Intergenerational Finance, Entrepreneurial Entry, and Firm Performance*

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Motivation

Parents are a major source of start-up capital for entrepreneurs. In the presence of borrowing constraints, intergenerational transfers may therefore shape who can start and scale a business. The consequences for productivity and welfare depend on which projects are funded by such transfers. On the one hand, parents have private information about their children, and are thus positioned to direct capital towards projects that are more likely to succeed. On the other hand, parents may be motivated by non-financial objectives that lead them to fund projects generating low returns. These questions are difficult to answer: not only do parents endogenously choose how much to transfer to their children, but the children of wealthy families may differ in ways that affect their entrepreneurial propensity and potential (Hurst and Lusardi, 2004). Yet, these questions are central to evaluating policies such as estate taxation, gift taxation, and loan guarantee programs.

We study these questions using Norwegian administrative data linking parents, children, intergenerational transfers, and firm outcomes. Event-study estimates show that entrepreneurial entry rises by roughly 20 percent in the four years following both gifts and bequests. To isolate the effect of inherited wealth, we combine the timing of the last parent's death with variation in heirs' statutory shares generated by Norwegian inheritance law. We find that doubling an inheritance increases entrepreneurial entry by 3 to 5 percent relative to baseline. We then compare the firms founded by transfer recipients with other new firms. Firms founded by gift recipients have larger balance sheets and higher tax-assessed valuations, whereas firms founded by bequest recipients do not. This contrast suggests that discretionary gifts and bequests play different roles in financing entrepreneurship and may reflect parents' ability to direct capital toward particular projects.

Data

We link several administrative registers maintained by Statistics Norway through unique identifiers for each individual, family, and firm. For the period between 1995 and 2013, we observe the Norwegian tax authority's records on all registered bequests and gifts. Because individuals in

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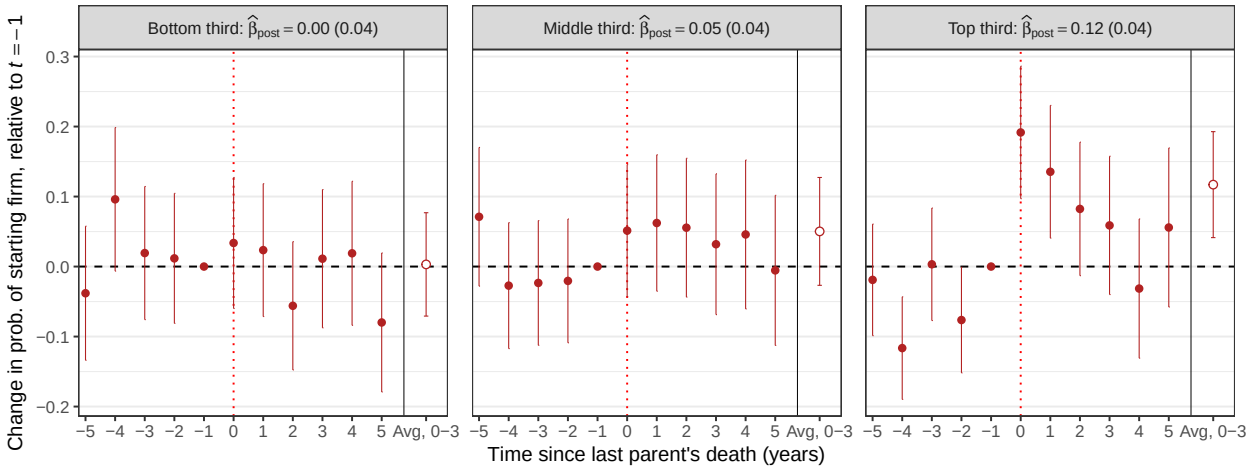
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Figure 1: Entry response at the last parent's death, by predicted bequest



Notes: Event studies of founding a firm around the death of the last parent (2002–2018), estimated separately by tercile of the predicted bequest (intestate share of parental net worth in the year before death). Coefficients are relative to the predicted baseline founding rate, with age and calendar-year controls and 95% confidence intervals. Standard errors are clustered at the individual level. Average estimates over relative time $t \in \{0, 1, 2, 3\}$ are provided in the panel labels.

Norway were subject to an inheritance and gift tax until the end of 2013, they were required to report all such transfers. These records include information on the type of transfer (gift or bequest), its size and timing, as well as identifiers for the giver and the beneficiary. We link these records to an extended version of the Norwegian wealth panel constructed by Fagereng et al. (2020), to a shareholder registry containing security-level information on ownership of listed and unlisted shares, and to balance sheet and tax record data for unlisted companies. We identify *firm founders* as people who own at least one-third of a company's issued shares in its first year of operation, i.e., the first year it reported a balance sheet.[1]

How parental transfers affect firm entry

We first estimate event studies of first-time firm founding around the receipt of a transfer of at least US$10,000, separately for gift and bequest recipients, with a full set of indicators for age and calendar year. Because the sample includes only transfer recipients, identification comes from the timing of transfers. Entry rises by roughly 20 percent over the predicted baseline founding rate in the four years following both bequests and gifts.

While such evidence is suggestive, it does not identify the causal effect of parental transfers on entry: wealthier parents or parents with more entrepreneurial children may be more likely to transfer wealth. To address such endogeneity for bequests, we instrument bequest size with each heir's statutory share of the parental estate under Norwegian inheritance law. The predicted bequest is a function of the parents' (lagged) net worth and the number of co-heirs. We predict the bequest using both the intestate rule and the statutory minimum.

The identifying variation comes from differences in the statutory share across heirs, controlling for ex ante parental wealth. Figure 1 illustrates this variation in the reduced form: the entry response is absent in the bottom tercile of the predicted bequest (median $3K), about 5 percent of baseline in the middle tercile ($58K), and about 12 percent in the top tercile ($202K). The

[1] We look at only non-financial firms, which exclude investment and holding companies.

Table 1: Transfers, founder wealth, and the outcomes of new firms

	(1) Revenues	(2) Assets	(3) Debt	(4) Valuation	(5) Profits	(6) 5-year survival
Bequests	-0.058	0.301	0.050	0.209	-0.003	0.003
	(0.067)	(0.205)	(0.097)	(0.146)	(0.011)	(0.004)
Gifts	0.192*	1.547***	0.299***	1.056***	-0.003	-0.009**
	(0.113)	(0.208)	(0.082)	(0.133)	(0.010)	(0.004)
Net worth	0.016	0.186***	0.059***	0.126***	0.003**	0.003***
	(0.011)	(0.013)	(0.008)	(0.007)	(0.001)	(0.000)
Liquidity	0.435***	0.731***	0.340***	0.337***	0.059***	0.003**
	(0.033)	(0.037)	(0.022)	(0.019)	(0.003)	(0.001)
N firms	90,659	90,659	90,659	90,659	90,659	90,612

Notes: All monetary variables are measured in constant 2015 USD. Coefficients for 5-year survival are in terms of $100,000. Net worth and liquidity of the founder are fixed to pre-founding levels. Our measure of profits includes the salaries paid to the founder. The sample is restricted to private, non-financial firms aged 0-10. Each entrepreneur is weighted equally. In columns (1)-(5), additional controls include firm-age × industry, calendar-year × industry, and firm-cohort × industry indicators. In column (6), additional controls include firm birthyear × industry indicators. For each regression, we trim at the 99th percentile of each non-binary variable and at the 1st percentile for any variables which take on negative values (valuation and profits). Standard errors are clustered at the firm and entrepreneur levels. *, **, and *** denote p-values less than 0.1, 0.05, and 0.01, respectively.

statutory share strongly predicts recorded bequests: each predicted dollar raises bequests by $0.40 (s.e. 0.007). Using this instrument, we find that doubling the predicted inheritance raises the annual founding rate by about 3.5 percent of the 0.37 percent baseline (0.019 percentage points per log point, s.e. 0.005). Back-of-the-envelope calculations imply that 15-20% of heirs who start firms would not have started those firms without those bequests.

We are currently expanding the causal analysis to gifts. Because parents have control over the size and timing of gifts, we are developing an instrument for gift size that leverages quasi-random shocks to parental wealth due to changes in the value of their publicly traded stock holdings, lottery winnings, and inheritances from their own parents.

Firm size and performance

To compare post-transfer entrants with other entrants, we construct a sample of firms started by individuals in the three years following transfer receipt and a control sample of firms started at the same time by individuals who did not receive a parental transfer in the three years prior to founding. We regress firm outcomes on the founder's bequests, gifts, net worth, and liquidity, with firm-age, calendar-year, and firm-cohort effects by industry (Table 1). Gift recipients' firms are more capitalized, with $1,000 in gifts associated with $1,547 more in total assets, and are assessed at a higher value: $1,056 per $1,000 in gifts, roughly three times the magnitude of the coefficient on personal liquidity. Despite these larger balance sheets, operating profits are not significantly different from zero, and an additional $100K in gifts is associated with a one percentage point lower survival rate. By contrast, estimates for bequests are all close to zero and insignificant.

These comparisons are descriptive and suffer from two forms of selection. First, as previously discussed, the receipt of a transfer may reflect something inherent about the entrepreneur. For

example, they may have a particularly compelling idea that their parents deemed worthy of family funds. Second, and more subtly, the event study evidence reveals that the treatment group includes a set of marginal entrants who would not have started firms without the transfers. If these marginal entrants are systematically different from inframarginal entrants, then descriptive estimates would be biased even if parental transfers were randomly assigned. To address these concerns, we develop an econometric framework that separates the causal effect of transfers on firm performance from their impact on the composition of entrants. This framework, which extends Bonney (2025), allows us to identify both the average outcome levels of marginal entrants and the direct impact of transfers on firm performance, without placing restrictions on the mechanisms driving treatment effect heterogeneity.

Structural model of family and entrepreneurship

To interpret these empirical patterns and evaluate their welfare implications, we are developing a quantitative life-cycle model of family finance and entrepreneurship. A two-generation family jointly chooses consumption, saving, and intergenerational transfers, while the child chooses between paid employment and entrepreneurship and, conditional on entry, how much to invest in the firm. Entrepreneurial opportunities differ in productivity and non-financial value, and borrowing constraints can prevent children from entering or operating at their optimal scale. Parents observe their children's opportunities and can condition inter vivos gifts on them, whereas the timing of bequests is driven by parental mortality. We will discipline the model using the observed timing and size of transfers, the entry response to gifts and bequests, and the subsequent assets, profits, and survival of new firms. The estimated model will be used to evaluate changes in estate and gift taxation, wealth redistribution, and public loan-guarantee programs.

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