nova de Foz Côa	2007
Vila Real De Santo António	2007
Alcobaça	2008
Alfândega da Fé	2008
Aljezur	2008
Aljustrel	2008
Almada	2008
Almeida	2008
Cantanhede	2008
Espinho	2008
Fafe	2008
Felgueiras	2008
Figueira de Castelo Rodrigo	2008
Idanha-A-Nova	2008
Ílhavo	2008
Loures	2008
Macedo De Cavaleiros	2008
Matosinhos	2008
Moimenta Da Beira	2008
Montalegre	2008
Mora	2008
Moura	2008
Óbidos	2008
Odemira	2008
Oliveira de Azeméis	2008

Ovar	2008
Ponte Da Barca	2008
Ponte De Lima	2008
Ponte de Sor	2008
Santo Tirso	2008
São João Da Pesqueira	2008
Tondela	2008
Trofa	2008
Valença	2008
Valongo	2008
Vila Verde	2008
Alcanena	2009
Alenquer	2009
Arganil	2009
Armamar	2009
Arouca	2009
Arruda dos Vinhos	2009
Azambuja	2009
Barcelos	2009
Batalha	2009
Belmonte	2009
Borba	2009
Cadaval	2009
Caminha	2009
Campo Maior	2009
Cartaxo	2009
Castanheira De Pera	2009
Entroncamento	2009
Ferreira do Alentejo	2009
Ferreira do Zêzere	2009
Freixo de Espada à Cinta	2009
Lourinhã	2009
Mafra	2009
Mangualde	2009
Marco de Canaveses	2009
Marinha Grande	2009
Mortágua	2009
Murça	2009
Murtosa	2009
Nazaré	2009
Nelas	2009
Oliveira do Hospital	2009
Ourique	2009
Pedrógão Grande	2009
Penafiel	2009
Peniche	2009
Póvoa de Varzim	2009
Resende	2009
Rio Maior	2009
Seixal	2009
Serpa	2009
Sobral de Monte Agraço	2009
Tavira	2009
Valpaços	2009
Vila Flor	2009
Vimioso	2009
Vouzela	2009

Table A2. Double cluster, municipality-year fixed effects, hourly wage

	(1)	(2)	(3)	(4)	(5)	(6)
	Wage	Wage	Wage	Wage	Hourly wage	Hourly wage
	Double clustering		Municipality-year fixed effects			
Entry cost reduction	-0.0266***	-0.0195***			-0.0217***	-0.0135**
	(0.0057)	(0.0047)			(0.0059)	(0.0046)
Mid earner	0.2260***	0.2142***	0.2267***	0.2149***	0.1662***	0.1525***
	(0.0096)	(0.0087)	(0.0096)	(0.0089)	(0.0109)	(0.0093)
High earner	0.4969***	0.4674***	0.4987***	0.4688***	0.4303***	0.3972***
	(0.0153)	(0.0143)	(0.0152)	(0.0145)	(0.0174)	(0.0157)
Entry cost reduction * Mid earner	0.0112+	0.0064	0.0111+	0.0059	0.0055	0.0003
	(0.0063)	(0.0058)	(0.0063)	(0.0057)	(0.0071)	(0.0063)
Entry cost reduction * High earner	0.0592***	0.0461***	0.0589***	0.0452***	0.0508***	0.0366***
	(0.0125)	(0.0107)	(0.0124)	(0.0106)	(0.0127)	(0.0107)
Age	0.0122***	0.0117***	0.0125***	0.0125***	0.0124***	0.0122***
	(0.0010)	(0.0009)	(0.0011)	(0.0011)	(0.0009)	(0.0010)
Age squared	-0.0001***	-0.0001***	-0.0001***	-0.0001***	-0.0001***	-0.0001***
	(0.0000)	(0.0000)	(0.0000)	(0.0000)	(0.0000)	(0.0000)
Mid education	0.0005	-0.0012	0.0006	-0.0010	0.0012*	-0.0006
	(0.0006)	(0.0011)	(0.0005)	(0.0010)	(0.0006)	(0.0011)
High education	0.0728***	0.0557***	0.0714***	0.0533***	0.0695***	0.0559***
	(0.0063)	(0.0049)	(0.0065)	(0.0050)	(0.0065)	(0.0041)
Hours worked (ln)	0.6924***	0.6615***	0.6923***	0.6615***		
	(0.0095)	(0.0126)	(0.0090)	(0.0125)		
Mid qualification	0.0253***	0.0153***	0.0251***	0.0150***	0.0304***	0.0202***
	(0.0010)	(0.0011)	(0.0007)	(0.0007)	(0.0007)	(0.0008)
High qualification	0.0816***	0.0570***	0.0807***	0.0556***	0.0865***	0.0615***
	(0.0032)	(0.0034)	(0.0030)	(0.0033)	(0.0032)	(0.0035)
Workers (ln)	0.0159***	0.0255***	0.0142***	0.0235***	0.0182***	0.0273***
	(0.0028)	(0.0026)	(0.0022)	(0.0016)	(0.0029)	(0.0025)
Constant	2.4611***	2.5888***	2.4556***	2.5756***	0.9340***	0.9043***
	(0.0475)	(0.0559)	(0.0446)	(0.0504)	(0.0143)	(0.0205)
R2	0.95	0.96	0.95	0.96	0.93	0.94
N	25,413,725	23,128,490	25,413,725	23,128,490	25,380,734	23,102,161
Occupation FE	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES
Municipality FE	YES	YES	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES	YES	YES
Worker FE	YES	YES	YES	YES	YES	YES
Firm FE	YES	YES	YES	YES	YES	YES
Worker&Firm FE		YES		YES		YES
Year&Municipality FE			YES	YES		

Note: Ordinary least-squares (OLS) regressions. The dependent variable is the monthly logged wage of the worker in columns 1-4. It is constructed by adding three components: (a) base pay, or the gross amount of money paid in the reference month to employees on a regular monthly basis for their normal hours of work; (b) tenure-related payments; and (c) regular payments. For models 1-2, standard errors clustered by municipalities and firm are in parentheses. For models 3-6, standard errors clustered by municipalities are in parentheses. The dependent variable in Models 5-6 is measured as the log of the ratio between wage and hours worked.

+p<0.1; *p<0.5; **p<0.0.1; ***p<0.001

Table A3. Ex-ante probability of being an entrepreneur

	(1)
	Entrepreneur
Age	0.0008***
	(0.0001)
Age squared	-0.0000***
	(0.0000)
Mid education	0.0032***
	(0.0003)
High education	-0.0016+
	(0.0009)
Hours worked (ln)	-0.0061***
	(0.0002)
Mid qualification	0.0009***
	(0.0002)
High qualification	0.0118***
	(0.0014)
Workers (ln)	-0.0042***
	(0.0003)
Constant	0.1352***
	(0.0156)
R2	0.85
N	8,918,473
Occupation FE	YES
Year FE	YES
Municipality FE	YES
Worker FE	YES
Industry FE	YES

Note: Linear probability model regressions. The dependent variable is equal to "1" when the individual is an entrepreneur of the focal firm. All independent variables are considered at time t-1. Standard errors clustered by municipalities are in parentheses.

+p<0.1; *p<0.5; **p<0.0.1; ***p<0.001

Table A4. Effect on wage by tercile and probability of becoming an entrepreneur – measure unrelated to individuals' characteristics

	(1)	(2)	(3)	(4)	(5)
	Wage (ln)	Wage (ln)	Wage (ln)	Wage (ln)	Wage
Entry cost reduction	-0.0397*	-0.0331***	-0.0279***	-0.0226***	-108.6589***
	(0.0167)	(0.0047)	(0.0048)	(0.0043)	(11.5698)
Mid earner	0.3193***	0.2418***	0.2182***	0.2100***	83.3737***
	(0.0182)	(0.0107)	(0.0096)	(0.0089)	(2.7508)
High earner	0.7615***	0.5286***	0.4808***	0.4612***	276.7312***
	(0.0290)	(0.0163)	(0.0150)	(0.0147)	(14.1156)
Entry cost reduction * Mid earner	0.0216	0.0136*	0.0090+	0.0069	46.4522***
	(0.0143)	(0.0058)	(0.0054)	(0.0054)	(9.5469)
Entry cost reduction * High earner	0.0617*	0.0718***	0.0577***	0.0488***	255.4003***
	(0.0239)	(0.0101)	(0.0102)	(0.0096)	(43.2068)
Entrepreneurship probability residuals	-1.4118***	-1.3561***	-1.1470***	-1.0112***	-398.2763**
	(0.0977)	(0.1561)	(0.1303)	(0.1154)	(125.0398)
Entry cost reduction * Entrepreneurship probability	0.1071	0.2608***	0.2835***	0.2697***	314.9541***
	(0.1319)	(0.0406)	(0.0404)	(0.0450)	(46.5168)
Mid earner * Entrepreneurship probability	0.6632***	0.8574***	0.7080***	0.6991***	317.2978**
	(0.1055)	(0.1111)	(0.0993)	(0.1082)	(106.6504)
High earner * Entrepreneurship probability residuals	3.7910***	2.2398***	1.9129***	1.6810***	1100.2804***
	(0.2040)	(0.1930)	(0.1610)	(0.1388)	(211.3705)
Entry cost reduction * Mid earner * Entrepreneurship probability	-0.1333	-0.0592	0.0034	0.0436	415.1653***
	(0.1032)	(0.0494)	(0.0462)	(0.0515)	(113.2174)
Entry cost reduction * High earner * Entrepreneurship probability	0.2420+	0.3711***	0.3506***	0.2941***	3911.7913***
	(0.1350)	(0.0617)	(0.0529)	(0.0640)	(616.7496)
Age	0.0094***	0.0120***	0.0122***	0.0112***	-4.9642***
	(0.0009)	(0.0012)	(0.0010)	(0.0009)	(1.1316)
Age squared	-0.0001***	-0.0001***	-0.0001***	-0.0001***	0.0649***
	(0.0000)	(0.0000)	(0.0000)	(0.0000)	(0.0176)
Mid education	0.0519***	0.0011	-0.0003	-0.0016	-13.2085**
	(0.0058)	(0.0007)	(0.0009)	(0.0013)	(4.6841)
High education	0.2197***	0.0833***	0.0708***	0.0565***	115.9184***
	(0.0060)	(0.0059)	(0.0058)	(0.0049)	(6.7969)
Hours worked (ln)	0.4887***	0.6441***	0.6707***	0.6601***	231.5560***
	(0.0398)	(0.0112)	(0.0104)	(0.0132)	(10.8339)
Mid qualification	0.0342***	0.0222***	0.0213***	0.0145***	-10.3692***
	(0.0021)	(0.0008)	(0.0007)	(0.0008)	(2.8203)
High qualification	0.1524***	0.0773***	0.0731***	0.0564***	42.2207***
	(0.0045)	(0.0029)	(0.0031)	(0.0035)	(7.4728)
Workers (ln)	0.0221***	0.0165***	0.0187***	0.0251***	29.9506***
	(0.0010)	(0.0011)	(0.0029)	(0.0026)	(4.0023)
Constant	3.4427***	2.6768***	2.5676***	2.6114***	-302.5327***
	(0.2001)	(0.0510)	(0.0443)	(0.0558)	(48.7112)
R2	0.83	0.94	0.95	0.96	0.91
N	17,223,711	16,784,334	16,721,926	15,905,595	15,905,595
Occupation FE	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES
Municipality FE	YES	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES	YES
Worker FE		YES	YES	YES	YES
Firm FE			YES	YES	YES
Worker&Firm FE				YES	YES

Note: Ordinary least-squares (OLS) regressions. The dependent variable is the monthly logged wage of the worker in columns 1-4 and the monthly wage of the worker in column 5. It is constructed by adding three components: (a) base pay, or the gross amount of money paid in the reference month to employees on a regular monthly basis for their normal hours of work; (b) tenure-related payments; and (c) regular payments. *Entrepreneurship Probability* is constructed in two steps. First, we focus on the pre-treatment period (i.e., before 2005) and we compute the probability that an individual is an entrepreneur versus a wage worker as a function of a number of individual-level attributes—including demographic and human capital characteristics such as age, age squared, female, education dummies, qualification dummies, and occupation dummies at t-1, as well as year, country, industry, and worker fixed effects. Second, we compute the predicted probability of entrepreneurship – or becoming an entrepreneur – in each year for every individual in our sample, and we regress this predicted value of entrepreneurship propensity on the probability of being a high-, medium-, or low-salary individual and consider the residuals. For individual-year observations after 2005 (which is not calculated because we use only pre-treatment observations), we use the probability of 2004. Standard errors clustered by municipalities are in parentheses.
+p<0.1; *p<0.5; **p<0.0.1; ***p<0.001

Table A5. Excluding neighbourhood municipalities

	(1)	(2)	(3)	(4)	(5)
	Wage (ln)	Wage (ln)	Wage (ln)	Wage (ln)	Wage
Entry cost reduction	-0.0398**	-0.0277***	-0.0221***	-0.0163***	-91.9240***
	(0.0139)	(0.0058)	(0.0055)	(0.0049)	(14.5691)
Mid earner	0.3373***	0.2592***	0.2296***	0.2185***	91.4626***
	(0.0206)	(0.0129)	(0.0115)	(0.0107)	(3.5797)
High earner	0.7902***	0.5591***	0.5029***	0.4766***	280.3148***
	(0.0337)	(0.0193)	(0.0175)	(0.0170)	(13.5029)
Entry cost reduction*Mid earner	0.0275**	0.0142*	0.0084	0.0046	41.1648***
	(0.0084)	(0.0058)	(0.0054)	(0.0052)	(9.7042)
Entry cost reduction*High earner	0.0616**	0.0710***	0.0557***	0.0436***	250.7242***
	(0.0200)	(0.0128)	(0.0121)	(0.0104)	(51.8131)
Age	0.0101***	0.0121***	0.0122***	0.0117***	-4.5618***
	(0.0009)	(0.0012)	(0.0010)	(0.0010)	(1.2215)
Age squared	-0.0001***	-0.0001***	-0.0001***	-0.0001***	0.0634**
	(0.0000)	(0.0000)	(0.0000)	(0.0000)	(0.0192)
Mid education	0.0544***	0.0016**	0.0001	-0.0015	-13.1163*
	(0.0080)	(0.0006)	(0.0007)	(0.0014)	(5.2821)
High education	0.1982***	0.0817***	0.0691***	0.0552***	108.7304***
	(0.0082)	(0.0059)	(0.0068)	(0.0050)	(5.1245)
Hours worked (ln)	0.5229***	0.6549***	0.6916***	0.6608***	220.4932***
	(0.0418)	(0.0139)	(0.0097)	(0.0143)	(10.7376)
Mid qualification	0.0322***	0.0254***	0.0248***	0.0153***	-6.5926*
	(0.0032)	(0.0008)	(0.0007)	(0.0007)	(2.7061)
High qualification	0.1516***	0.0805***	0.0776***	0.0549***	38.8226***
	(0.0069)	(0.0029)	(0.0032)	(0.0036)	(9.1411)
Workers (ln)	0.0183***	0.0151***	0.0158***	0.0247***	31.0441***
	(0.0011)	(0.0008)	(0.0029)	(0.0024)	(4.0057)
Constant	3.3677***	2.6148***	2.4693***	2.5988***	-290.6759***
	(0.2073)	(0.0723)	(0.0450)	(0.0580)	(48.0176)
R2	0.82	0.94	0.95	0.96	0.91
N	21,459,941	20,255,172	20,185,513	18,458,161	18,458,161
Occupation FE	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES
Municipality FE	YES	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES	YES
Worker FE		YES	YES	YES	YES
Firm FE			YES	YES	YES
Worker&Firm FE				YES	YES

Note: Ordinary least-squares (OLS) regressions. The dependent variable is the monthly logged wage of the worker in columns 1-4 and the monthly wage of the worker in column 5. It is constructed by adding three components: (a) base pay, or the gross amount of money paid in the reference month to employees on a regular monthly basis for their normal hours of work; (b) tenure-related payments; and (c) regular payments. Employees in the top tercile are classified as high earners, employees in the middle tercile are classified as mid earners, and employees in the bottom tercile represent low earners. Standard errors clustered by municipalities are in parentheses.
+p<0.1; *p<0.5; **p<0.0.1; ***p<0.001

Table A6. Effect on the probability of changing tercile

	(1)	(2)	(3)
	Change tercile	Change tercile	Change tercile
Entry cost reduction	0.0022	0.0029	0.0025
	(0.0018)	(0.0017)	(0.0019)
Age	-0.0112***	-0.0142***	-0.0188***
	(0.0005)	(0.0007)	(0.0006)
Age squared	0.0001***	0.0002***	0.0002***
	(0.0000)	(0.0000)	(0.0000)
Mid education	0.0195***	0.0108***	0.0052***
	(0.0007)	(0.0007)	(0.0010)
High education	0.0500***	0.0354***	0.0133***
	(0.0018)	(0.0016)	(0.0020)
Hours worked (ln)	-0.0606***	-0.0633***	-0.0649***
	(0.0011)	(0.0012)	(0.0013)
Mid qualification	-0.0022+	-0.0013	0.0053***
	(0.0013)	(0.0012)	(0.0013)
High qualification	-0.0350***	-0.0295***	-0.0117***
	(0.0024)	(0.0025)	(0.0022)
Workers (ln)	0.0012**	-0.0084***	-0.0225***
	(0.0004)	(0.0015)	(0.0018)
Constant	0.6160***	0.7262***	0.8816***
	(0.0099)	(0.0105)	(0.0115)
R2	0.31	0.34	0.36
N	23,647,603	23,569,837	21,904,877
Occupation FE	YES	YES	YES
Year FE	YES	YES	YES
Municipality FE	YES	YES	YES
Industry FE	YES	YES	YES
Worker FE	YES	YES	YES
Firm FE		YES	YES
Worker&Firm FE			YES

Note: Ordinary least-squares (OLS) regressions. The dependent variable in all models is the wage tercile of the worker.

+p<0.1; *p<0.5; **p<0.0.1; ***p<0.001

Table A7. Time-invariant wage tercile measure

	(1)	(2)	(3)
	Wage (ln)	Wage (ln)	Entrepreneur
Entry cost reduction	-0.0235***	-0.0336***	0.0003*
	(0.0041)	(0.0035)	(0.0001)
Entry cost reduction * mid earner	-0.0112*	-0.0074	-0.0001
	(0.0050)	(0.0057)	(0.0002)
Entry cost reduction * high earner	0.0551***	0.0566***	-0.0005***
	(0.0100)	(0.0087)	(0.0001)
Age	0.0155***	0.0149***	0.0007***
	(0.0009)	(0.0010)	(0.0001)
Age squared	-0.0002***	-0.0002***	-0.0000***
	(0.0000)	(0.0000)	(0.0000)
Mid education	-0.0044**	-0.0055*	0.0003+
	(0.0014)	(0.0022)	(0.0002)
High education	0.0419***	0.0443***	0.0009*
	(0.0058)	(0.0066)	(0.0004)
Hours worked (ln)	0.6562***	0.6381***	-0.0003*
	(0.0124)	(0.0150)	(0.0001)
Mid qualification	0.0131***	0.0107***	0.0005***
	(0.0009)	(0.0010)	(0.0001)
High qualification	0.0499***	0.0487***	0.0009***
	(0.0034)	(0.0041)	(0.0001)
Workers (ln)	0.0298***	0.0306***	-0.0005***
	(0.0029)	(0.0035)	(0.0001)
Entrepreneurship probability		0.1118***	
		(0.0216)	
Entry cost reduction * Entrepreneurship probability		0.2866***	
		(0.0365)	
Mid wage * Entrepreneurship probability		-0.0108	
		(0.0280)	
High wage * Entrepreneurship probability		0.0500+	
		(0.0272)	
Entry cost reduction * mid wage * Entrepreneurship probability		-0.2049*	
		(0.0808)	
Entry cost reduction * high wage * Entrepreneurship probability		0.1461*	
		(0.0709)	
Constant	2.8948***	3.0600***	-0.0037*
	(0.0598)	(0.0729)	(0.0015)
R2	0.98	0.98	0.53
N	8,992,449	5,861,062	6,377,763
Occupation FE	YES	YES	YES
Year FE	YES	YES	YES
Municipality FE	YES	YES	YES
Industry FE	YES	YES	YES
Firm FE	YES	YES	
Worker FE	YES	YES	YES
Worker&Firm FE	YES	YES	

Note: Ordinary least-squares (OLS) regressions. The dependent variable in Models 1 and 2 is the monthly logged wage of the worker. It is constructed by adding three components: (a) base pay, or the gross amount of money paid in the reference month to employees on a regular monthly basis for their normal hours of work; (b) tenure-related payments; and (c) regular payments. All independent variables are considered at time *t*. The dependent variable in Model 3 is equal to "1" when the individual is an entrepreneur. All independent variables are considered at time *t*-1. In Models 1-3, we include only employees whose wage tercile does not change over time. In Model 3, entrepreneurship probability is constructed in two steps. First, we focus on the pre-treatment period (i.e., before 2005) and we compute the probability that an individual is an entrepreneur versus a wage worker as a function of a number of individual-level attributes—including demographic and human capital characteristics such as age, age squared, female, education dummies, qualification dummies, and occupation dummies at *t*-1 as well as year, country, industry, and worker fixed effects. Second, we compute the predicted probability of entrepreneurship in each year for every individual in our sample. For individual-year observations after 2004, we use the probability of 2004. Standard errors clustered by municipalities are in parentheses.
+p<0.1; *p<0.5; **p<0.0.1; ***p<0.001

A8. Effect on competition

	(1)	(2)
	Herfindahl	Log of Herfindahl
Entry cost reduction	0.0283***	0.0633***
	(0.0047)	(0.0168)
Average income (ln)	0.0744**	0.3128***
	(0.0224)	(0.0798)
Total population (ln)	0.0104	-0.0767+
	(0.0133)	(0.0458)
Inactive population (%)	0.0881*	0.4505***
	(0.0350)	(0.1177)
Constant	0.3731*	-1.6755*
	(0.1758)	(0.6485)
Year FE	YES	YES
Municipality FE	YES	YES
Industry FE	YES	YES
R2	0.34	0.30
N	78,594	78,594

Note: Ordinary least-squares (OLS) regressions. The dependent variable is the Herfindahl index based on sales in column 1 and the log of the Herfindahl index in column 2. Standard errors clustered by municipality are in parentheses.

+p<0.1; *p<0.5; **p<0.0.1; ***p<0.001

Table A9. Effect on wage excluding promoted employees

	(1)	(2)	(3)	(4)	(5)
	Wage (ln)	Wage (ln)	Wage (ln)	Wage (ln)	Wage
Entry cost reduction	-0.0505*	-0.0276***	-0.0221***	-0.0170***	-79.8775***
	(0.0200)	(0.0057)	(0.0054)	(0.0048)	(10.1352)
Mid Earner	0.3341***	0.2455***	0.2203***	0.2125***	93.5491***
	(0.0167)	(0.0110)	(0.0099)	(0.0094)	(4.1719)
High Earner	0.7752***	0.5353***	0.4850***	0.4656***	292.2901***
	(0.0277)	(0.0171)	(0.0158)	(0.0155)	(14.9155)
Entry cost reduction * Mid Earner	0.0379**	0.0166*	0.0106+	0.0064	39.8081***
	(0.0141)	(0.0065)	(0.0061)	(0.0057)	(9.7428)
Entry cost reduction * High Earner	0.0693*	0.0598***	0.0477***	0.0396***	224.9965***
	(0.0300)	(0.0120)	(0.0117)	(0.0106)	(50.7518)
Age	0.0097***	0.0114***	0.0113***	0.0106***	-5.3944***
	(0.0008)	(0.0010)	(0.0008)	(0.0008)	(1.2872)
Age squared	-0.0001***	-0.0001***	-0.0001***	-0.0001***	0.0713***
	(0.0000)	(0.0000)	(0.0000)	(0.0000)	(0.0206)
Mid education	0.0517***	0.0035***	0.0009	-0.0010	-10.0368*
	(0.0073)	(0.0006)	(0.0007)	(0.0013)	(4.3789)
High education	0.1695***	0.0570***	0.0466***	0.0423***	89.5153***
	(0.0084)	(0.0036)	(0.0044)	(0.0041)	(4.4061)
Hours worked (ln)	0.5203***	0.6542***	0.6841***	0.6594***	208.6162***
	(0.0366)	(0.0139)	(0.0101)	(0.0132)	(8.4321)
Mid qualification	0.0359***	0.0267***	0.0248***	0.0165***	-5.2944**
	(0.0028)	(0.0011)	(0.0010)	(0.0010)	(1.9709)
High qualification	0.1600***	0.0789***	0.0725***	0.0514***	39.1974***
	(0.0059)	(0.0024)	(0.0027)	(0.0028)	(6.2977)
Workers (ln)	0.0185***	0.0152***	0.0142***	0.0210***	19.2563***
	(0.0008)	(0.0008)	(0.0025)	(0.0023)	(3.5280)
Constant	3.3786***	2.5049***	2.3883***	2.4879***	-631.2887***
	(0.1786)	(0.0717)	(0.0491)	(0.0604)	(47.3482)
R2	0.81	0.94	0.95	0.96	0.91
N	21,159,975	19,423,713	19,340,071	17,832,194	17,832,194
Occupation FE	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES
Municipality FE	YES	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES	YES
Worker FE		YES	YES	YES	YES
Firm FE			YES	YES	YES
Worker and Firm FE				YES	YES

Note: Ordinary least-squares (OLS) regressions. The dependent variable is the monthly logged wage of the worker in columns 1-4 and the monthly wage of the worker in column 5. It is constructed by adding three components: (a) base pay, or the gross amount of money paid in the reference month to employees on a regular monthly basis for their normal hours of work; (b) tenure-related payments; and (c) regular payments. Standard errors clustered by municipalities are in parentheses.

+p<0.1; *p<0.5; **p<0.0.1; ***p<0.001

Table A10. Effect on wage by tercile, controlling for GDP growth

	(1)	(2)	(3)	(4)
	Wage (ln)	Wage (ln)	Wage (ln)	Wage (ln)
Entry cost reduction	-0.0415+	-0.0193***	-0.0169**	-0.0142**
	(0.0223)	(0.0058)	(0.0056)	(0.0051)
Mid earner	0.3264***	0.2364***	0.2040***	0.1958***
	(0.0133)	(0.0101)	(0.0093)	(0.0089)
High earner	0.7831***	0.5002***	0.4368***	0.4148***
	(0.0246)	(0.0139)	(0.0130)	(0.0124)
Entry cost reduction * Mid earner	0.0355+	0.0108+	0.0080	0.0053
	(0.0212)	(0.0064)	(0.0059)	(0.0053)
Entry cost reduction * High earner	0.0674+	0.0395***	0.0353***	0.0305***
	(0.0400)	(0.0094)	(0.0093)	(0.0086)
Entry rate	-0.1360**	0.0157	0.0228	0.0276
	(0.0465)	(0.0403)	(0.0409)	(0.0426)
Average income	0.0001*	0.0001***	0.0001***	0.0001***
	(0.0000)	(0.0000)	(0.0000)	(0.0000)
Total population (ln)	-0.0470**	0.0163**	0.0131*	0.0139*
	(0.0160)	(0.0059)	(0.0057)	(0.0060)
Fraction of inactive people	0.1403**	-0.0514**	-0.0374*	-0.0396*
	(0.0439)	(0.0170)	(0.0162)	(0.0168)
GDP (log)	0.1095***	0.0897***	0.0856***	0.0931***
	(0.0266)	(0.0217)	(0.0220)	(0.0234)
GDP growth rate	-0.0044	-0.0212	-0.0248	-0.0277
	(0.0211)	(0.0174)	(0.0185)	(0.0190)
Age	0.0110***	0.0184***	0.0182***	0.0178***
	(0.0009)	(0.0016)	(0.0015)	(0.0013)
Age squared	-0.0001***	-0.0002***	-0.0002***	-0.0002***
	(0.0000)	(0.0000)	(0.0000)	(0.0000)
Mid education	0.0552***	0.0026*	0.0007	-0.0010
	(0.0072)	(0.0011)	(0.0006)	(0.0007)
High education	0.1918***	0.0530***	0.0398***	0.0293***
	(0.0077)	(0.0033)	(0.0032)	(0.0022)
Hours worked (ln)	0.5419***	0.7016***	0.7368***	0.7071***
	(0.0350)	(0.0107)	(0.0079)	(0.0124)
Mid qualification	0.0276***	0.0246***	0.0237***	0.0155***
	(0.0039)	(0.0012)	(0.0010)	(0.0007)
High qualification	0.1490***	0.0705***	0.0680***	0.0474***
	(0.0062)	(0.0026)	(0.0030)	(0.0024)
Workers (ln)	0.0185***	0.0120***	0.0173***	0.0212***
	(0.0012)	(0.0011)	(0.0011)	(0.0011)
Constant	2.7307***	1.3391***	1.2815***	1.3608***
	(0.2684)	(0.2090)	(0.2042)	(0.2225)
R2	0.81	0.96	0.96	0.97
N	15,729,464	14,816,150	14,756,010	13,461,002
Year FE	YES	YES	YES	YES
County FE	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES
Worker FE		YES	YES	YES
Firm FE			YES	YES
Worker&Firm FE				YES

Note: Ordinary least-squares (OLS) regressions. The dependent variable is the monthly logged wage of the worker in columns 1-4 and the monthly wage of the worker in column 5. It is constructed by adding three components: (a) base pay, or the gross amount of money paid in the reference month to employees on a regular monthly basis for their normal hours of work; (b) tenure-related payments; and (c) regular payments. Employees in the top tercile are classified as high earners, employees in the middle tercile are classified as mid earners, and employees in the bottom tercile represent low earners. Entry rate, average income, total population, fraction of inactive people, GDP and GDP growth rate are measured at t-1. Standard errors clustered by municipalities are in parentheses.
+p<0.1; *p<0.5; **p<0.0.1; ***p<0.001

Figure A1a. Effect on the number of new ventures: OLS approach

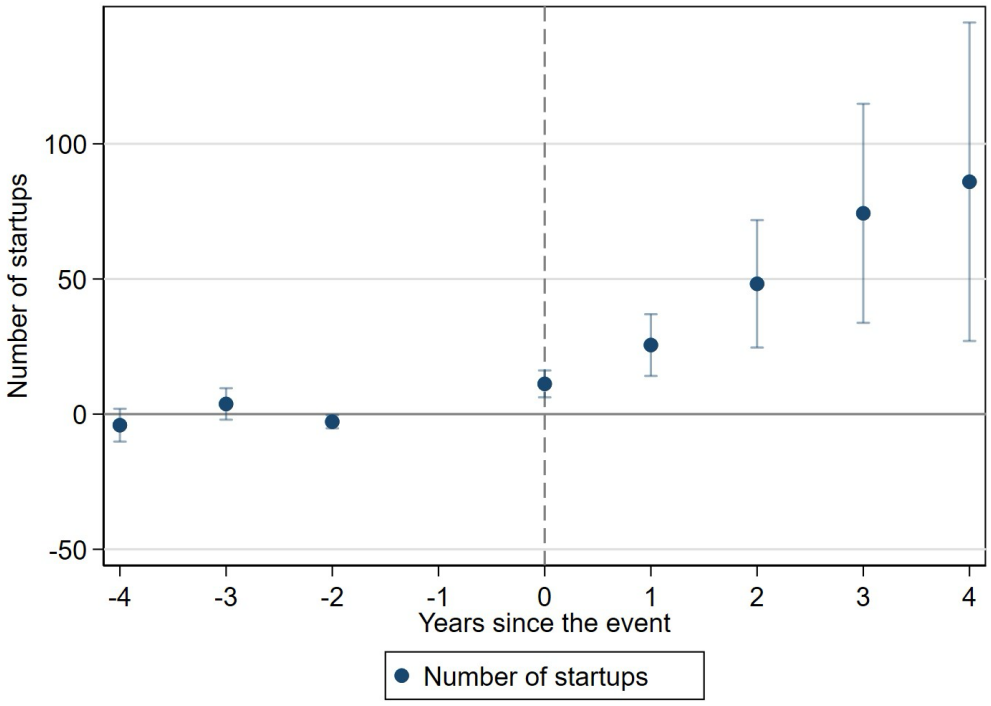


Figure A1b. Effect on the number of new ventures: Borusyak et al. (2021) approach

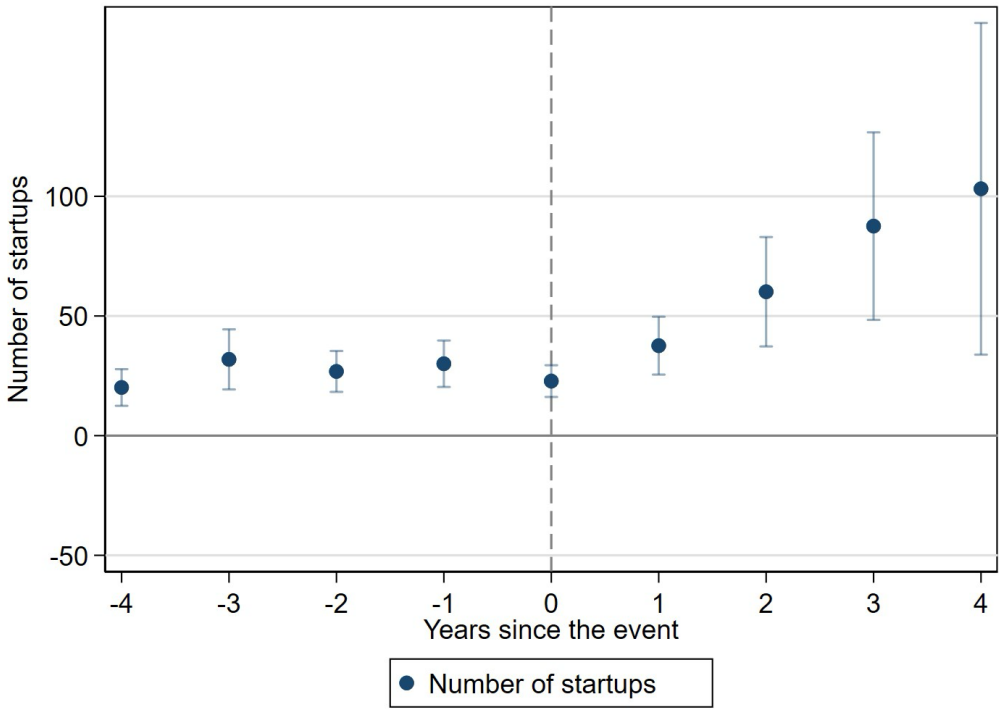


Figure A2a. Effect on low, mid and high: OLS approach

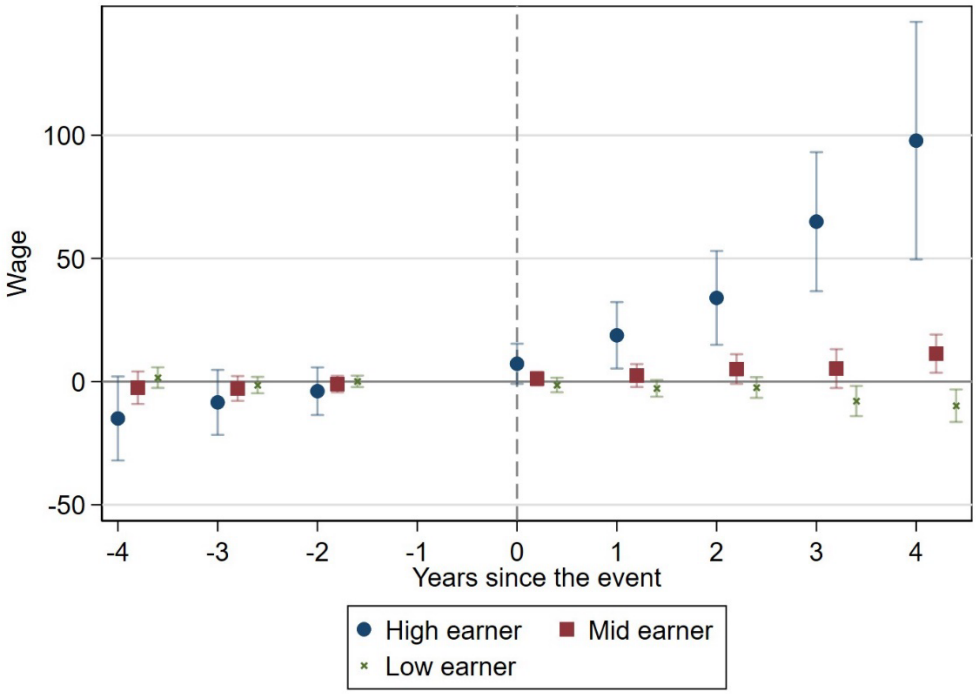
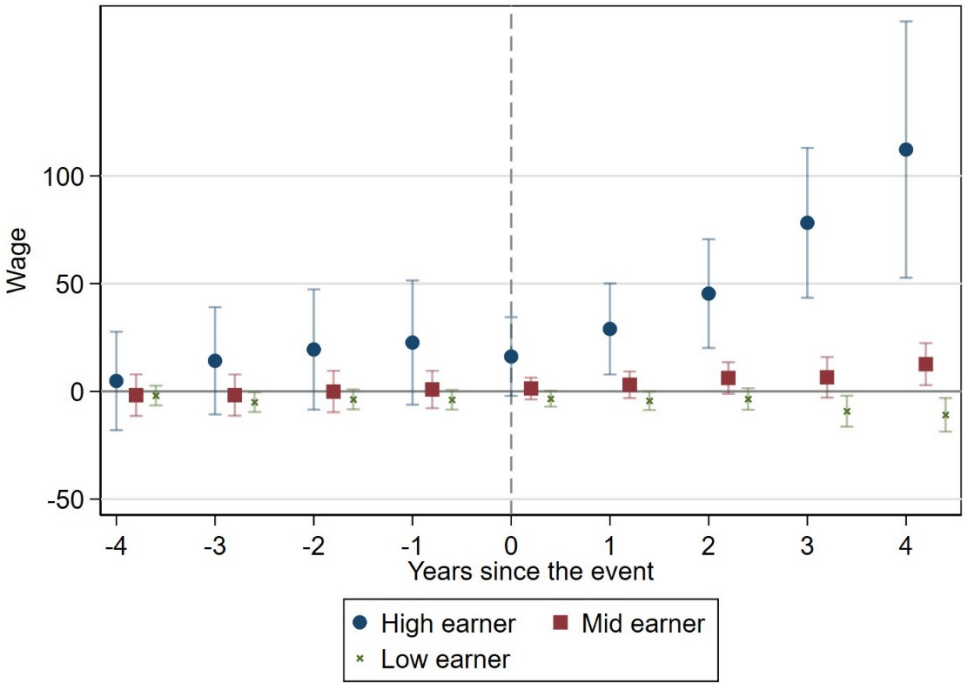


Figure A2b. Effect on low, mid and high: Borusyak et al. (2021) approach



APPENDIX 2

Model Setup

Consider an economy with two types of jobs: simple and complex. Workers are of two types: workers with low levels of (general or firm-specific) human capital (type L) are able to execute simple jobs, and workers with high levels of human capital (type H) are able to execute complex jobs. A simple job (executed by a type L worker) generates V_L to the firm, whereas a complex job (executed by a type H worker) generates V_H.

Firms differ in the rate at which they have simple and complex job vacancies. For simplicity, there are two types of firms: some firms have a large proportion of complex jobs ($\overline{\lambda}$), and the remaining firms have a small proportion of complex jobs ($\underline{\lambda}$).

The value obtained by an employed worker is equal to the wage that worker receives. The value of unemployment for workers of types H and L is, respectively, denoted by U_H and U_L (this value of unemployment includes the option value of finding a job). At any given time, workers have the option of starting their own company. The value of this option depends on the non-pecuniary benefits the worker derives from entrepreneurship. For simplicity, we assume that non-pecuniary benefits can be either zero or positive ($\hat{\varepsilon}$). The value that a worker of type $t \in \{L, H\}$ with non-pecuniary benefits $\varepsilon \in \{0, \hat{\varepsilon}\}$ derives from entrepreneurship is

$$U_t + \varepsilon - \phi_t(c),$$

where c denotes the cost of starting a firm, and $\phi_t(c) \geq 0$ captures how such cost reduces the value of entrepreneurship for workers of type t. Notice that the cost of starting a firm may have a different effect for the calculus of type H and type L workers. For example, a large cost of starting a firm may make it prohibitively expensive for a type L worker, who may not have access to such capital, whereas it may not have such drastic impact for a type H worker who may have access to capital. We assume that both ϕ_L and ϕ_H are strictly increasing and continuous, and we further impose that $\phi_L(0) = \phi_H(0) = 0$.

Some workers have entrepreneurial attributes (type E) and derive positive non-pecuniary benefits from entrepreneurship, whereas the remaining workers (type N) do not have entrepreneurial

characteristics and derive zero non-pecuniary benefits from entrepreneurship. The four types of workers are depicted in the table below. We do not impose any assumptions on the correlation between human capital (type L and type H) and entrepreneurial characteristics (type E and type N). Hence, our model allows for type L and type H workers to differ in their propensity to become entrepreneurs.

	Type E	Type N
Type L	LE	LN
Type H	HE	HN

Firms and workers bargain over wages. For simplicity, we assume firms can observe the type of workers and know whether they derive non-pecuniary benefits from entrepreneurship or not. Also, we assume the firm makes a take it or leave it offer to the worker, in which case the wage offered by the firm is equal to the worker's outside option. However, our results are robust to alternative bargaining procedures, such as Nash bargaining.

When a worker leaves, the employer looks for another worker with the same ability. Let q_H and q_L denote, respectively, the probability that the firm is able to meet a type H and a type L worker in each period. We assume that type H employees are harder to replace than type L employees, i.e., $q_H < q_L$.

A worker of type $t \in \{L, H\}$ generates V_t working for the firm and generates U_t from being unemployed. The surplus that a worker produces from being employed in the firm is, then, $V_t - U_t$. We assume that type H workers produce more surplus than type L workers, i.e., $V_H - U_H > V_L - U_L$.

We are interested in analysing how the equilibrium changes when the cost of entrepreneurship, which is captured by the parameter c, decreases.

Equilibrium wages when the cost of entrepreneurship is high, c_H

A worker's outside option is the maximum between the values of unemployment and entrepreneurship. For type N workers, who do not derive non-pecuniary benefits, the value of

unemployment is always higher than the value of entrepreneurship. We assume that c_H is large enough that the value of unemployment is also larger than the value of entrepreneurship for type E workers, i.e., $\phi_t(c_H) > \hat{\varepsilon}$. Therefore, workers of types L and H are, respectively, willing to accept any offer higher than U_L and U_H. It follows that the wage offered to each type of worker is:

$$\omega(LN) = \omega(LE) = U_L$$

$$\omega(HN) = \omega(HE) = U_H$$

Impact of a decrease in the cost of entrepreneurship from c_H to c_L

Because the decrease in the cost of entrepreneurship does not change the value of the outside option for type N workers, these workers are not affected by the shock. Their wages are, as before:

$$\omega(LN) = U_L$$

$$\omega(HN) = U_H$$

Let us now consider type E workers. We consider the case in which the decrease in the cost of entrepreneurship is large enough such that entrepreneurship becomes the relevant outside option for type E workers, i.e., $\phi_t(c_L) < \hat{\varepsilon}$. Because their entrepreneurship outside option became larger than their current salary, these workers are only willing to stay at the firm and forgo their entrepreneurship outside option if the firm provides them a salary increase.

Let $\bar{\omega}_t$ denote the maximum amount that the firm is willing to pay to keep a worker of type $t \in \{L, H\}$ for whom entrepreneurship is the relevant outside option. If the firm keeps the worker with salary $\bar{\omega}_t$, it extracts value $(V_t - \bar{\omega}_t)$ in each period, starting in the current period. Let δ denote the firm's discount factor. The expected value that the firm obtains if it provides the salary increase is

$$\frac{V_t - \bar{\omega}_t}{1 - \delta}.$$

Instead, if the firm let go the worker, it will look for another worker of type t for whom entrepreneurship is not the relevant outside option and who would be willing to work for the current wage U_t. Because, in each period, there is a probability q_t that the firm meets such worker, the expected value of such option for the firm is

$$\sum_{k=1}^{\infty} \delta^k [1 - (1 - q_t)^k](V_t - U_t).$$

Therefore, the maximum wage that the firm is willing to offer to keep the worker satisfies

$$\frac{V_t - \bar{\omega}_t}{1-\delta} = \sum_{k=1}^{\infty} \delta^k [1-(1-q_t)^k](V_t - U_t)$$

Equivalently,

$$\bar{\omega}_t = U_t + \frac{1-\delta}{1-\delta+\delta q_t}(V_t - U_t)$$

Notice that the salary increase that the firm is willing to provide in order to retain a worker of type t is

$$\bar{\omega}_t - U_t = \frac{1-\delta}{1-\delta+\delta q_t}(V_t - U_t)$$

Because type H workers are harder to replace ($q_H < q_L$) and they generate a larger surplus ($V_H - U_H > V_L - U_L$), it follows that the firm is willing to provide a larger salary increase for type H than type L workers, i.e. $\bar{\omega}_H - U_H > \bar{\omega}_L - U_L$.

Suppose that the non-pecuniary benefits are large enough: $\hat{\varepsilon} > \phi_L(c_L) + \frac{1-\delta}{1-\delta+\delta q_L}(V_L - U_L)$. In this case, the maximum salary that the firm is willing to pay to keep a worker of type LE is lower than the worker's outside option of entrepreneurship, i.e $\bar{\omega}_L < U_L + \hat{\varepsilon} - \phi_L(c_L)$. The worker leaves for entrepreneurship and the firm looks for another worker of the same ability but who is not of the entrepreneurial type (type LN). By contrast, provided that the non-pecuniary benefits are not too large, i.e. $\hat{\varepsilon} < \phi_H(c_L) + \frac{1-\delta}{1-\delta+\delta q_H}(V_H - U_H)$, the firm finds it optimal to keep all type HE workers by giving them a salary increase that makes these workers indifferent between staying in the firm and pursuing the entrepreneurship outside option.

In summary, we find that, after a decrease in the cost of entrepreneurship, the wage of type H workers will increase (for workers with entrepreneurial characteristics), and the wage of type L workers will remain constant.

Proposition 1: If c_L is small enough then there exists $\underline{\varepsilon} < \overline{\varepsilon}$ such that, if $\hat{\epsilon} \in (\underline{\varepsilon}, \overline{\varepsilon})$ then, after the cost of entrepreneurship decreases from c_H to c_L:

- *Wages of type H workers will increase more than wages of type L workers.*

- *The wage increase experienced by type H workers will be concentrated among workers with entrepreneurial characteristics.*
- *Type L workers will be more likely to leave for entrepreneurship than type H workers.*

Proof: The proof follows directly from the discussion above. Let $\underline{\varepsilon} = \phi_L(c_L) + \frac{1-\delta}{1-\delta+\delta q_L}(V_L - U_L)$ and let $\overline{\varepsilon} = \phi_H(c_L) + \frac{1-\delta}{1-\delta+\delta q_H}(V_H - U_H)$

It follows from the discussion above that for $\hat{\varepsilon} > \underline{\varepsilon}$, workers of type LE leave to entrepreneurship, and for $\hat{\varepsilon} < \overline{\varepsilon}$, the wage of workers of type HE increases. We now show that $\underline{\varepsilon} < \overline{\varepsilon}$ for c_L small enough. Notice that $\underline{\varepsilon} < \overline{\varepsilon}$ holds for $c_L = 0$. It then follows from continuity of ϕ_L and ϕ_H that $\underline{\varepsilon} < \overline{\varepsilon}$ also holds provided that c_L is small enough.

The first two statements follow from the fact that, after the decrease in the barriers to entrepreneurship, only the wage of type HE increases, whereas wages for the remaining types do not change. The third statement follows from the fact that, while the firm keeps all type H workers, workers of type LE leave for entrepreneurship.■

Outside options in the labor market

To simplify the analysis, we have assumed that the worker's outside option is unemployment. In this section, we extend the model to allow for competition in the labor market.

We denote by Z_t the highest wage offer that an employee of type t can obtain in the labor market, and we assume that $Z_t < V_t$. When the cost of entrepreneurship is large and entrepreneurship does not constitute an attractive option, the outside option of a worker is the maximum between the value of unemployment and the highest wage offered in the labor market, i.e. $\max\{U_t, Z_t\}$.

Using a similar analysis to the one in the main model, we find that the maximum wage that the firm is willing to offer to keep a worker for whom entrepreneurship became the relevant outside option is

$$\bar{\omega}_t = \max\{U_t, Z_t\} + \frac{1-\delta}{1-\delta+\delta q_t}(V_t - \max\{U_t, Z_t\})$$

We now analyse how outside options in the labor market influence the salary increase that workers can obtain when the cost for entrepreneurship decreases. In particular, suppose that the highest wage offer that an employee of type H can obtain in the labor market is either high $\left(\overline{Z_H}\right)$ or low $\left(\underline{Z_H}\right)$.

We find that when workers do not have available alternatives in the labor market, their wage is closer to the value of unemployment. In this case, the decrease in the cost of entrepreneurship is likely to make the entrepreneurship outside option more appealing than their current wage.

By contrast, when workers have plenty of outside options in the labor market, they are able to secure a wage that is much higher than their unemployment outside option. Therefore, the decrease in the cost of entrepreneurship is unlikely to make entrepreneurship more appealing than their current wage.

Proposition 2: If c_L is small enough then there exists $\underline{\varepsilon} < \overline{\varepsilon}$ such that, if $\hat{\epsilon} \in (\underline{\varepsilon}, \overline{\varepsilon})$ then, after the cost of entrepreneurship decreases from c_H to c_L, type H workers in industries where the outside options in the labor market are low $\left(\underline{Z_H}\right)$ receive a wage increase, whereas type H workers in industries where the outside options in the labor market are high $\left(\overline{Z_H}\right)$ do not receive a wage increase.

Proof: For simplicity, we consider the case in which $\overline{Z_H} > \underline{Z_H} > U_H$ so that the current wage is equal to the outside option in the labor market.

Let $\underline{\varepsilon} = \phi_H(c_L) - U_H + \underline{Z_H}$ and let $\overline{\varepsilon} = \phi_H(c_L) - U_H + \overline{Z_H}$.

It follows that for $\hat{\varepsilon} > \underline{\varepsilon}$, we obtain that $\underline{Z_H} < U_H + \hat{\varepsilon} - \phi_H(c_L)$, that is, the outside option of entrepreneurship is higher than the wage that the workers are currently receiving. Moreover, the highest salary that the firm is willing to pay to keep those workers is higher than their outside option of entrepreneurship. Hence, these workers receive a wage increase.

Regarding industries with high availability of outside options in the labor market, it follows that for $\hat{\varepsilon} < \overline{\varepsilon}$, we obtain that $\overline{Z_H} > U_H + \hat{\varepsilon} - \phi_H(c_L)$, that is, even after the decrease in the cost of entrepreneurship, the outside option of entrepreneurship is still lower than the wage that the workers are currently receiving. Hence, these workers stay attached to the current employer without receiving a wage increase. ■

The reduction of the cost of founding a firm may lead to the founding of new ventures. To the extent that type H workers are more valuable to potential startups (vs type L workers), they may experience a disproportionate expansion of outside options. Formally, after the reduction of the cost of entry, Z_H may increase by more than Z_L. This constitutes another mechanism that leads type H workers to experience a salary increase, relative to type L workers, as we formally prove below.

Proposition 3: There exists $d_1 < d_2 < d_3$ such that if, after the decrease in the cost of founding a venture, Z_L increases by less than d_1 and Z_H increases by more than d_2 but less than d_3, then type H workers experience a salary increase, whereas the salary of type L workers remains constant.

Proof: Let $d_1 = U_L - Z_L$ and let $d_2 = U_H - Z_H$. First notice that for $\Delta < d_1$, $Z_L + \Delta < U_L$, that is, after Z_L increases by an amount lower than d_1, the salary of the type L worker is still larger than the new outside option. Therefore, the worker has no credible outside option to negotiate his salary. Moreover, for $\Delta > d_2$, $Z_H + \Delta > U_H$, that is, after Z_H increases by an amount larger than d_2, the outside option becomes larger than the current salary of the type H worker. Moreover, provided that Δ is not too large, the firm is willing to increase the salary to retain the worker. ■

Centralized wage negotiations

In our base model, it was implicitly assumed that wage setting is decentralized, that is, the employer can negotiate a salary with each worker, on an individual basis. In particular, the employer was able to offer a wage to type H workers with entrepreneurial characteristics (type HE) that differed from the wage offered to type H workers who do not possess entrepreneurial characteristics (type HN).

In this section, we consider the case in which wage negotiations are centralized, and the employer must offer the same wage for all employers of type H (regardless of whether they possess entrepreneurial characteristics).

Let α denote the proportion of type H workers who are of the entrepreneurial type. When the cost of entrepreneurship decreases so that entrepreneurship becomes the relevant outside option for workers of type HE, the employer has to decide whether to offer a salary increase to all type H workers (both

HE and HN), or to let go workers of type HE. An analysis similar to the one in the base model finds that the maximum wage that the firm is willing to offer to keep type HE workers is

$$\overline{\omega}_t^{Centralized} = U_t + \alpha \frac{1-\delta}{1-\delta+\delta q_t}(V_t - U_t)$$

Notice that provided that there are some workers of type HN (so that α<1), then the maximum wage that the firm is willing to pay to retain workers is lower under centralized wage negotiations (than under the base model of decentralized wage negotiations).

Intuitively, when the wage setting is centralized, if the firm were to retain a few workers who might leave, it would have to offer a wage increase to all workers. By contrast, when the firm can engage in individual negotiations with its workers, it is able to direct wage increases only to those workers who would leave.

Proposition 4: If c_L is small enough then there exists $\underline{\varepsilon} < \overline{\varepsilon}$ such that, if $\hat{\epsilon} \in (\underline{\varepsilon}, \overline{\varepsilon})$ then, after the barriers to entrepreneurship decrease from c_H to c_L, type H workers in industries where wage setting is a result of individual negotiations receive a wage increase, whereas type H workers in industries where wage setting is centralized do not experience a wage increase.

Proof: For simplicity, let us consider the base model in which there are no outside options in the labor market, and each worker's outside option is the maximum between unemployment and the value of entrepreneurship. Let $\underline{\varepsilon} = \phi_H(c_L) + \alpha \frac{1-\delta}{1-\delta+\delta q_H}(V_H - U_H)$ and let $\overline{\varepsilon} = \phi_H(c_L) + \frac{1-\delta}{1-\delta+\delta q_H}(V_H - U_H)$.

It follows that for $\hat{\varepsilon} > \underline{\varepsilon}$, we obtain that $U_H + \hat{\varepsilon} - \phi_H(c_L) > \overline{\omega}_H^{Centralized}$, that is, the outside option of entrepreneurship is higher than the maximum wage that the employer is willing to pay to retain workers, in a setting where the wage negotiations are centralized. Hence, when the wage setting is centralized, type H workers do not receive a wage increase.

Moreover, for $\hat{\varepsilon} < \overline{\varepsilon}$, we obtain that $U_H + \hat{\varepsilon} - \phi_H(c_L) < \bar{\omega}_H$, that is, when the wage is negotiated individually, the maximum amount that firm is willing to pay to keep a worker of type HE is higher than his entrepreneurship outside option. Therefore, when the wage setting is decentralized, type HE workers receive a wage increase. ■

Throughout the rest of the analysis, we assume that c_L and $\hat{\varepsilon}$ satisfy the conditions stated in Proposition 1.

Impact of a decrease in the cost of entrepreneurship on wage inequality

Firms differ in their proportion of simple and complex jobs and, consequently, they differ in their proportion of type L and type H workers. Therefore, the average wage is not the same in all firms. In particular, the average wage in a firm where a share $\overline{\lambda}$ of jobs are complex is higher than the average wage in a firm where only a fraction $\underline{\lambda}$ of jobs are complex.

After a decrease in the cost of entrepreneurship, the wage for simple jobs (executed by type L workers) remains constant, whereas the wage for complex jobs (executed by type H workers) increases. This results in an increase in wage inequality between firms.

Proposition 5: *Following a decrease in the cost of entrepreneurship, wage inequality between firms will increase.*

Proof: Let $\overline{w}(\lambda, c)$ denote the average wage in a firm with a share λ of type H workers, when the cost of founding a firm is c. Let α denote the share of type H workers that have entrepreneurial characteristics, and let Δ denote the wage increase received by type HE when the cost of founding a firm decreases from c_H to c_L. Notice that

$$\overline{w}(\lambda, c_H) = \lambda U_H + (1-\lambda)U_L$$

$$\overline{w}(\lambda, c_L) = \lambda[\alpha(U_H + \Delta) + (1-\alpha)U_H] + (1-\lambda)U_L$$

After some algebra, it follows that

$$\frac{\overline{w}(\bar{\lambda}, c_L)}{\overline{w}(\underline{\lambda}, c_L)} > \frac{\overline{w}(\bar{\lambda}, c_H)}{\overline{w}(\underline{\lambda}, c_H)}$$

Which implies that, following a decrease in the cost of entrepreneurship, between-firm wage inequality increases.■

Within each firm, a decrease in the cost of entrepreneurship leads to an increase in wages of the highest paid workers (type HE). This results in an increase in wage-inequality within firms. Naturally, this effect will be particularly weak in firms with a low share of type H workers.

Proposition 6: *Following a decrease in the cost of entrepreneurship, wage inequality within firms will increase.*

Proof: Within each firm, a decrease in the cost of entrepreneurship leads to an increase in the wage of some of the highest paid workers (type HE), whereas the wage of the remaining workers remains constant. Therefore, following a decrease in the cost of entrepreneurship, wage inequality within each firm increases.■

As a result, due to an increase in between-firm and within-firm inequality, overall wage inequality in the broader labor market will increase.

Proposition 7: *Following a decrease in the cost of entrepreneurship, wage inequality within the labor market will increase.*

Proof: Follows directly from Propositions 5 and 6.■