

# Entrepreneurial Reluctance: Talent and Firm Creation in China\*

Chong-en Bai<sup>†</sup>

Ruixue Jia<sup>‡</sup>

Hongbin Li<sup>§</sup>

Xin Wang<sup>¶</sup>

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## Abstract

An influential theoretical literature has long noted that talent can be used in both the entrepreneur and non-entrepreneur sectors and its allocation depends on the reward restructure. We test this insight by linking administrative college admissions data for 1.8 million individuals with information on firm registration records in China. The data reveals that most of the variation in firm creation is from within college. Given the same college, we find that individuals with higher college entrance exam scores – the most important measure of talent in this context – are *less likely* to create firms. We also find that higher-score individuals' firms are more successful and their wage options appear better. Moreover, the score to firm creation relationship varies greatly across province and industry according to the size of the state sector. These findings together support the interpretation that the score is positively associated with entrepreneurial ability but higher-score individuals are attracted away by others sectors, especially the state sector.

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<sup>†</sup>Tsinghua University, baichn@sem.tsinghua.edu.cn

<sup>‡</sup>LSE and UCSD, rxjia@ucsd.edu.

<sup>§</sup>Stanford University, hongbinli@stanford.edu

<sup>¶</sup>CUHK, wangx2.04@gmail.com