

## **Dissertation Abstract**

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In my dissertation, I study the link between the allocation of talent and the macro economy. In my job market paper, I ask why the East German economy, in contrast to other transition economies, suffers from a lack of entrepreneurial activity and low growth rates. In particular, I study how the integration of East Germany into an established economy - West Germany - adversely affected the allocation of talent in East Germany. In another paper, I consider the effect of the allocation of talent on tax revenues. I look at the informal economy in high-income countries and show that taxes and the quality of governance can account for a large fraction of cross country differences in informality. In my current work-in-progress, I focus on cross country differences (U.S vs. continental Europe) in life-cycle earnings profiles of entrepreneurs and try to link these differences to incentives to accumulate entrepreneurial human capital.

### **Migration, Wages, and Tradition: Obstacles to Entrepreneurship in East Germany**

*(Job Market Paper)*

For the last decade, the East German economy has been suffering from high unemployment and low economic growth. Policy makers often point to the lack of entrepreneurship as one of East Germany's main problems. This paper addresses the question of how East Germany's integration into an established economy, West Germany, may have hindered a fruitful development of entrepreneurship and how this may have affected economic growth. I build a model economy that places Lucas's (1978) span-of-control model into an overlapping-generations framework. Following Hassler and Rodríguez Mora (2000) managerial talent is defined as a combination of two factors, intelligence and entrepreneurial parental background, and growth depends on the intelligence of managers. In East Germany, the lack of entrepreneurial parental background makes intelligence the decisive factor in occupational choice and more intelligent entrepreneurs should contribute to high growth rates. However, three key aspects of its integration into West Germany inhibit this mechanism: 1) the unrestricted mobility of East Germans to the West, 2) the policy of fixing East German wages as fractions of West German wages, and 3) the importance of family tradition for entrepreneurship in West Germany. Counterfactual experiments show that eliminating any of these three aspects leads to more entrepreneurs, less unemployment, and higher economic growth in East Germany. This paper contributes to the literature by being the first one, to the best of my

knowledge, that explicitly models the link between a lack of entrepreneurship and low economic growth in East Germany.

## **Tax Rates, Governance, and the Informal Economy in High -Income Countries**

*(Revise and Resubmit)*

This paper studies the mechanisms behind the informal economy in high-income countries. About 16.7% of output in high-income OECD countries was produced informally in 2001-02. Davis and Henrekson (2004) show that there exists a positive relation between tax rates and the informal economy for high-income OECD countries. Existing models of the informal economy mostly focus on developing countries. To account for the informal economy in high-income countries, I build a model economy, following Lucas (1978), in which agents of different managerial abilities decide to become workers, managers of informal firms, or managers of formal firms. In contrast to formal managers, managers of informal firms do not pay taxes but run the risk of getting caught, taxed, and fined. Simulations show that while the differences in tax rates alone can only account for approximately 20% of the observed differences in informal economy across high-income countries, differences in governance quality, the extent to which these tax rates are enforced, can account for about 46% of the variation.

## **Work in Progress**

Currently I am working on a joint project with Nezh Guner (ICREA, Universitat Autònoma de Barcelona and Barcelona GSE) and Gustavo Ventura (University of Iowa) where we look at the evolution of entrepreneurial human capital accumulation along the life-cycle and its implications for productivity. Our motivation comes from the fact that life-cycle earnings profiles of managers (entrepreneurs) are much steeper in the U.S. than in Europe (Germany). We try to link these differences to incentives to accumulate managerial human capital. In particular, we study how in Europe progressive taxation and labor and product market regulations that mainly affect larger establishments can limit the benefits of accumulating managerial human capital and operating larger establishments.