Experimenting with Entrepreneurship: The Effect of Job-Protected Leave*

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March 25, 2016

Abstract

Do potential entrepreneurs remain in wage employment because of the danger that they will face worse job opportunities should their entrepreneurial ventures fail? We examine empirically whether granting employees extended leaves of absence, during which they are guaranteed the option to return to their previous job, increases entry into entrepreneurship. We exploit a Canadian reform in 2000 that guaranteed extended job-protected leave of up to one year for women giving birth after a cutoff date. Using a regression discontinuity design, we find that the increase in job-protected leave increases the probability of becoming an entrepreneur by approximately 1.8%. The results are not driven by inconsequential businesses that quickly fail—the marginal entrepreneurs spurred to enter by the reform tend to hire paid employees. The effect is stronger for individuals with more human and financial capital as well as for individuals starting businesses in industries where experimentation is more important. Overall, we conclude that career considerations are a major factor inhibiting entry into entrepreneurship.

JEL Classification: L26**,** J13, J16, J65, J88, H50
Keywords: Entrepreneurship, Risk-Aversion, Job-Protected Leave, Career, Real Option, Experimentation

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1 Introduction

Entrepreneurship has long been thought to play a critical role in innovation, job creation and economic growth (Schumpeter, 1911). There is now a large body of empirical evidence in support of this view (See, for example, King and Levine, 1993; Levine, 1997; Beck, Levine and Loayza, 2000; Levine, Loayza and Beck, 2000; Guiso, Sapienza and Zingales, 2004). Yet only a small fraction of the population undertakes entrepreneurial endeavors. For example, in the United States, only 6.6 percent of the labor force is self-employed (World Bank, 2015).

While regulation and capital access are previously-documented impediments to starting a business,[1] perhaps the most fundamental reason people might avoid entrepreneurship is its risk. Starting a new business is inherently risky since a wide range of outcomes is possible and the *ex ante* likelihood of substantial success is low. Perhaps most importantly, downside outcomes for entrepreneurs are exacerbated by career considerations. If a potential entrepreneur leaves her secure corporate job to start a company that ultimately fails, she may have trouble finding non-entrepreneurial employment in the future half as good as she could have obtained without the failure.[2]

This idea of career considerations motivates the widely-held belief that entrepreneurship increases during recessions. Workers who have already lost their job face a lower opportunity cost of trying to start a new business, though opinions vary as to whether entrepreneurship increased during the Great Recession (Fairlie, 2010; Scott Shane, 2011). In this paper, we move beyond time series identification to investigate the relationship between entrepreneurship and career considerations. In particular, we examine whether granting employees extended leaves of absence, during which they are guaranteed the option to return to their job,

[1] See, for example, Evans and Jovanovic (1989); Holtz-Eakin, Joulfaian and Rosen (1994a,b); Hurst and Lusardi (2004); Mel, McKenzie and Woodruff (2008); Kerr and Nanda (2009); Adelino, Schoar and Severino (2015); Schmalz, Sraer and Thesmar (2015); Mullainathan and Schnabl (2010); Bruhn (2011); Branstetter, Lima, Taylor and Venâncio (2014)

[2] According to entrepreneurs themselves, their two main fears are financial risk and the fear of losing a stable professional job (Brinckmann, 2016). The latter concern is supported by the evidence. Ferber and Waldfogel (1998), Williams (2002), Bruce and Schuetze (2004), Niefert (2006), and Kaiser and Malchow-Moller (2011) all document that previously self-employed individuals earn lower wages upon returning to wage employment than continuously wage-employed individuals.

increases entry into entrepreneurship.

While governments do not typically require that employees be permitted to take leaves for the purpose of starting a business, they do often require that leaves be permitted surrounding the birth of a child. Such leaves, if sufficiently long, could in principle be used to explore a business idea while retaining the option to return to one's previous job. We exploit a reform to Canadian parental leave laws that took place in 2000. The reform extended job-protected leave entitlements to one year, approximately a five month increase. In contrast, the U.S. mandates only three months of leave in total. Given that U.S. employees are able to return to work full time within three months, this suggests that employees in Canada may be able to use the additional time to test the viability of a business idea, even with a new child in the household.

Indeed, anecdotal evidence suggests that entry into entrepreneurship among Canadian women increased following the reform. For example, an article in the Vancouver Sun states, "a growing number [of women] are using their maternity leave—now a full year in Canada—to either plan or start a new professional direction in life...longer maternity leaves are making it easier for women to try their hand at starting a business" (Morton, 2006). Danielle Botterell, author of the Candian book *Moms Inc.*, said in an interview with the Globe and Mail, "We think the trend of mompreneurship, particularly in this country, really took off when the government extended maternity leave to a year" (Pearce, 2011). Finally, according the Financial Post, a Canadian business newspaper, "there is a new breed of female entrepreneurs using their maternity leaves to incubate real businesses" (Mazurkewich, 2010).

Our empirical strategy exploits the fact that implementation of maternity leave reform in Canada was tied to the date a woman gave birth. In particular, women that gave birth on or after December 31, 2000 were eligible for the extended job-protected leave. Those that gave birth even one day before were not. Given that there are limitations on the extent to which the timing of births can be controlled, "gaming" around the cutoff date is likely to be limited. Consistent with the difficulty of gaming, we find no evidence of a jump in the

birth rate after the cutoff date. Moreover, the observable characteristics of those who gave birth just before and after the cutoff suggest that they are drawn from similar populations in terms of age, education, and ethnicity. Thus, the way that the reform was implemented lends itself to a regression discontinuity design.

In particular, we examine whether mothers who gave birth just after the cutoff date are discontinuously more likely to be entrepreneurs as of the next census five years later. We are unable to look at shorter-term effects because the 2001 Census is too close to the reform cutoff date. Nonetheless, the benefit of looking at long-term outcomes is that that the results cannot merely reflect short-term entry into entrepreneurship. We find that the increase in job-protected leave entitlements leads to approximately a 1.8 percentage point increase in entrepreneurship. Compared to an approximately 5 percent base rate, this suggests an economically significant increase of around 35 percent. This baseline result is robust when examining different windows around the cutoff date, different methods of fitting the pre- and post- trends, and different definitions of entrepreneurship. The effect is also stronger for women with more human and financial capital. Moreover, the effect is concentrated in industries with high startup capital requirements, where experimentation arguably plays a more important role.

One potential concern with the above findings is that the entry into entrepreneurship that we are observing may be driven by low quality entrepreneurs as opposed to high quality entrepreneurs. However, this does not appear to be the case. First, we measure businesses that still exist five years after the reform. If the reform only increased low-quality entrepreneurship, we might expect to see no long-run effects because the businesses whose creation it spurred would fail within that time frame. Further, we find that the effect of the reform on entrepreneurship is significantly stronger for mothers with *ex ante* characteristics that predict higher-quality businesses. In particular, those with more education, work experience, and access to capital, respond more strongly to the reform. We further distinguish high-quality entrepreneurship from low-quality entrepreneurship by examining whether a

business has paid employees. We find that the reform leads to an increase in entrepreneurs that hire employees but has no effect on non-job-creating entrepreneurship. These results also help to rule the possibility that longer leaves simply lead to skill degradation or changes in preferences away from wage employment. In addition, we note that while our results directly relate to entry into entrepreneurship by recent mothers, it is quite plausible that they generalize beyond that population. For example, if engineers at large technology companies were given the ability to take job-protected leave unrelated to the birth of a child, our results suggest that such an intervention might lead to the creation of more technology startups. To be sure, policy interventions of this sort have other costs and benefits that we do not measure here. So we do not aim to make welfare statements about such policies. Our objective is to shed light on whether career considerations indeed represent a major impediment to entrepreneurship, using these policies as an empirical tool.

Our paper contributes to a large literature on factors that discourage entrepreneurship. Entry regulations limit entrepreneurship both across (Djankov, Porta, Lopez-de Silanes and Shleifer, 2002; Desai, Gompers and Lerner, 2003; Klapper, Laeven and Rajan, 2006) and within countries (Mullainathan and Schnabl, 2010; Bruhn, 2011; Branstetter, Lima, Taylor and Venâncio, 2014). Much work has examined whether relaxing financial constraints increases entrepreneurship (Evans and Jovanovic, 1989; Holtz-Eakin, Joulfaian and Rosen, 1994a,b; Hurst and Lusardi, 2004; Mel, McKenzie and Woodruff, 2008; Kerr and Nanda, 2009; Adelino, Schoar and Severino, 2015; Schmalz, Sraer and Thesmar, 2015), and whether entrepreneurship training programs or exposure to entrepreneurial peers generate spillovers (Karlan and Valdivia, 2011; Lerner and Malmendier, 2013; Drexler, Fischer and Schoar, 2014; Fairlie, Karlan and Zinman, 2015). This paper differs in its focus on career considerations. We are not aware of any other work examining whether potential entrepreneurs hesitate to take the plunge because they are afraid to worsen their fallback option. Our findings are consistent with Manso (2011), who shows that the optimal contract to motivate innovation (or experimentation more generally) involves a commitment by the principal not to fire the

agent.

In recent work, Hombert, Schoar, Sraer and Thesmar (2014) examine a French reform to unemployment insurance (UI). Prior to the reform, unemployed workers would stop receiving UI payments if they started a business. Following the reform, starting a business no longer required giving up these benefits. Hombert et al. (2014) study the effect of this reform on the composition of new entrepreneurs. New firms started in response to the reform are, on average, smaller than start-ups before the reform, but they are just as likely to survive and to hire employees. We differ in our focus on the career considerations of potential entrepreneurs, not on the quality of the marginal entrepreneur. In our setting, we find that new firms started in response to the Canadian reform are not only of equal quality, but actually higher-quality than average.

Our paper also contributes to a growing literature that views entrepreneurship as a series of experiments (see Kerr, Nanda and Rhodes-Kropf, 2014, for an overview). While many entrepreneurial projects may be negative NPV in a static sense, entrepreneurs can engage in cheap experiments that reveal information on the project's prospects. Conditional upon that information being favorable, the project may become positive NPV; thus there is value in the real option to continue. In work very closely related to ours, Manso (2014) and Dillon and Stanton (2016) model the dynamics of experimentation in self-employment and quantify this option value. According to this experimentation view, frictions to experimenting are the chief impediment to entrepreneurship. Such frictions can be due to regulation (Klapper, Laeven and Rajan, 2006), technology (Ewens, Nanda and Rhodes-Kropf, 2015), organizational constraints (Gompers, 1996), or financing risk (Nanda and Rhodes-Kropf, 2013, 2014). In our setting, job-protected leaves could reduce the cost of experimentation by giving entrepreneurs the ability to test an idea's viability without the risk of long-term negative career consequences.

Finally, our paper also contributes to a large literature on the effects of maternity leave on labor market outcomes (Ruhm, 1998; Klerman and Leibowitz, 1999; Waldfogel, 1999;

Baker and Milligan, 2008; Lalive and Zweimüller, 2009; Lalive, Schlosser, Steinhauer and Zweimüller, 2013; Schönberg and Ludsteck, 2014). Overall, the literature finds that more generous leave entitlements do delay women's return to work. However, evidence on the relationship between leave duration and subsequent outcomes is mixed. A key empirical challenge has been to find exogenous variation in leave-taking by mothers. Our paper adds to this literature by examining entry into entrepreneurship, rather than wages and job continuity. Moreover, the way the reform in Canada was implemented allows us to use a regression discontinuity design to identify causal effects. Thus far, such an empirical strategy has only been possible with data from Norway, where leaves increased more gradually over time—from 18 weeks to 35 weeks in 6 separate reforms from 1977 to 1992 (Dahl et al., 2013, 2014).

The rest of the paper proceeds as follows. Section 2 presents a simple model showing how job-protected leave could encourage entry into entrepreneurship. Section 3 discusses the data used in the study. Section 4 discusses the details of maternity leave in Canada. Section 5 discusses our empirical strategy. Section 6 presents the results. Section 7 concludes.

2 Model

In order to fix ideas, we present a stylized model of the self-employment decision in our context. The model describes how the choice to explore self-employment can respond to parental leave policy, and generates predictions that we will test empirically. Consider a potential worker whose background option is a job that pays a constant real income of y.[3] At time 0, she has a child and takes an initial maternity leave. During this time period, job-protected leave is guaranteed in all states of the world. So, regardless of any other policies we will vary, she always has the right to resume the wage-y job at time 1.

At time 1, she has three choices. She can stay at home with the child and receive a non-pecuniary benefit b but earn no income. She can resume employed work at income y,

[3]We abstract away from discounting, inflation, and wage growth. So all incomes and costs can be thought of as real time-0 values.

but in that case she has to pay child care costs of $k \geq 0$. Or she can take the risk of starting a business.

When starting a business, the entrepreneur exerts effort e, which influences the potential payoff. This effort has a convex cost, scaled by an effort cost parameter $\alpha > 0$; the total cost is αe^2. We assume that α is distributed uniformly in the population on $[0, 1]$, and each agent knows her own α when making her choices. An entrepreneur also has to pay for child care, so the total cost of entrepreneurship in the first period is $\alpha e^2 + k$. We assume that the effort cost is only incurred once.

There are two possible payoffs if she starts the business. With probability $\pi \in (0, 1)$, the business succeeds and generates a payoff of βe where $\beta > 0$ is another parameter. We think of this payoff as all-inclusive—for example, it could include non-monetary benefits of self-employment. With probability $1 - \pi$, the business fails and the gross payoff is 0.

We simplify matters at time 2 by assuming that she always returns to some form of work, whether wage employment or self-employment. If she previously returned to wage employment at time 1, her wage is unchanged at y. If she became an entrepreneur at time 1, and the business was successful, we assume that it continues to thrive at time 2 and the payoff is again βe. Someone who found it worthwhile to take the risk of entrepreneurship will have a strictly higher benefit of self-employment at time 2, since the return is unchanged and there is no additional effort cost. So she will never return to wage employment if self-employment is successful. On the other hand, if she stayed on leave or if the time-1 business failed, she suffers a salary reduction should she return to wage employment at time 2. We express this wage cut as a proportional reduction from y to $(1 - \delta)y$ where $\delta < 1$ is a parameter. When a policy guaranteeing job-protected leave is introduced, we interpret it as reducing or eliminating the penalty δ from taking time off. Table 1 summarizes the payoffs in each time period under each choice.

The people we consider are those with parameters such that $y(1 + \delta) > b + k$. This condition implies that the mothers we study prefer to return to work at time 1 over spending

their extended leave purely on child care. Of course this condition will not hold for all mothers, but those who prefer taking the maximum time off are unlikely to respond to our policy change by becoming entrepreneurs.[4] The condition shows that higher wages and a higher penalty for absence from the labor market (δ) make working preferable to extended leave. Higher childcare costs and higher benefits make it better to stay at home. Note that this decision depends only on fixed parameters, and not the effort cost of entrepreneurship, α.

Given this framework, we can predict who will try her hand at entrepreneurship. We simply compare the expected payoffs to entrepreneurship and wage employment at time 1. These comparisons yield a threshold rule in the effort cost α. Those with effort costs satisfying

$$\alpha < \frac{\beta^2\pi^2}{2y - y(1-\pi)(1-\delta)} \equiv \bar{A} \tag{1}$$

will become entrepreneurs. The right-hand side of inequality (1) defines the threshold $\bar{A}$ for the effort cost α. Those with effort costs $\alpha > \bar{A}$ will return to paid employment at time 1, while those with lower values of α will start a business.

Since $\alpha \sim \text{Unif}[0,1]$, the threshold $\bar{A}$ for the entrepreneurship decision is also equal to the share of potential entrepreneurs who will choose entrepreneurship. We can now consider the effect of a policy guaranteeing mothers the option to return to their previous job at time 2. This policy reduces or eliminates the wage penalty δ from taking time off. To compute its effect on the share choosing self-employment at time 1, we differentiate the self-employment share $\bar{A}$ with respect to δ:

$$\frac{d\bar{A}}{d\delta} = -\frac{\beta^2\pi^2(1-\pi)}{y\left[2-(1-\pi)(1-\delta)\right]^2} \tag{2}$$

[4] In fact, we can show that their entrepreneurship response is opposite that of those who satisfy $y(1+\delta) > b + k$.

Both the numerator and denominator in this fraction are positive, so equation (2) is negative overall. Reducing the wage penalty increases the share choosing self-employment. The effect is increasing in the return to self-employment β, and decreasing in the market wage y. The $\beta^2\pi^2$ term in the numerator of equation (2) comes from the entrepreneur's optimal effort decision. Conditional on becoming an entrepreneur, more skilled workers have higher returns to effort, so choose a higher effort level (the optimal effort choice is $e^* = \frac{\beta\pi}{\alpha}$). The optimal effort choice responds to, and reinforces, β and π, leading to the quadratic term.

To determine whether these effects are larger for high- or low-human capital workers, we have to interpret human capital in light of the model. If human capital only shows up in wages y, then the effects are clearly decreasing in human capital $\left(\frac{d^2\bar{A}}{d\delta dy} > 0\right)$. If human capital only shows up in the returns to entrepreneurship β, then the effects are increasing in human capital $\left(\frac{d^2\bar{A}}{d\delta d\beta} < 0\right)$. Perhaps the most natural interpretation is that both entrepreneurship returns and market wages (β and y) increase proportionally to each other and to human capital. If this is so, then the return to self-employment dominates and higher-human-capital workers will be more responsive to changes in the wage penalty δ.[5]

3 Data

The data used in this paper come primarily from the Canadian Census of the Population, which is administered every five years by Statistics Canada. The census enumerates the entire population of Canada. Up until 2006, most households (80 percent) received a short census questionnaire, which contained questions on basic topics such as age, sex, marital status, and mother tongue. One in five households (20 percent) received the long census questionnaire, which contained the same basic demographic questions from the short form plus many additional questions on topics such as education, ethnicity, mobility, income,

[5]Specifically, let $\beta = w_1 h$ and $y = w_2 h$, where $w_1, w_2 > 0$ are constants and h measures human capital. Then equation (2) becomes $\frac{d\bar{A}}{d\delta} = -\frac{h w_1^2 \pi^2 (1-\pi)}{w_2[2-(1-\pi)(1-\delta)]}$. Then $\frac{d^2\bar{A}}{d\delta dh} < 0$ so the effect of δ is increasing in human capital.

employment and dwelling characteristics. Respondents to the long form survey typically give permission to access their tax records for the answers to the income questions. Participation in the census is mandatory for all Canadians, and those who do not complete it may face penalties ranging from fines to jail time. However, starting with the 2011 census, the long form questionnaire became voluntary. Aggregated data from the census are available to the public. Individual-level data are only made publicly available 92 years after each census and in some cases only with the permission of the respondent. However, for approved projects, Statistics Canada makes the micro-data from the long form survey available for academic use. We use these confidential micro-data in our study. While the data are at the individual level, they are still anonymized. Moreover, the individual and household identification codes used are not consistent across census years. Therefore, despite the fact that the census is administered to the whole population every five years, the data are purely cross-sectional as it is not possible to form a panel. Our primary sample consists of mothers from the 2006 census who (we infer) had a child within 5 months of the December 31, 2000 reform date. There are 118,470 such mothers in the census. Finally, due to restrictions from Statistics Canada, all of our results (including observation counts) are reported using census weights. Because participation in the census is mandatory and the 20 percent of households selected for the long form survey are random, the weights are generally very close to 5 for all respondents. That is, one observation in the sample data is representative of approximately 5 observations in the population data. Because the weights are so uniform, our results change little when they are unweighted.

One key variable for this study is the date on which a women gave birth. While the census does not directly record this information, it can be inferred fairly well from the birth dates of children residing in the same census household. In particular, the census does record family relationships within a household as well as the date of birth for all members of the household. Therefore, we assume that a mother gave birth on the birth dates of the children residing in the same household. Of course, there is some measurement error in our inferred

dates of child birth. For example, we would incorrectly infer dates of child birth for women residing in a household with adopted children or step-children. Similarly, for women who do not reside in the same household as their children, we would incorrectly infer that they never gave birth.[6] We think that this measurement error is likely small in magnitude and, if anything, it would bias us against finding the effects we estimate.

The other key variable for our study is entrepreneurship, which we proxy for with self-employment, as is common in the literature. Respondents to the long form census must provide information on both their total income and self-employment income. In most cases, this information is obtained directly from their tax filings. Our primary definition of self-employment is someone who receives at least 50 percent of her total income from self-employment. Separately, respondents must also report whether they consider themselves self-employed based on their primary job. If they report being self-employed they also provide information on whether or not their business has paid employees. We favor the income-based measure as it comes from administrative data. However, we show in robustness tests that our results are similar using when self-reported self-employment. Note that both measures of self-employment include individuals who have incorporated their businesses and/or hired paid employees.

Table 2 shows basic summary statistics for mothers as well as fathers who had a child within 5 months of the December 31, 2000 reform date. Note that, while the sample is selected based on the birth of a child around December 31, 2000, the summary statistics reflect information as of the 2006 census. In our sample, 4.41 percent of mothers are self employed as of 2006 when using the definition based on any reported income. In addition, 2.68 percent both identify themselves as being self-employed and have over 50 percent of their income over the past year from self-employment. The average mother in the sample is approximately 32.8 years old and has 1.76 children as of 2006. About 28.6 percent are college graduates. The rate of self-employment for fathers is higher, as are age, and education. Note

[6]We use children reported in the 2006 census to infer child birth dates in a window around December 31, 2000; therefore the relevant children would still be minors as of the 2006 census date.

that there are fewer fathers than mothers in the sample because there are more households with only a mother present than households with only a father present.

4 Maternity Leave Policy In Canada

Maternity leave, defined as a right to return to a pre-birth job after a specified period, is established at the provincial level by labor standards legislation. Nevertheless, the legislation has several common features across provinces. First, employees are protected from dismissal due to pregnancy. Second, a maximum period for the leave is always prescribed, and the leave is specified as unpaid. Initially the laws of several provinces provided guidance on how the period of leave should be split pre- and post-birth, but current practice is to leave this to the discretion of the mother and employer. Third, the laws specify a minimum period of employment for eligibility. This varies widely: initially 52 weeks of employment was common, although the recent trend is toward shorter qualification periods. Fourth, most laws specify which terms of employment are preserved during the leave and any responsibility of the employer to maintain benefits. Finally, the laws of some provinces establish rules for extending leaves because of medical complications or pregnancies that continue after term.

While provinces only mandate a period of unpaid leave, partial income replacement is provided by the federal employment insurance system. Prior to 2001, employment insurance provided partial income replacement for 25 weeks surrounding the birth of a child (a 2-week unpaid "waiting period" followed by a 25-week paid leave period). In 2001, the Employment Insurance Act was reformed to allow for up to 50 weeks of partial income replacement (a 2-week unpaid "waiting period" followed by a 50-week paid leave period). Those on leave receive 55 percent of their normal income up to a some maximum determined each (initially $413 CAD per week, or about $275 USD). Of course income replacement is less useful if one's pre-birth employer does not also approve of the leave, as unapproved leaves could then result in employment termination. Prior to the 2001 reform to the Employment Insurance

Act, provinces required that employers grant anywhere from 18 to 35 weeks of job-protected leave surrounding the birth of a child (with the exception of Quebec, which already required 70 weeks). Following the reform, all provinces increased the mandated guarantee to at least 52 weeks to match the new income replacement period set by employment insurance (including the 2-week waiting period). Table 3 shows the maximum leave period before and after the 2001 reform by province. The average province went from approximately 35 weeks to 54 weeks, an increase of almost 5 months. Given that maternity leave entitlements usually increase gradually over time, this reform represents one of the largest year-over-year increases in any country.

5 Empirical Strategy

An important aspect of the reform's implementation for our purposes was that it was tied to the date a women gave birth. Those that gave birth on or after December 31, 2000 were entitled to an extended leave. Those that gave birth even a day before were not. Despite unhappiness among those that just missed the cutoff, no exceptions were made to this policy, even in cases of premature births (Muhlig, 2001).

Figure 1 illustrates our setup graphically using our sample of mothers who filled out the long form census questionnaire in 2006. In Figure 1, the x-axis represents the date of childbirth relative to the reform date. In Panels A and B, the y-axis represents the maximum weeks of paid and unpaid leave, respectively, available to the mother based on the date and province where she lived at the time of the birth. We proxy for this with the respondent's answer in the 2006 census about her province of residence five years earlier. The dots represent means for that birth date and the lines fit a cubic trend on each side of the cutoff with 95 percent confidence intervals. In Panel A there is no variation within a birth date as paid leave is determined at the federal level. Thus, all mothers in our sample who gave birth before December 31, 2000, were eligible for exactly 25 weeks of leave; those

who gave birth after were eligible for 50 weeks. In Panel B, there is some variation within a birth date induced by the fact that different provinces have different unpaid leave policies. On average, women in our sample who gave birth before the reform date were eligible for approximately 40 weeks of leave; those who gave birth after were eligible for 57 weeks.

While Figure 1 illustrates that there was a discontinuous jump in both paid and unpaid leave eligibility for women who gave birth around the reform, it does not show whether there was a discontinuous jump in the amount of leave actually taken. If the reform had no effect on actual leave-taking, we would not expect to find an effect on entrepreneurship. Unfortunately, census respondents do not report the amount of leave they took with each child, preventing us from creating a figure analogous to Figure 1 with the y-axis representing actual weeks of leave taken. However, the census data do allow for a cruder analysis along these lines. While respondents do not retrospectively report the length of previous leaves taken, they do report whether they are currently on leave as of the census date. We therefore trace out the probability of a respondent being on leave on the census date as a function of the number of weeks between their most recent child's birth and the census date. We do this separately using data from the 1996 and 2006 censuses. Figure 3 shows that, in all weeks following birth, the probability of employed mothers being on leave is indeed greater in the post-reform period. Of course, given that we are comparing leave taking behavior in two periods that are ten years apart, it is possible that such behavior changed for reasons other than than the reform. However, Baker and Milligan (2008) study the same Canadian reform using a difference-in-differences estimation framework (with panel data) and find similar results—that the reform in Canada did increase the length of leave actually taken by mothers. We also repeat the same exercise for fathers and find little change in leave taking behavior from 1996 to 2006. This is also consistent with Baker and Milligan (2008).

Thus, it appears that there was a discontinuous increase in the amount of leave available to and taken by mothers who gave birth just after the December 31, 2000 cutoff date. However, women on each side of the cutoff are likely to be similar in terms of other charac-

teristics. Thus, the implementation of the reform lends itself naturally to a sharp regression discontinuity design. Our hypothesis is that the additional leave time may promote entry intro entrepreneurship by giving individuals the opportunity to test the viability of business ideas without risking harm to their current career paths. To test this hypothesis we estimate standard parametric RD equations of the form:

$$y_{it} = \beta \cdot Post_t + \sum_{k=1}^{K} \gamma_k \cdot EventTime_t^k + \sum_{k=1}^{K} \delta_k \cdot EventTime_t^k \times Post_t + \epsilon_{it} \qquad (3)$$

where y_{it} is an outcome of interest for individual i who gave birth at time t, $EventTime_t$ is the date of a child's birth relative to the reform date, $Post_t$ is an indicator variable equal to one if the birth is after the reform date, K is the polynomial degree of the time trend that we fit separately on either side of the discontinuity. In robustness tests we estimate this equation with different polynomial degrees and non-parametric control functions. Our primary outcome of interest is an indicator equal to one if individual i is an entrepreneur as of the 2006 census date, as defined in Section 3. Thus, we are examining the effect of extended job protected leave on entrepreneurship status approximately five years later. We do not examine entrepreneurship status as of the 2001 census date because the census date falls too close to the reform date. In particular, the 2001 census was administered on May 15, only about 5.5 months from the reform date. This means that individuals that just qualified for extended leave by giving birth shortly after December 31, 2000, would still likely be on leave by the census date, as they would be eligible for 12 months of leave. As a result, we cannot observe whether these individuals entered entrepreneurship during or immediately after their leave. In addition, looking at long-term outcomes has the benefit that our results cannot reflect merely transitory short-term entry into entrepreneurship.

Our interest is mainly in β, the coefficient on the post-policy indicator. This coincides with the size of the discontinuity in the time trend at the cutoff date. If eligibility for the extended leave time increases the probability of entering entrepreneurship, we would expect

this coefficient to be positive.

6 Results

6.1 Validity of Regression Discontinuity Design

We begin by examining more rigorously whether a regression discontinuity design is indeed valid in our setting. To the extent that the timing of births can be controlled, one concern is that different types of individuals might choose to locate themselves on the right side of the cutoff threshold. Of course the timing of births is difficult to control precisely, but one could imagine that scheduled Caesarean deliveries or induced births might be shifted within a small window. Baker et al. (2005) find no evidence of gaming in birth timing around the reform we study in this paper. Similarly, Dahl et al. (2014) find no evidence of gaming around a similar reform in Norway. However, Dickert-Conlin and Chandra (1999) do find evidence that births are moved from the beginning of January to the end of December in the US to take advantage of tax benefits.[7] To minimize gaming concerns, we focus on first-time singleton births in our baseline results (i.e., we exclude twins, second children, and so forth). First-time singleton births are considerably less likely to be scheduled in advance. We categorize a birth as a first-time singleton birth if a child residing in the same household as a mother is the oldest child in the household and no other children in the household share the same birth date. Still, it remains possible that gaming may occur even for these births. Such gaming may be related to the mechanism we have in mind—individuals who want to test the viability of a business idea select into the longer leave to allow themselves the ability to do so. Alternatively, it may simply be those who are more savvy about how to game the reform are also more inclined toward entrepreneurship, but the reform has no effect on their ability to become an entrepreneur.

[7] It may be that it is easier to shift births earlier in time rather than later. In addition, unlike in the US, elective Caesarean sections are not feasible in Canada due to the restrictions of the health care system.

Gaming would mean that births that would otherwise have occurred prior to December 31, 2000 instead occur after. Moreover, it is likely easier to delay a birth that would have otherwise occurred close to the cutoff date than one that would have occurred far in advance. Thus, if gaming is present we would expect a discontinuous jump in the birth rate around the cutoff, as mass in the density is shifted from the left of the cutoff to the right. To test whether this is the case we estimate equations of the form:

$$NumBirths_t = \beta \cdot Post_t + \sum_{k=1}^{K} \gamma_k \cdot EventTime_t^k + \sum_{k=1}^{K} \delta_k \cdot EventTime_t^k \times Post_t + u_t \quad (4)$$

where $NumBirths_t$ represents the number of (first-time, non-multiple) births on date t. This is analogous to our baseline specification in equation (3), but with the outcome being the birth rate rather than entrepreneurship measures. If there is gaming, we expect β to be positive—that is, there should be a jump in the birth rate around the cutoff date, even allowing for non-linear trends in the pre- and post-periods. The results of this exercise are shown in Panel A of Table 4. We estimate equation (4) using cubic time trends on both sides of the cutoff and estimation windows ranging from 60 days to 150 days. We also control for day-of-week effects. We estimate an insignificant discontinuity in the birth rate at the reform date for all estimation windows. The point estimates are positive, but insignificant both statistically and economically. Ignoring standard errors, the estimates imply that 6.5 to 16.8 births in Canada may have been shifted from the pre-reform period to the post-reform period. Because the reform was implemented close to the end of the year, it is plausible that some births are shifted for reasons having to do with the beginning of a new calendar year other than our reform. To test this, we expand our sample to include births around December 31 in non-reform years, starting in 1991 (ten years before the reform) and ending in 2005 (the last year end for which we have data). Using the expanded sample, we test whether there is a larger discontinuity around December 31 in the reform year relative to

other years by re-estimating equation (4), but fully interacting all variables with an indicator equal to one only in the reform year. The results are shown in Panel B of Table 4. We find no evidence of a larger discontinuity around December 31 in the reform year than in other years, and in fact the point estimates on the key interaction term are negative in some cases, suggesting a smaller discontinuity if anything. The absence of gaming around the cutoff in Canada is also consistent with Baker and Milligan (2014) who find that the reform had no effect on the spacing of births.

Given that there is no evidence of gaming, it is plausible that those who gave birth just before the cutoff date are similar to those that gave birth just after, both in terms of their observable and their unobservable characteristics. In other words, around the cutoff date, eligibility for extended leave is assigned as good as randomly. While we cannot test whether individuals on each side of the cutoff are similar in terms of unobservable characteristics, we can test whether they are similar in terms of observable characteristics. To do so, we estimate equation (4) with parents' observable characteristics as dependent variables. We choose characteristics that are largely fixed at the time of childbirth so they are unlikely to be affected by the treatment. The results are shown in Panel C of Table 4. We find no discontinuity in terms of age, education, or ethnicity for parents who have a child around the reform date. These results further support the validity of the regression discontinuity design.

Finally, our focus in this section was on gaming in the timing of births within a small window around the cutoff date. However, it should be noted that the reform was not completely unanticipated. On February 29, 2000 the federal budget was announced with the December 31, 2000 cutoff date to be eligible for extended income replacement. In principle, this announcement predated the cutoff sufficiently so that parents could delay conception until a point where they would be sure to give birth under the new rules. As noted in Section 4 though, job-protected leave is regulated at the province level and extended income replacement from the federal government is useless without extended job-protected

leave time. The provinces did not announce that they would extend job-protected leave until November 2000 at the earliest, and in some cases they claimed that they would not be extending job-protected leave, even though they later ended up capitulating.[8] Thus, all of the mothers in our sample conceived before they knew whether job-protected leave would be extended in their province and, if so, what the cutoff date would be. Moreover, even if the reform were fully anticipated and conceptions were timed accordingly, as long as births (conditional on being pregnant) were not timed, we would still estimate a true causal effect among the population that chose to conceive approximately 9 months prior to the cutoff.

6.2 Main Findings

Next, we use our regression discontinuity setup to estimate whether women who had access to longer job-protected leave were subsequently more likely to forgo wage employment and become entrepreneurs. Specifically, we estimate equation (3) on our sample of women who had their first child (excluding multiples) around the December 31, 2000 cutoff date. The main outcome of interest is whether an individual had the majority of her total income coming from self-employment as of the May 15, 2006 census date. We estimate cubic time trends based on the date of child birth on both sides of the cutoff date. The results are shown in Panel A of Table 5. In Columns (1)-(4), we estimate equation (3) based on births that occurred in windows of 60, 90, 120, and 150 days around the cutoff date on either side. Across all estimation windows the coefficient on $Post_t$ is positive and statistically significant, indicating a discontinuous positive jump in the tendency for women who had a child after the cutoff date to subsequently become entrepreneurs. In later robustness tests we also verify that these results remain similar when equation (3) is estimated using a quartic polynomial as well as non-parametrically. The estimated magnitudes are economically significant as well. For example, the point estimate on $Post_t$ in Column (4) suggests that the leave extension

[8] Two provinces (Alberta and Saskatchewan) waited until the first half of 2001 to announce the extension and retroactively extended job-protected leave for those that gave birth after the December 31, 2000 cutoff date.

increases the probability of becoming an entrepreneur by approximate 1.83 percent. The probability of becoming an entrepreneur for women giving birth before the cutoff date is approximately 4.84 percent, thus our estimates suggest that the reform leads to a relative increase of about 37.8 percent. Panel B of Table 5 shows the results for fathers. As discussed earlier, although fathers are eligible to share part of the extended leave, in practice they do not. Consistent with this fact, we find no discontinuity in entrepreneurship rates among fathers whose children were born after the cutoff date.[9]

Panel A of Figure 4 also illustrates the results from Panel A of Table 5 graphically. The lines correspond to the cubic time trends estimated in Table 5 on each side of the cutoff. The discontinuity at the cutoff date corresponds to β, the estimated coefficient on $Post_t$. Panel B of Figure 4 is analogous, but includes all births within the estimation window rather than limiting the sample to first births. Again, there is a similar discontinuity at the cutoff date. This evidence is consistent with the hypothesis that providing employees with access to extended periods of job-protected leave spurs entry into entrepreneurship.

6.3 Placebo Test

The lack of an effect of job-protected leave on fathers provides an initial placebo test. If our baseline results were driven by other factors that changed discontinuously for parents having a child around December 31, 2000, we might expect to see an increase in entrepreneurship rates for fathers as well. We also perform another placebo test in which we examine whether there is a discontinuous jump in entrepreneurship rates for mothers that had a child around December 31 of non-reform years. The results are shown in Table 6. We again pool all years from 1991 to 2005 and fully interact a reform year indicator with all variables in equation (3). We find no evidence of a discontinuity in entrepreneurship in non-reform years, as indicated

[9]In principle, one could argue that we should find an effect for fathers if our results reflect experimentation. That is, fathers who want to pursue entrepreneurship should use their portion of the parental leave to do so with low career risk. However, across most countries, fathers are more reluctant to take extended parental leave for any purpose. There is evidence from Norway that this is due to stigma and/or fear of negative employer reaction (**?**).

by the lack of a significant coefficient on the $Post_t$ indicator across all specifications. In contrast, we do find a significantly larger discontinuity in the reform year, as indicated by the significant positive coefficient estimated on the interaction term $Reform \times Post_t$. These results are consistent with the reform being the driver of the increase in entrepreneurship. They also help to mitigate concerns that our baseline results are driven by other factors related to the transition between calendar years.

6.4 Robustness

Next, we show that our baseline results are robust to alternative regression specifications, and sample selection criteria. Panel A of Table 7 shows that results remain similar when a quartic polynomial is used rather than a cubic polynomial to fit the time trends. Panel B shows that results also remain similar when the time trends on each side of the cutoff are estimated non-parametrically with a local linear polynomial, triangular kernel, and various bandwidths. Finally, Panel C shows that our results are also robust to including all children born in the estimation window rather than limiting the sample to first children only. To increase power, we will use this expanded sample for our tests of heterogeneity in treatment effects.

6.5 Heterogeneity

Having established that our baseline results are robust, we now turn to examining whether the effect of job-protected leave on entrepreneurship varies based on observable characteristics. It is plausible that certain individuals will be more sensitive to job-protected leaves than others because they are more willing and/or able to start a business. For example, individuals with higher education and/or work experience may be have human capital that positions them better to start a business during a job-protected leave. Indeed, recall that the model from Section 2 predicts a larger effect for those with high human capital. Individuals with high-income spouses may be less constrained in terms of financial capital.

Motivated by these observations we split our sample along these three separate dimensions. Specifically, we examine whether the effect of job-protected leave differs for those with and without a college degree, those above and below the median age at child birth, and those with a high-income and low-income spouse.[10] The results are shown in Table 8. Again the sample including all children born in the estimation window is used. Consistent with our expectations, in Columns (1) and (2) we find that there is a positive effect of job-protected leave on entrepreneurship for those with a college degree, but no effect for those without one. The p-value of the difference in coefficients is shown below the estimates. The difference in Columns (1) and (2) is significant at the 5 percent level. In Columns (3) and (4) we find a positive effect for mothers above of at least the median age at child birth (29 years), and no effect for mothers less than the median age. The difference is significant at the 1 percent level. Finally in Columns (5) and (6) we find a positive effect for women with a spouse making above the median income and no effect for women with a spouse making below the median income. In this case the difference is significant at the 10 percent level. One caveat regarding the spousal income results is that we can only measure spousal income as of 2006. Ideally, we would observe spousal income prior to child birth and split the sample based on that. Nonetheless, to the extent that income is persistent, 2006 income may be a reasonable proxy for 2001 income. Overall, the results suggest that the effect of job-protected leave on entry into entrepreneurship is higher for those with more human and financial capital and thus a greater ability to enter.

6.6 Entrepreneurship Quality

One potential concern with our findings thus far is that the entry into entrepreneurship that we are observing may be driven by low quality "subsistence entrepreneurs" as opposed to high quality "transformational entrepreneurs" (Schoar, 2010). However, this does not appear to be the case. First, we measure businesses that still exist five years after the reform. If the

[10]The Canadian tax system, and hence the Census, measures income individually rather than by household.

reform only increased low-quality entrepreneurship, we might expect to see no long-run effects because the businesses whose creation it spurred would fail within that time frame. Further, as shown in the previous section, we find that the effect of the reform on entrepreneurship is significantly stronger for mothers with *ex ante* characteristics that predict higher-quality businesses. In particular, those with more education and more work experience (as proxied by age) respond more strongly to the reform. In this section, we further distinguish high-quality entrepreneurship from low-quality entrepreneurship by examining whether an entrepreneurial business hires employees.

Our primary measure of entrepreneurship thus far is based on self-employment income. However, respondents to the long form census questionnaire also self-report whether they are self-employed. If they identify themselves as self-employed, they further report whether or not they have paid employees. We begin by making sure that our results are do not change much when using self-reported self-employment status. In particular, we only categorize an individual as an entrepreneur if the majority of her income comes from self-employment according to their tax records *and* she identifies herself as self-employed in the census questionnaire. The results are shown in Panel A of Table 9. As can be seen, we still estimate a positive effect of job-protected leave on entrepreneurship using this refined version of our dependent variable.

Next, we decompose this alternative dependent variable into two separate variables: 1) an indicator equal to one if the majority of the individual's income come from self employment and they report themselves as being self-employed with paid employees and 2) an indicator equal to one if the majority of the individual's income come from self employment and they report themselves as being self-employed without paid employees. The former could be viewed as high quality entrepreneurship and the latter low quality entrepreneurship. In Panels B and C, we re-estimate Panel A separately using these two dependent variables. We find a strong positive effect of the reform on job-creating entrepreneurship in Panel B and essentially no effect on non-job-creating entrepreneurship in Panel C. We view this as

evidence that the reform does not simply promote entry of low quality entrepreneurs.

Finally, as noted earlier, while our results directly relate to entry into entrepreneurship by recent mothers, it is quite plausible that they generalize beyond that population. A growing body of work emphasizes the importance of option value in entrepreneurship (Kerr et al., 2014; Manso, 2014; Dillon and Stanton, 2016). We find that the potential downside of this experimentation—losing your previously secure job—plays a significant role as well. So if potential entrepreneurs had the option to experiment and with the fallback option of returning to their previous job even absent childbirth, this could generate growth in startups. Such a policy would represent a significant change in the labor market, and we are not able to conduct a full welfare analysis of such a policy. Nevertheless, the general principle that career considerations matter for entrepreneurship is likely to apply beyond our setting.

6.7 Mechanism

Our results thus far show that offering employees extended job protected leaves makes them more likely to pursue entrepreneurship. Our hypothesis is that this is because job protected leaves allow entrepreneurs to explore a business idea without risking harm to their non-entrepreneurial career trajectory. If that is indeed the mechanism through which the effect operates, we should expect stronger results for those who derive higher option/experimentation value from the reform. For example, the value of experimentation is likely the highest in industries where startup capital requirements are high. In industries where startup capital requirements are low, there is no need to engage in time-consuming experiments to determine whether the project is promising. One can simply pay the low startup costs to obtain this information. In industries where startup capital requirements are high, however, experimentation is important. In such industries, many projects may be negative NPV in a static sense, but conditional upon information from an experiment being favorable, the project may become positive NPV. Motivated by this observation, we examine whether the reform increases entrepreneurship in high startup capital industries more so than entrepreneurship

in low startup capital industries. We categorize industries as having high or low startup capital requirements following Adelino et al. (2015). The results are shown in Table 10. Panel A shows that the reform indeed leads to a strong increase in high-startup-capital entrepreneurship. In contrast, Panel B shows that there is no statistically significant effect of the reform on low-startup-capital entrepreneurship. Overall these results are consistent with the view that job-protected leave drives entrepreneurship through the experimentation channel.

6.8 Alternative Explanations

6.8.1 Longer Leaves Cause Skills to Degrade

One potential alternative explanation for our results is that longer leaves cause employees' skills to degrade. In this case, employees might lack the skills to return to their previous job, essentially forcing them into entrepreneurship. However, in practice, even if employees' skills did degrade, if they were forced out of their job as a result of having taken job-protected leave, they would have grounds to bring legal action. Moreover, the skill degradation story runs counter to both empirical evidence and the logic of revealed preferences. First, using panel data, Baker and Milligan (2008) find that the reform we study in this paper actually increased job continuity with pre-birth employers. If employees were forced out of their job due to skill degradation, we would expect job continuity to decrease.[11] Second, the reform did not require employees to take longer leaves; it merely gave them the ability to do so. Thus, by revealed preference, our results would have to be driven by workers who *prefer* to take a long leave from the labor force and then enter entrepreneurship due to skill degradation. But for people with that set of preferences, the reform did not relax any constraints. Employees could always choose to quit their job and then spend enough time away from work they

[11]Note that Baker and Milligan's (2008) results are entirely consistent with ours. Longer job-protected leave entitlements can lead both to greater entry into entrepreneurship and greater job continuity. Longer leaves may cause some people to leave their pre-birth employer to start a business. However, longer leaves may also cause even more people to return to their pre-birth employer who otherwise would have left the labor force or become unemployed.

would ultimately be driven into entrepreneurship through a loss of their labor-market skills. This logic, combined with the empirical evidence from Baker and Milligan (2008), makes skill degradation an unlikely mechanism for our results.

6.8.2 Longer Leaves Cause a Desire For Job Flexibility

Another potential explanation is that longer leaves cause individuals to develop a desire for greater job flexibility. Importantly, this alternative explanation is distinct from the possibility that simply having a child may lead to an increased desire for job flexibility. Our estimates would not be influenced by changes in preferences that result from having a child, as we do not compare people who had a child to people who did not. Rather, conditional on having a child, we compare those who (quasi-randomly) were eligible for a longer period of job-protected leave to those who were not. It does remain possible that actually taking a longer leave causes a desire for a more flexible job. However, one might expect those who enter entrepreneurship primarily out of a desire for job flexibility to be lower quality entrepreneurs. As shown in Section 6.6, we do not find that the reform led to an increase in low quality entrepreneurship. Instead, we find that the reform in fact led to in increase in high quality (job-creating) entrepreneurship. In addition, the job flexibility story requires time inconsistent preferences. That is, our results would have to be driven by people who start off wanting to take a long leave and then return to wage employment, but then by the end of the leave want to become an entrepreneur due to flexibility considerations. Again, for people who preferred all along to take a long leave from the labor force and then enter entrepreneurship for flexibility, the reform did not relax any constraint.

6.8.3 Longer Leaves Relax Financial Constraints

A final possibility is that longer leaves simply relax financial constraints. However, in 2000, employment insurance only provided 55 percent income replacement up to a maximum of $413 CAD per week (about $275 USD). Thus, the reform does not represent a positive wealth

shock, as people earn significantly lower income while on leave. If someone had an idea but insufficient capital to pursue it, they would still have insufficient capital while on leave. To further disentangle the effects of job-protected and paid leave, we repeat our analysis limiting the sample to mothers who gave birth in Quebec. Quebec increased job-protected leave to 70 weeks many years earlier and did not change it along with the other provinces in 2001. Thus, a mother who gave birth just after the cutoff date in Quebec would be eligible for more paid leave than one who gave birth before, but no additional job-protected leave. In Table 11, we re-estimate our baseline specification limiting the sample to mothers that we infer to have given birth in Quebec. We find insignificant effects of the reform in this case, suggesting that changes in paid leave entitlements do not drive our results. Instead, the job-protection aspect of the reform appears to be the key factor. These results are also consistent with Dahl et al. (2013) who find that increases in paid leave without job protection have little effect across on a wide variety of outcomes.

7 Conclusion

Choosing to start a business is inherently a risky proposition. In this paper, we highlight the importance of one particular type of risk: the downside risk that an entrepreneur faces when giving up alternative employment. If a potential entrepreneur starts a venture that ultimately fails, it is hard to obtain as good a job as the one she could have otherwise had. We have adduced empirical evidence that this phenomenon is indeed a relevant consideration for potential entrepreneurs, by showing the value of an extended leave of absence. When Canadian mothers were granted extended leaves of absence, during which they were guaranteed the option to return to their job, their entry into entrepreneurship increased. In our setting, regression discontinuity-based estimates show that the extra job-protected leave increases entry into entrepreneurship by approximately 35 percent. The resulting businesses are economically meaningful, as our results are not driven by new business that quickly fail.

Instead, the entrepreneurs that are spurred to enter tend to hire paid employees and to have more human and financial capital. We conclude that entrepreneurs are indeed concerned about their downside risk in the event they want to return to paid employment.

These results suggest a key role for well-functioning labor markets in facilitating entrepreneurship. Just as Gromb and Scharfstein (2002) emphasize, potential entrepreneurs are also potential employees. It is much easier to take a big risk with one's career when there is a good fallback option in place. We show that job-protected leave can provide this fallback option in some circumstances. Flexible and well-functioning labor markets can do the same, and may therefore play a surprisingly large role in facilitating entrepreneurship.

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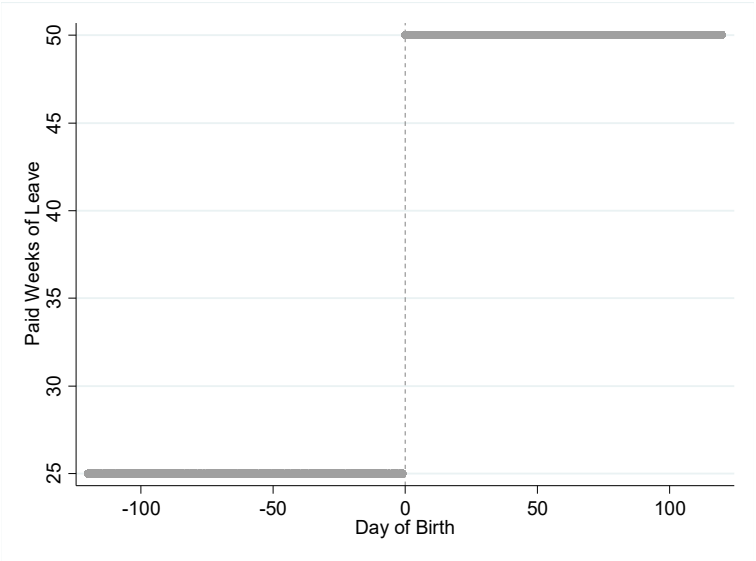
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Figure 1

Maximum Leave Eligibility by Date of Child Birth

This figure illustrates leave policy changes using our sample of mothers who gave birth around the reform cutoff date December 31, 2000. In both panels, the x-axis represents the date of child birth relative to the reform date. In Panel A, the y-axis represents the maximum weeks of paid leave available to the mother based on the date and province where she gave birth. Panel B shows the job-protected leave available. The lines in Panel B represent the fitted cubic trend on each side of the cutoff along with the 95 percent confidence band.

Panel A: Paid Leave



Panel B: Job Protected Leave

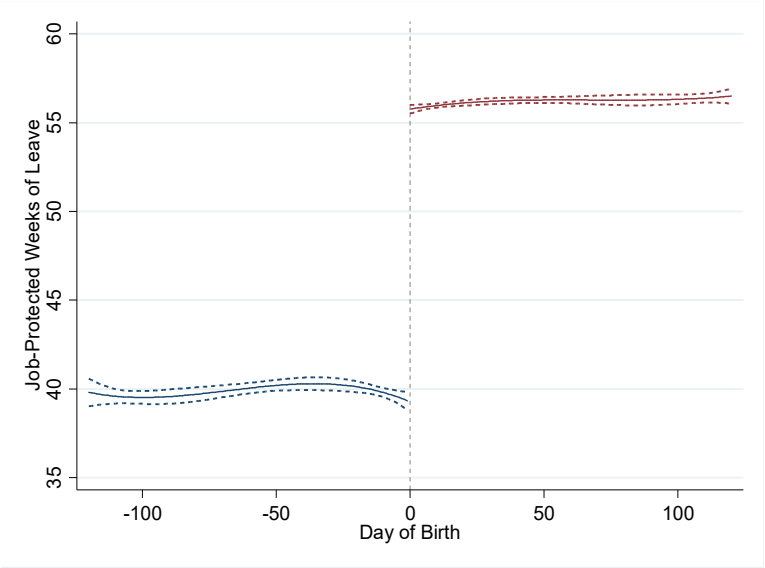


Figure 2

Model Timing

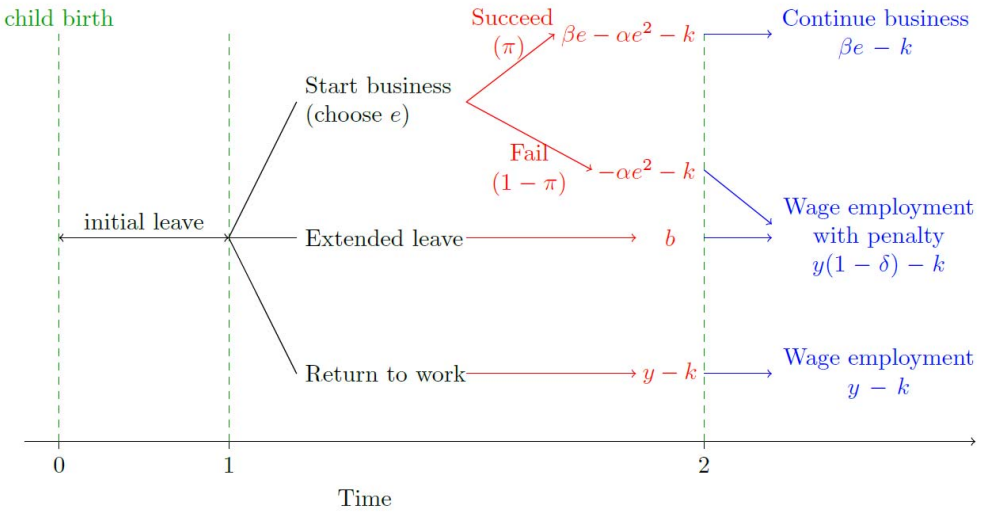
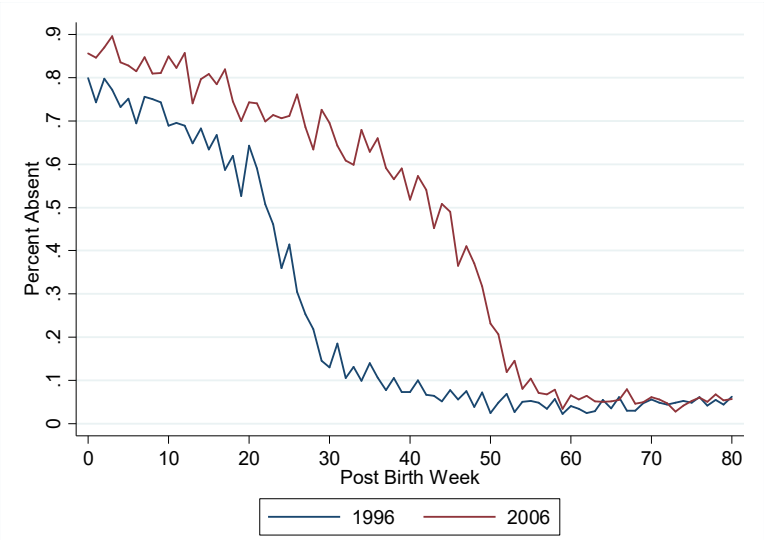


Figure 3

Leave Taking Before and After Reform

Panel A traces out the fraction of mothers on leave on the census date as a function of the number of weeks between their most recent child's birth and the census date. Panel B shows the share of fathers. We do this separately using data from the 1996 census (before the reform) and the 2006 census (after the reform).

Panel A: Mothers



Panel B: Fathers

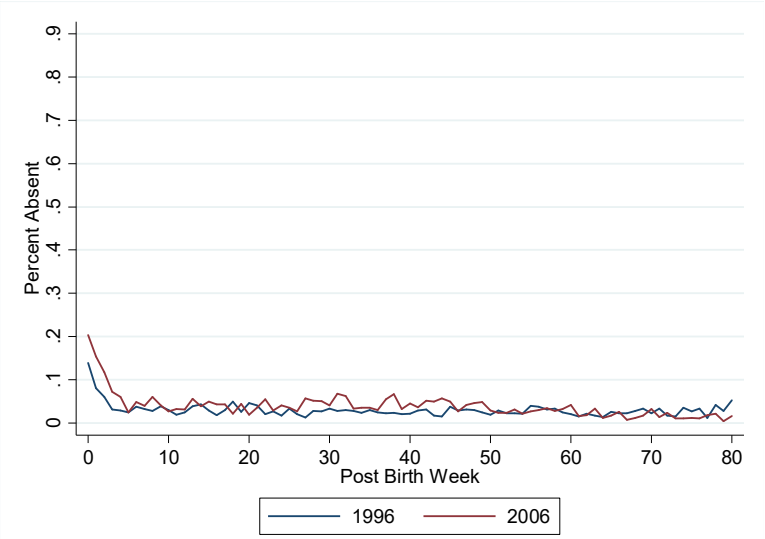
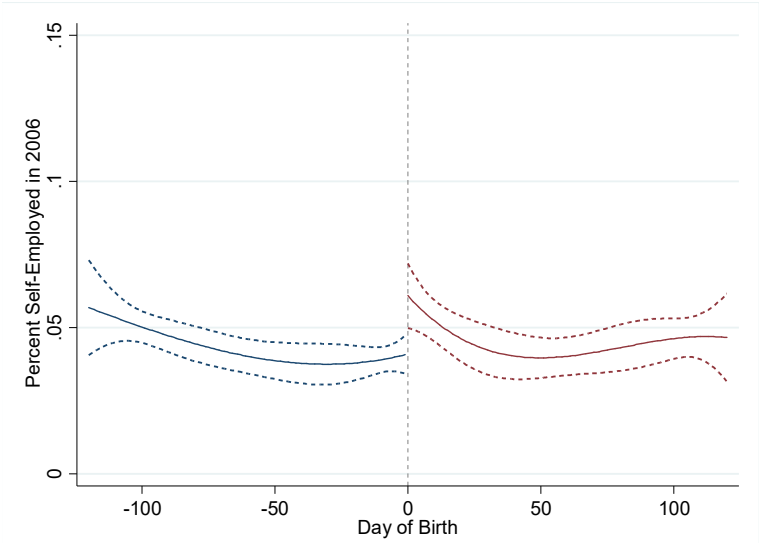


Figure 4

Baseline Results: Entrepreneurship Response to Extended Leave

This figure plots the estimated results from our discontinuity regressions. In Panel A, the lines correspond to the cubic time trends and the 95 percent confidence band estimated in Table 5 Panel A. The discontinuity at the cutoff date corresponds to the estimated coefficient on *Post*. Panel B is analogous but based on the sample including all births within the estimation window rather than first births.

Panel A: First Child



Panel B: All Children

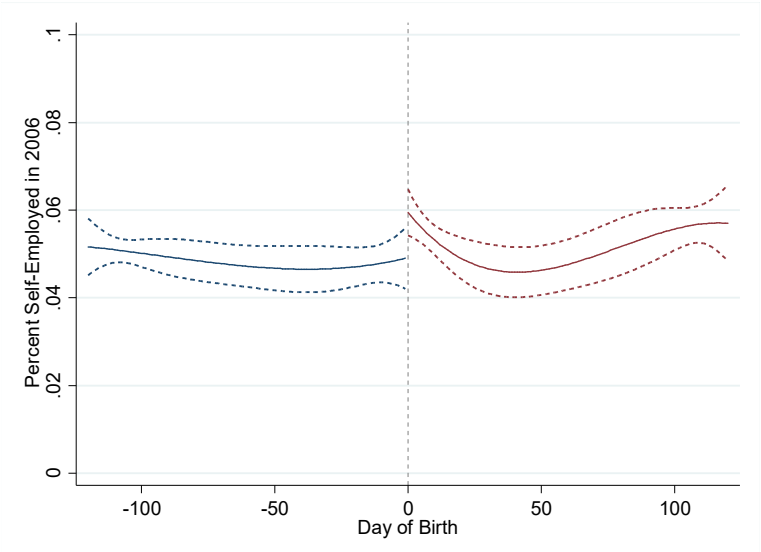


Table 1

Model Payoffs

This table shows the payoffs in both times in the model depending on the mother's choice at time 1, and whether the business succeeds.

	Payoff by time period:	
Choice at time 1:	Time 1	Time 2
Extended leave at time1:	b	$y(1-\delta)-k$
Employed at time 1:	$y-k$	$y-k$
Entrepreneur at time 1:	probability π: $\beta e-ae^2-k$	probability π: $\beta e-k$
	probability $1-\pi$: $-ae^2-k$	probability $1-\pi$: $y(1-\delta)-k$

Table 2

Summary Statistics

This table presents the summary statistics for mothers and fathers who had their first child (excluding multiple births) within 5 months of the December 31, 2000 reform date. All variables reflect information as of the 2006 census date (May 15, 2006). *Number of Children* is the total number of children the parent had as of the census date. *Entrepreneur (income-based)* is an indicator equal one if the parent receives at least 50% of her or is total income from self-employment. *Entrepreneur (income-based & self-reported)* is an indicator equal to one if the mother (father) receives at least 50% to her (his) total income from self-employment and identifies as self-employed. *Age* is the age of the mother (father) as of the census date. *Bachelor's Degree* indicates having a Bachelor or above Bachelor degree. *Minority* indicates being in a non-White ethnic group. Sample sizes are weighted and rounded to the nearest multiples of 5.

Sample:	Mothers				Fathers			
	Observations	Mean	Median	St. Dev.	Observations	Mean	Median	St. Dev.
Number of Children	118,470	1.756	2	0.659	99,180	1.834	2	0.645
Entrepreneur (income-based)	118,470	0.044	0	0.205	99,180	0.081	0	0.273
Entrepreneur (income-based & self-reported)	118,470	0.027	0	0.161	99,180	0.057	0	0.233
Age	118,470	32.79	33	5.697	99,180	36.13	36	6.331
Bachelor's Degree	118,470	0.286	0	0.452	99,180	0.290	0	0.454
Minority	118,470	0.256	0	0.437	99,180	0.242	0	0.428

Table 3

Maternity Leave Reform

This table shows the maximum length of job-protected leave by province as well as the maximum length of paid-leave before and after the 2001 reform. Source: Baker and Milligan (2008), provincial statues and Employment Standards.

Province	Weeks Leave Pre-Reform	Weeks Leave Post-Reform	Cut-off Date
Alberta	18	52	December 31, 2000
British Columbia	30	52	December 31, 2000
Manitoba	34	54	December 31, 2000
New Brunswick	29	54	December 31, 2000
Newfoundland	29	52	December 31, 2000
Nova Scotia	34	52	December 31, 2000
Ontario	35	52	December 31, 2000
Prince Edward Island	34	52	December 31, 2000
Quebec	70	70	NA
Saskatchewan	30	52	December 31, 2000
Mean value:	34.8	54.2	
Unemployment insurance (paid leave)	25	50	December 31, 2000

Table 4

RDD Validity Tests

This table validates our regression discontinuity setup. Panel A tests for discontinuity in density around the reform cutoff date for various estimation windows. The dependent variable is the number of births on each event day. *Post* indicates event days on and after the cutoff date December 31, 2000. Panel B tests for discontinuity in density around December 31 in reform year 2000 relative to all other non-reform years from 1991 to 2005. We interact the indicator *Reform* with all variables in Panel A. Panel C tests for discontinuity in observable covariates such as age at birth, education, and minority status around the reform cutoff date. All specifications includes cubic time trends on both sides of the cutoff date. Panels A and B also include day of week fixed effects. Sample sizes in Panel C are weighted and rounded to the nearest multiples of 5. Standard errors in all panels are clustered by week. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

Panel A: Smoothness of Density (2000-2001)

Dependent variable:	Number of Births			
	(1)	(2)	(3)	(4)
Post	12.12	16.83	6.507	-1.819
	(15.64)	(18.88)	(16.38)	(15.66)
Day of week FEs	Yes	Yes	Yes	Yes
Window	60	90	120	150
R^2	0.386	0.353	0.361	0.377
Number of days	121	181	241	301

Panel B: Smoothness of Density (1991-2005)

Dependent variable:	Number of Births			
	(1)	(2)	(3)	(4)
Post	19.36	14.70	-3.785	-4.428
	(24.02)	(20.56)	(19.00)	(17.28)
Reform Year × Post	-18.65	-6.991	6.316	0.935
	(28.47)	(27.37)	(24.68)	(22.97)
Day of week FEs	Yes	Yes	Yes	Yes
Window	60	90	120	150
R^2	0.208	0.213	0.226	0.238
Number of days	1,815	2,715	3,615	4,515

Panel C: Smoothness of Covariates

Sample:	Mothers			Fathers		
Dependent variable:	Age at Birth	Bachelor Degree	Minority	Age at Birth	Bachelor Degree	Minority
	(1)	(2)	(3)	(4)	(5)	(6)
Post	-0.179	-0.014	0.025	-0.357	-0.005	0.018
	(0.305)	(0.025)	(0.016)	(0.328)	(0.017)	(0.019)
Window	150	150	150	150	150	150
R^2	0.001	0.001	0.003	0.001	0.001	0.003
Observations	118,470	118,470	118,470	97,750	97,750	97,750

Table 5

Baseline Results: Entrepreneurship Response to Extended Leave

This table presents the baseline results of our regression discontinuity analyses. Panel A is based on mothers who had their first child (excluding multiple births) within 60 days of the reform date up to 150 days around it. Panel B shows the equivalent estimates for fathers. Dependent variable *Entrepreneur* indicates that a parent receives at least 50% of her or his total income from self-employment as of the 2006 census date. *Post* indicates event days on and after the reform date December 31, 2000. The specification also includes cubic time trends on both sides of the cutoff date. Sample sizes are weighted and rounded to the nearest multiples of 5. Standard errors are clustered by week. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

Panel A: Mothers

Dependent variable:	Entrepreneur			
	(1)	(2)	(3)	(4)
Post	0.036***	0.022***	0.020***	0.018**
	(0.007)	(0.006)	(0.007)	(0.007)
Window	60	90	120	150
R^2	0.002	0.001	0.001	0.001
Observations	46,485	69,900	94,690	118,470

Panel B: Fathers

Dependent variable:	Entrepreneur			
	(1)	(2)	(3)	(4)
Post	-0.001	-0.005	-0.004	-0.001
	(0.018)	(0.014)	(0.013)	(0.012)
Window	60	90	120	150
R^2	0.001	0.001	0.000	0.000
Observations	38,315	57,650	78,060	97,750

Table 6

Placebo Test: Entrepreneurship Response in Non-Reform Years

This table examines whether there is a discontinuous jump in entrepreneurship rates for mothers that had a child around December 31 in non-reform years. We pool all years from 1991 to 2005 and fully interact a reform year indicator with all variables in our baseline specification. Dependent variable *Entrepreneur* indicates that a mother receives at least 50% to her total income from self-employment as of the 2006 census date. *Post* indicates event days on and after December 31. Sample sizes are weighted and rounded to the nearest multiples of 5. Standard errors are clustered by week. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

Dependent variable:	Entrepreneur			
	(1)	(2)	(3)	(4)
Post	0.002	-0.001	-0.003	-0.003
	(0.003)	(0.005)	(0.004)	(0.004)
Reform × Post	0.034***	0.023***	0.023***	0.021***
	(0.008)	(0.008)	(0.008)	(0.008)
Window	60	90	120	150
R^2	0.001	0.000	0.000	0.000
Observations	781,610	1,179,580	1,597,780	2,006,615

Table 7

Robustness to Other Samples and Control Functions

This table presents the results of various robustness tests. Panel A estimates the discontinuity using a quartic rather than cubic polynomial to fit the time trends on both sides of the cutoff date. Panel B estimates the discontinuity using a local linear regression with a triangular kernel under various bandwidths. Panel C estimates our baseline specification including all children born in the estimation window. Dependent variable *Entrepreneur* indicates that a mother receives at least 50% to her total income from self-employment as of the 2006 census date. *Post* indicates event days on and after December 31, 2000. Sample sizes are weighted and rounded to the nearest multiples of 5. Standard errors are clustered by week in Panel A and C, and clustered by day in Panel B. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

Panel A: Quartic Polynomial

Dependent variable:	Entrepreneur			
	(1)	(2)	(3)	(4)
Post	0.031***	0.030***	0.021***	0.020***
	(0.007)	(0.007)	(0.007)	(0.006)
Window	60	90	120	150
R^2	0.002	0.001	0.001	0.001
Observations	46,485	69,900	94,690	118,470

Panel B: Non-Parametric

Dependent variable:	Entrepreneur			
	(1)	(2)	(3)	(4)
Post	0.036***	0.033***	0.024*	0.027**
	(0.006)	(0.011)	(0.013)	(0.013)
Window	150	150	150	150
Bandwidth	3 days	6 days	12 days	14 days
Observations	118,470	118,470	118,470	118,470

Panel C: All Children

Dependent variable:	Entrepreneur			
	(1)	(2)	(3)	(4)
Post	0.022**	0.013**	0.010**	0.012**
	(0.009)	(0.006)	(0.005)	(0.005)
Window	60	90	120	150
R^2	0.000	0.000	0.000	0.000
Observations	101,965	153,615	209,085	262,865

Table 8

Heterogeneity in Entrepreneurship Response to Extended Leave Depending on Entrepreneur Characteristics

This table examines whether our main results differ across subsamples, i.e., those with and without a college degree (columns 1-2), those above and below the median age at child birth (columns 3-4), and those with a high income and low income spouse (columns 5-6). The samples are based on mothers who had a child within 5 months of the December 31, 2000 reform date. P-values indicates the significance of the differences in coefficient *Post* across subsamples. Sample sizes are weighted and rounded to the nearest multiples of 5. Standard errors are clustered by week. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

Subsample:	BA Degree	No BA Degree	Age>=29	Age<29	High Income Spouse	Low Income Spouse
	(1)	(2)	(3)	(4)	(5)	(6)
Post	0.046**	-0.001	0.028***	-0.009	0.028**	0.000
	(0.019)	(0.006)	(0.007)	(0.006)	(0.012)	(0.007)
Window	150	150	150	150	150	150
P-value	0.037	0.037	0.000	0.000	0.092	0.092
R^2	0.001	0.000	0.000	0.001	0.001	0.000
Observations	69,725	193,140	143,780	119,085	112,645	150,220

Table 9

Entrepreneurship Quality

This table reports the results using various definitions of entrepreneurship. In Panel A, the dependent variable is an indicator equal to one if at least 50% of the mother's total income comes from self-employment and she reports herself as self-employed. In Panel B (C), the dependent variable is an indicator equal to one if at least 50% of the mother's income comes from self-employment and she reports herself as being self-employed with (without) paid employees. The samples are based on mothers who had a child within 5 months of the December 31, 2000 reform date. Sample sizes are weighted and rounded to the nearest multiples of 5. Standard errors are clustered by week. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

Panel A: Report Entrepreneurship

Dependent variable:	Entrepreneur (Self-Reported)			
	(1)	(2)	(3)	(4)
Post	0.013***	0.007*	0.007**	0.008**
	(0.003)	(0.004)	(0.003)	(0.003)
Window	60	90	120	150
R^2	0.000	0.000	0.000	0.000
Observations	101,965	153,615	209,085	262,865

Panel B: Entrepreneur with Paid Employees

Dependent variable:	Entrepreneur With Paid Employees			
	(1)	(2)	(3)	(4)
Post	0.008***	0.005***	0.004**	0.006***
	(0.003)	(0.002)	(0.002)	(0.002)
Window	60	90	120	150
R^2	0.000	0.000	0.000	0.000
Observations	101,965	153,615	209,085	262,865

Panel C: Entrepreneur without Paid Employees

Dependent variable:	Entrepreneur Without Paid Employees			
	(1)	(2)	(3)	(4)
Post	0.005*	0.002	0.002	0.002
	(0.002)	(0.003)	(0.003)	(0.003)
Window	60	90	120	150
R^2	0.000	0.000	0.000	0.000
Observations	101,965	153,615	209,085	262,865

Table 10

High Startup Capital vs Low Startup Capital

This table examines whether our main results differ for entrepreneurs entering into industries with different levels of start-up capital. Following Adelino et al. (2015), we obtain information on industry level startup capital from the Survey of Business Owners (SBO) Public Use Microdata Sample (PUMS) by selecting the sample of new firms in each industry and averaging the amount of capital needed to start those firms. High startup capital is defined as 2-digit NAICS industries for which the amount of startup capital is higher than the median for all industries. In Panel A (B), the dependent variable is an indicator equal to one if at least 50% of the mother's total income comes from self-employment and she report as being employed in an industry with high (low) startup capital. The samples are based on mothers who had a child within 5 months of the December 31, 2000 reform date. Sample sizes are weighted and rounded to the nearest multiples of 5. Standard errors are clustered by week. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

Panel A: Entrepreneur in High Startup Capital Industries

Dependent variable:	Entrepreneur in High Startup Capital Industries			
	(1)	(2)	(3)	(4)
Post	0.017***	0.016***	0.008**	0.007*
	(0.004)	(0.005)	(0.004)	(0.004)
Window	60	90	120	150
R^2	0.000	0.001	0.000	0.000
Observations	101,965	153,615	209,085	262,865

Panel B: Entrepreneur in Low Startup Capital Industries

Dependent variable:	Entrepreneur in Low Startup Capital Industries			
	(1)	(2)	(3)	(4)
Post	-0.002	-0.006	0.002	0.006
	(0.007)	(0.004)	(0.005)	(0.006)
Window	60	90	120	150
R^2	0.001	0.000	0.000	0.000
Observations	101,965	153,615	209,085	262,865

Table 11

Job-Protected Leave vs Paid Leave

This table re-estimate our baseline specification limiting to mothers that gave birth in Quebec, where job-protected leave did not increase but paid leave increased during the 2001 reform. The specification follows that used in Table 5 Panel A. Sample sizes are weighted and rounded to the nearest multiples of 5. Standard errors are clustered by week. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

Dependent variable:	Entrepreneur			
	(1)	(2)	(3)	(4)
Post	0.006	-0.006	-0.007	0.025
	(0.014)	(0.033)	(0.027)	(0.026)
Window	60	90	120	150
R^2	0.009	0.005	0.005	0.003
Observations	10,000	15,130	20,470	25,725