

Risk taking and income inequality

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Abstract: *Individuals in a society often have different degrees of aversion about risk. When individuals with equal skills take risky activities with a high potential for profit, such as the establishment of a large business, some associations fail, others not. The presence of successful and unsuccessful collaborations in a society results in economic inequality, even when all individuals are identical in terms of level and field of education, the decisive factor is taking calculated risks or not. I will present in this paper the results of a study that I conducted in March 2014 related to influence of taking risks involved in opening a business as well as flexibility and adaptability on labor market.*

Keywords: entrepreneurship, risk taking, flexibility, adaptability

Introduction

Given the influencing factors identified in the literature review that cause maintaining and increasing income inequalities, I decided to perform a research by applying a questionnaire to a sample of respondents to identify a pattern of income inequalities

between them and effects generated by it at those people level that records a wide range of revenue, come from different social backgrounds and have different educational backgrounds.

As such, the purpose of this research was to analyze the socio-economic situation

of a target group of 498 people (269 employees and 229 contractors) which records revenue in Bucharest, to analyze the causes of income inequalities and the effects of those inequalities. In this paper I will present only the results related to risk taking influence on income inequality.

The assumptions from which I started in making this research and were based on a analysis of a consistent specialized literature dedicated to generating factors of inequality of income related to risk taking were as follows:

- as the behavior of the labor market is more flexible / adaptable, the individual income will be higher;
- as the behavior of individuals is more oriented towards entrepreneurship, the revenues are greater;

To test these hypotheses, we used the questionnaire questions regarding:

- mobility / labor market behavior - to see how flexible / adaptable person is questioned, behavior in the labor market;

- determining entrepreneurial behavior - to observe certain risks to obtain higher income generated by a business;
- value attitudes of individuals - to see if there is a connection between the desired and the current occupation, identify certain risks and to obtain higher incomes.

Results of the study

Average earnings of employees is of 1,657 lei, while the *entrepreneurs* is 5490 lei, 3.3 times higher than for the first category. Given the descriptive analysis of income environments for employees and contractors (Table 1) we observe that the **median**¹ income for employees is 1,500 lei and 3,500 lei entrepreneurs, i.e. a difference of 2.33 times higher for entrepreneurs.

¹ Given that the responses provided by the target group meet extreme values also (very small or very large), we could consider that the median is a better approximation of central tendency of income values for the sample on which the questionnaire was applied.

Table 1 - Descriptive analysis of income environments for employees and contractors

employees income		entrepreneurs income	
Mean	1657,416357	Mean	5489,694323
Standard Error	53,81258144	Standard Error	481,0130353
Median	1500	Median	3500
Mode	1500	Mode	3000
Standard Deviation	882,5919583	Standard Deviation	7279,048062
Sample Variance	778968,5648	Sample Variance	52984540,7
Kurtosis	4,460005244	Kurtosis	31,92156865
Skewness	1,825176663	Skewness	5,042622361
Range	5500	Range	65200
Minimum	500	Minimum	800
Maximum	6000	Maximum	66000
Sum	445845	Sum	1257140
Count	269	Count	229

When asked about the possibility of opening a business, of employees respondents aged 21-25 years, 60% were thought to start a business, but reasons that prevented this approach were lack of business ideas for 38 % of them and lack of necessary funds for 35%. Average income earned by these² respondents is 1499.4 lei.

The respondents aged between 26-30 years situation is similar in intent to open a business (56.36% of them were thought to open a business), but the main reason that prevented to take this step was for 50.91% of them the lack of funds (resulting from processing the heading 'other reasons'). These respondents have obtained an average income of 1892.55 lei.

If we look at the average income of the two age ranges, we can say that gaining experience in domain and / or seniority, are factors that contribute to higher revenues (in the case of two intervals being about an increase of 26%).

Also, with age it seems that the main problem that prevents employees to start a business there is not lack of business ideas but lack of funds go first for starting a business. This lack of funds may be due to several causes both subjective and objective of which the most important are:

- Gains are relatively small and do not allow saving considerable sums required to start a business,

- Lack of any financial help from parents given that 58% of employees in both age ranges come from families who were living at the same level with most families in the community,

- Failure or potential difficulties due to low incomes in accessing bank credit;

- Lack of desire / motivation to assume the risk that it involves opening a business, given that 61% of employees in the first age range (21-25 years) and 53% in the range 26 to 30 years say they prefer a safe workplace, but less well paid than one insecure but better paid.

The largest share of entrepreneurs surveyed (21.83%) were aged between 26-30 years and recorded an average income of 5473 lei, almost 3 times higher than employees in the same age range. This may be due to both financial support and education received from parents (given that over 60% of them come from families at least wealthier than the majority of families in the community, 6% came from the richest families) and desire / motivation to assume the risks involved in running a business, because 72% of entrepreneurs are in the age range mentioned above do not agree with the statement that they prefer a safe workplace but less well paid than one uncertain but better paid.

If we look at the corroboration of employees' field of study and correspondence of present occupation with profession / specialization obtained at the last form of education, in processing the data reveals that 52.7% of employees trained in economic occupy a suitable job of the training they have and obtained income of 1953 lei, and those who have not found or preferred a different job of the specialization they own obtained an income of 1529 lei, average 27% less than first.

It is interesting to note that the income gap is even greater among workers with preparation in technical domain, who have found a suitable job of the specialization acquired (only 37.3% of them) and have earned

² Resulting from the processing of responses under the heading Other reason Question What prevented you start a business so far?

an average of 2086 lei and those who occupies a position different from specialization acquired and obtained an average income of 1441 lei, 45% less than the first category.

Gender inequalities are kept for employees graduates of the two fields whether or not they have a proper occupation of the profession obtained. The male graduated employees in the economic, working on a suitable job of the preparation obtained, earn an average of 2167 lei, while women in the same classification obtain 1825 lei. If they does not occupy a position suitable of their training in economics, average salary is 1692 lei for men and 1400 lei for women.

For employees with technical training, the situation is this: men working in their field of study earn on average 2110 lei while women receive 1,500 lei, and if graduated specialization does not match current occupation, men earn on average 1611 lei while women 1259 lei.

One exception makes that even in entrepreneurs cases the gender inequalities exist for all 3 majority domains of education and training, whether or not they correspond with the needs of the business or activity performed as a freelancer.

Men entrepreneurs with training in the field of economic studies that lead a business that match with the specialization, earn an average of 5192 lei compared to 3522 lei as women entrepreneurs get and those who manage a business in a different field of specialization owned, obtain an average income of 7265 lei compared to women entrepreneurs in the same situation that have recorded an average gain of 2949 lei.

Women entrepreneurs with technical training and managing a business in accordance with this area earn an average of 4350

lei and men recorded an average income of 3914 lei, while men entrepreneur who run a business in another area obtained an average income of 4275 lei and women in the same category earn on average 4,000 lei.

Training in law brings men entrepreneurs engaged in an activity in the same area, an average gain of 15,330 lei and women entrepreneurs in the same category income of 6400 lei, while the specialization for different activities, men earned on average 7783 and women earned 3067 lei.

We can see that graduated men entrepreneurs in the economic and technical domains record higher earnings administering business unrelated to last specialization in education obtained, and at the women entrepreneurs things are totally opposite. We can also observe that for entrepreneurs with training in law, both women and men who manage a business in the same field earns about two times more than those who work in a different domain.

Workplace that the questioned graduates occupy today not corresponds to the last profession or specialization obtained through education for more than half of the respondents both employees (51.67%) and entrepreneurs (54.59%).

This data can lead us to the conclusion that there is no synchronization / compatibility between the skills resulted on completion a form of education (high / medium) and skills required by the labor market, on one hand (companies, public institutions, NGOs) and on the other hand unstable economic environment created outplacement premises of a large number of employees, or the ability to assume the risks involved in starting a business.

For employees, the average wage of all respondents whose occupation specialization

corresponds to the latter form of education is 1890 lei, for employed men 2,041 lei and for women employed 1748 lei. Employees who do not have a proper job specialization obtained, earn an average of 1440 lei: salaried men – 1610 lei and salaried women – 1314 lei.

For the entrepreneurs, average revenues of all respondents whose occupation specialization corresponds to the latter type of education is of 5849 lei, 6225 lei for men entrepreneurs and for female entrepreneurs

is 5270 lei. Entrepreneurs who do not have a proper job specialization obtained earn on average 5191 lei, 6115 lei for men entrepreneurs and 3430 lei for women entrepreneurs.

From the point of view of mobility for higher gain, moving to another county for a higher gain are less likely from their point of view for both employees and contractors. This situation is represented in the following tables:

Table 2 – Regarding moving in another big town:

Another county ?	No	Yes, for few weeks	Yes, for few months	Yes, for few years	Yes, for entire life
Employees%	75,5	7,5	7	5	5
Average income employees – Lei	1658	1399	1480	1806	2097
Entrepreneurs%	79	6	7	3,5	4,5
Average income entrepreneurs –Lei	5738	7136	4050	2925	3780

Table 3 - În privința plecării în alt oraș mare:

Another big town ?	No	Yes, for few weeks	Yes, for few months	Yes, for few years	Yes, for entire life
Employees%	71	3	12	7	7
Average income employees – Lei	1686	1675	1322	1583	2041
Entrepreneurs%	74	8	8	5	5
Average income entrepreneurs –Lei	5844	6023	4656	3225	3225

Table 4 Regarding moving in E.U.:

In EU ?	No	Yes, for few weeks	Yes, for few months	Yes, for few years	Yes, for entire life
Employees%	44	-	16,4	23,4	14,5
Average income employees – Lei	1616	-	1605	1620	1859
Entrepreneurs%	56	-	13,5	16	7
Average income entrepreneurs –Lei	5913	-	5410	4040	3039

Table 5 – Regarding moving in a neighboring country?

In a neighboring country ?	No	Yes, for few weeks	Yes, for few months	Yes, for few years	Yes, for entire life
Employees%	65	-	13	13	7
Average income employees – Lei	1668	-	1469	1493	2066
Entrepreneurs%	74	-	9	10,5	5,5
Average income entrepreneurs –Lei	5669	-	6685	4787,5	2750

Table 6 - Regarding moving in a distant country (SUA, Canada, other)?

In a distant country (SUA, Canada, other)?	No	Yes, for few weeks	Yes, for few months	Yes, for few years	Yes, for entire life
Employees%	49,4	-	10,4	19	19
Average income employees – Lei	1593	-	1933	1561	1843
Entrepreneurs%	53	-	10	21,4	13,5
Average income entrepreneurs –Lei	5882	-	6732	5437	3490

From Tables 2,3,4,5 and 6 we see that generally desired locations by employees and entrepreneurs who are willing to mobility for better earnings are distant countries (USA, Canada, other) and EU, followed by a neighbor country and then a big city or moving to another county in Romania.

We can observe both for employees and entrepreneurs, the highest percentage of

people who are willing to mobility earn below the overall average. We can also notice that employees are more willing to mobility than entrepreneurs in search of better paid jobs.

Questions related to attitudes of individuals to observe the value of a link between certain risks for obtaining higher income, responses are shown in Tables 7 and 8.

Table 7 – Entrepreneurs agree the following:

	Agree percentage	Average income
a. I prefer a safe workplace but less well paid than one insecure but better paid	35,4	5904
b. To get a better job I would be willing to work in another town	38,4	4673
c. To get a better job I would be willing to work in another country	54,8	4794
d. To get a better job I would be willing to change my occupation	62	4456

Table 8 – Employees agree the following:

	Agree percentage	Average income
a. I prefer a safe workplace but less well paid than one insecure but better paid	48,3	1539
b. To get a better job I would be willing to work in another town	37,5	1612
c. To get a better job I would be willing to work in another country	60	1660
d. To get a better job I would be willing to change my occupation	69,5	1536

The analysis of data processed and summarized in Tables 7 and 8 we can draw the following conclusions:

- the percentage of employees who prefer a safe workplace but less well paid than one insecure but better paid is higher than for entrepreneurs, despite the fact that the average income of these employees is below average for all employees, while entrepreneurs

that agree with this statement recorded higher average incomes than the average for all respondents entrepreneurs;

- the statement „To have a better job I would be willing to work in another place”, agreements percentage difference between employees and contractors is less than one percent (0,9%) but the employees who are willing to this type of mobility earn 2,5% less

than the average, while entrepreneurs willing earn 15% less;

- in case of willingness to work abroad, employees are more willing to this kind of mobility (60% of employees agree compared to 54.8% of entrepreneurs) and also it can be seen that employees who are willing to this type of mobility earn as the average of all employees, while entrepreneurs willing to work in another country earn 13% less than the average total surveyed entrepreneurs;

- regarding change of occupation for a better income, employees are most interested in the idea (agreement 69.5% versus 62% for entrepreneurs), but employees who are willing to this kind of mobility earn 7% less than average, while entrepreneurs willing to this change earn 19% less;

Conclusions:

Risk-taking of opening and managing a business rewards entrepreneurs surveyed with an average gain of 5490 lei compared to 1657 lei for the employees, i.e. 3.3 times higher.

Regarding the field of study graduated / developing, average income entrepreneurs with economic and technical training recorded are about three times higher than the employees with same training and entrepreneurs with law training earn on average almost 5 times more than employees with the

same training.

Analyzing the connection between the education background of employees (economic, in this case) and correspondence to the current occupation or profession specializing in education last obtained, the processing of data reveals that those who hold jobs in domain they studied, 27% have higher revenues than those occupying a post inappropriate to the training they have.

For employees (skilled in technical), the income gap is even greater (an increase of 45%) between technically qualified employees working under specialization obtained and employees who occupy a position different from the specialization they have.

In terms of mobility in the labor market to achieve a higher income, despite the fact that at first sight workers are more inclined towards mobility, entrepreneurs who agree with this type of mobility, earn considerably less (13-19%) than their overall average, unlike employees willing to these types of securities that earn 2.5 -7% less than the average income of the employees surveyed. This ties in perfectly with the greater percentage of employees than for entrepreneurs who prefer a safe workplace but less well paid than one insecure but better paid. From this we can conclude that entrepreneurs are generally more oriented towards taking various risks involved in achieving higher incomes.

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