

Inhibition or Support: Research on the Mechanism by which Income Disparity Affects Entrepreneurship

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Abstract. The income gap has an important impact on entrepreneurship. This study summarizes two fundamental viewpoints: Income disparity stimulates entrepreneurship through factors such as individual psychological mechanisms and material conditions. Income disparity undermines social trust and creates material constraints to restrain entrepreneurship. Furthermore, a comparative analysis of the two viewpoints was further conducted from four dimensions: quantitative relationship, internal causes, influence path and decision-making differences.

Keywords: Income gap; entrepreneurship; material conditions.

1. Introduction

Entrepreneurial activities play a significant role in promoting the transformation of old and new growth drivers, expanding employment, and improving people's livelihoods. They are an important support for high-quality economic and social development. Driven by the policy of "mass entrepreneurship and innovation", the number of enterprises in China has shown a steady growth trend from 2020 to 2024. In 2024, the number of enterprises increased by 5.1% year-on-year, reaching 61.226 million, indicating an improvement in the quality of enterprise development. As China's economy gradually recovers from the pandemic crisis, entrepreneurial activities continue to thrive.

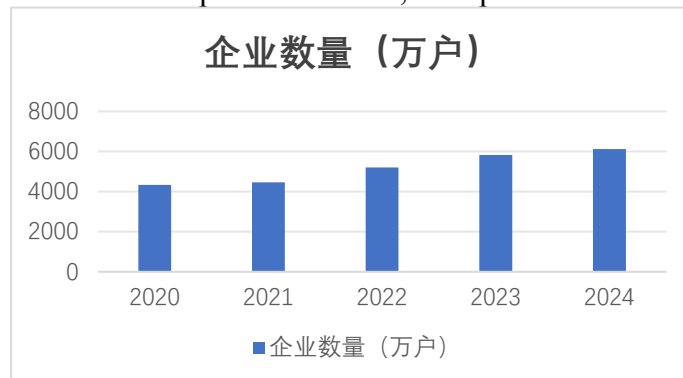


Figure 1 shows the changes in the number of Chinese enterprises from 2020 to 2024

Entrepreneurship is not only a highly favored social activity but also a hot topic in academic research. Based on existing research results, the factors influencing entrepreneurship mainly include the family environment, social environment and economic environment. In the study of family environment, scholars generally believe that a good family background can provide better support for the development of entrepreneurial talent and transfer financial capital and social capital to children, laying a solid foundation for their future entrepreneurship. (Thomas Zellweger,etal, 2011) . The social environment is reflected in the fact that social events or the social environment can imperceptibly influence an individual's entrepreneurial decisions. Existing studies include the impact of factors such as natural disasters, social trust, social networks, and the social Confucian environment on entrepreneurial activities (Carlo Corradini, 2022;) Chen Gang, Qiu Danqi, 2021. The economic environment emphasizes that market environment factors will directly affect an individual's entrepreneurial willingness, such as the impact of liquidity constraints on family entrepreneurial choices (CAI Dongliang et al., 2021).

Overall, existing studies focus on discussing the impact of income gap on entrepreneurship from macro and micro perspectives. However, few studies compare and analyze the results of the impact.

This study attempts to sort out and compare the two consequences of income gap on entrepreneurship to make up for the weakness of this part of the research.

2. Income gap stimulates entrepreneurship

From the changes in psychological factors caused by material conditions, the income gap can lead to the social differentiation of the population, making individuals feel the objective income gap and affecting people's "material craving" and jealousy psychology (Stutzer, 2004; (Mensah and Benedict, 2016), stimulating people's entrepreneurial enthusiasm and vitality. However, there is a certain psychological threshold between this "material craving" mentality and the "sense of relative exploitation". Only when the income gap only crosses the inflection point will entrepreneurial enthusiasm and vitality be stimulated. For instance, Xu Qiaoling's (2019) research pointed out that there is a U-shaped relationship between the income gap and "material craving".

From the perspective of different groups, middle and low-income groups are more likely to support the view that the income gap stimulates entrepreneurship. Low-income groups often have a significant gap in income levels compared to high-income groups, and this gap can greatly stimulate like entrepreneurial willingness and vitality. Since low-income groups can perceive the objective income gap more accurately and thereby generate a "sense of relative exploitation" (Wilkinson and Pickett, 2007; (Xu and Garand, 2010), thus the widening income gap will lead to the stimulation of entrepreneurship among low-income groups. This is beneficial to stimulating the enthusiasm of the middle and low-income classes for entrepreneurship. However, the expansion of the income gap also shows a similar but weaker relationship for the middle-income group (Stalker, 2013).

The active entrepreneurial behavior caused by the income gap may be an irrational active entrepreneurial action, but the income gap can also lead to passive entrepreneurship of individuals or families. Passive entrepreneurship refers to the passive choices made by individuals due to their survival needs or the oppression of objective conditions. Specifically, it includes three aspects: The first category, from the perspective of emotional or psychological factors, the income gap leads to the "necessary employment" that individuals or families have to take for the purpose of survival, which is due to the lack of hope for future life (Lippmann et al., 2005). The second category is passive employment resulting from the comparison between employment income and entrepreneurial income. For instance, the Global Entrepreneurial Economy Research Report (GEM) points out that when individuals are paid relatively low wages, it leads to this group being passively engaged in entrepreneurial activities. The third type of viewpoint holds that when the job market is rather difficult, it will also stimulate individuals to choose passive entrepreneurship. The wage-skills mismatch in the labor market has exacerbated the unemployment problem. When there is a lack of feasible employment opportunities, people may choose to carry out passive entrepreneurial activities (Dyer, 1994).

3. The income gap restrains entrepreneurship

Income disparity often leads to the differentiation of social structure. According to the accumulation of wealth, society can be divided into three types of wealth groups: high, medium and others. The middle-income group is the main force of entrepreneurship. When the income gap widens, more middle-income groups become low-income groups, directly resulting in a lack of start-up threshold funds for this group. Compared with the high-income group, the middle and low-income groups have a weaker accumulation of family resource endowments, and they can only rely on market financing to obtain start-up funds. Therefore, credit has become a crucial factor influencing the entrepreneurship of the middle and lower groups. When financial liquidity is strong, middle and low-income groups can easily obtain loans, which is conducive to stimulating entrepreneurship. Conversely, when encountering financial constraints, it is difficult for them to obtain the funds needed for starting a business, which will inhibit individual entrepreneurship.

From the perspective of urban-rural relations, the economic and social level of cities is much higher than that of rural areas, which directly leads to the fact that the entrepreneurial vitality of cities is much higher than that of rural areas. Overall, the income gap between urban and rural areas has suppressed entrepreneurial activities in rural areas. Environmental factors are one of the core factors determining the establishment of an enterprise. The situation of rural social entrepreneurship should be examined based on the unique internal environment of the countryside. The expansion of the income gap in rural areas may also be manifested as a slowdown or even a downward trend in the income growth rate of middle - and low-income families, and hurt their human capital investment activities, making it impossible for the capital threshold and entrepreneurial capabilities required for conducting entrepreneurial activities (Evans and Jovanovic, 1989) to meet the requirements. The income gap will directly affect the risk-bearing capacity of families or individuals. Rural middle and low-income families have a relatively high poverty vulnerability and find it difficult to effectively withstand the risk impact brought by business failure. Therefore, due to risk aversion, middle and low-income families tend to choose market employment rather than self-employment.

A larger market scale provides entrepreneurs with sufficient space to expand production scale to reduce costs and thereby increase profits. A larger market scale is conducive to the survival of start-up enterprises and promotes the occurrence of entrepreneurial behaviors. However, income inequality restricts the expansion of the market size and is not conducive to the occurrence of innovative activities. Income inequality gives rise to different social strata, reducing interaction among members of different social strata, thereby lowering the trust in strangers from different income strata. The higher the degree of distrust, the greater the requirements for transaction guarantees, which raises the threshold for entrepreneurship and is not conducive to the development of entrepreneurial activities.

4. Comparative analysis

4.1 Comparison of Quantitative Relationships

From the perspective of quantitative relationship, there are differences in the quantitative relationship between the two. The viewpoint supporting entrepreneurship holds that there is a nonlinear relationship or a "U-shaped" relationship between income inequality and entrepreneurship. That is, when the income gap is within a certain range, the income gap stimulates entrepreneurship. When the income gap is too large, the opposite is true. The viewpoint of suppressing entrepreneurship holds that there is a direct linear relationship between the two, that is, the income gap harms entrepreneurship.

4.2 Comparison of internal causes

From the perspective of specific causes, scholars with different viewpoints have put forward their theoretical explanations of the relationship between the income gap and entrepreneurial behavior. Supporters of the inhibition theory generally believe that the excessive expansion of the income gap will inhibit the vigorous development of entrepreneurial activities on multiple levels. For the vast majority of entrepreneurs, an excessive income gap means a serious imbalance in resource distribution, which makes it difficult for many potential entrepreneurs to obtain the necessary entrepreneurial conditions, such as start-up capital, market channels, and technical support. Especially in rural areas, due to weak infrastructure, scarce educational resources and insufficient financial services, rural entrepreneurial groups face greater difficulties in obtaining the resources needed for starting businesses. Furthermore, the income gap may also lead to the solidification of social classes, narrowing the upward mobility channels for rural and low-income groups and further weakening their willingness and ability to start businesses.

In contrast, scholars who support the positive incentive effect of income disparity on entrepreneurship hold another theoretical framework. They believe that the existence of the income gap, to some extent, can stimulate the entrepreneurial enthusiasm of middle and high-income groups. This group of people, having accumulated a certain wealth foundation, tend to have a stronger desire

for wealth accumulation and achievement motivation when facing a larger income gap, and then seek higher economic returns and social status through entrepreneurial activities. For them, the income gap is not only a challenge but also an opportunity, driving them to constantly explore new business models and market opportunities. On the other hand, for low-income groups, the significance of the income gap prompts them to view entrepreneurship as an effective way to escape poverty and improve their living conditions. Under the pressure of survival, low-income earners tend to choose entrepreneurial projects that can bring economic benefits quickly, even though these projects have higher risks and lower technological content. Their entrepreneurial motivation stems more from the purpose of making a living, that is, to meet basic living needs through entrepreneurial activities, alleviate poverty, and thereby create conditions for the survival and development of the family.

4.3 Comparison of Influence mechanisms

From the perspective of the influence mechanism, the viewpoints supporting entrepreneurship pay more attention to how the income gap further stimulates entrepreneurial behavior by influencing individuals' psychology. Specifically, the income gap of this viewpoint is manifested as a material-level gap. This gap further stimulates individuals' sense of deprivation, and then triggers their "jealousy" or "material craving" at the psychological level, thereby generating the intention to start a business or take entrepreneurial actions. Similarly, the perspective of suppressing entrepreneurship also supports the influencing mechanisms at the psychological level. For instance, the income gap suppresses entrepreneurship by eroding social trust. However, the difference lies in that the perspective of suppressing entrepreneurship supports more social psychological factors rather than individual psychological factors.

From the actual research results, the theory of suppressing viewpoints is more related to the income gap influencing entrepreneurial willingness and decision-making through the entrepreneurial environment and conditions. Specifically, the entrepreneurial environment and conditions include other economic factors such as financial constraints, credit conditions, and market size. Furthermore, in societies with a large income gap, low-income groups face higher survival vulnerability. Such groups are more inclined to choose stable income sources because business failure may lead to debt traps.

4.4 Differences in entrepreneurial decisions

The distinct entrepreneurial motivations have shaped two completely different behavioral paradigms. Material incentive-based entrepreneurship often shows a strong tendency towards initiative and irrationality. Driven by the desire for wealth and success models, entrepreneurs tend to chase after market hotspots, and their decision-making process is often accompanied by impulsive traits. Although such behaviors demonstrate an enterprising spirit, due to the lack of systematic planning and prudent risk assessment, they are prone to fall into the trap of homogeneous competition, and the core of innovation and sustainable development is relatively weak. In sharp contrast to this is survival-driven entrepreneurship. Under the pressure of economic pressure, low-income groups choose to start their businesses to make a living. The essence of their entrepreneurship lies in avoiding survival risks rather than pursuing the expansion of wealth. Such decisions are based on a profound understanding of their skill boundaries and resource limitations. Entrepreneurs carefully screen traditional fields that are highly consistent with their capabilities and have clear operation models. By actively suppressing the impulse for blind expansion, they build a barrier for risk defense within their limited capabilities. The former reflects the passionate exploration and adventurous pursuit driven by market opportunities, while the latter demonstrates rational restraint and steady progress under resource constraints. Together, they constitute a diverse spectrum in the entrepreneurial ecosystem, highlighting the diversity and complexity of entrepreneurial behaviors.

The perspective of suppressing entrepreneurship reveals a profound behavioral logic: When individuals actively restrain their adventurous impulses in entrepreneurial choices, the essence does not stem from the coercive oppression of the external environment, but is rooted in a clear

understanding and rational weighing of their actual conditions. This selection mechanism is based on a dual cognitive framework - on the one hand, individuals realize through internal examination that they have objective limitations in dimensions such as core skills, resource reserves or risk tolerance. This self-awareness of ability deficiency is like an invisible boundary, defining the safety threshold of their actions; On the other hand, the concrete deduction of potential failure consequences has given rise to a strong risk-aversion tendency, prompting decision-makers to incorporate the chain risks that entrepreneurial activities may trigger (such as economic collapse, credit damage or decline in social evaluation) into systematic assessment. During this process, individuals do not passively accept the arrangement of fate. Instead, they actively construct a defensive decision-making model based on their subjective cognition. By giving priority to traditional fields with high skill compatibility and low trial-and-error costs (such as life services or mature retail industries), they achieve a balance between survival security and limited development within the scope of controllable risks.

5. Conclusions and Suggestions

The income gap is of great significance in influencing entrepreneurship. This study, by sorting out the existing achievements, summarizes two basic theoretical viewpoints, namely the pro-entrepreneurship theory and the anti-entrepreneurship theory. Two viewpoints explain the impact of the income gap on entrepreneurship from different perspectives. Through the sorting and comparison of the two viewpoints, this study has drawn the following research conclusions.

One is that the income gap stimulates entrepreneurship through factors such as individual psychological mechanisms and material conditions. From the perspective of individual psychological mechanisms, income disparity can lead to relative deprivation of individuals at the material level, which in turn causes jealousy and material craving at the psychological level. This, in turn, triggers individual irrational entrepreneurship. From the perspective of material conditions, an excessive income gap can lead to social stratification. Groups in the middle and lower strata of society, under the pressure of life, will be forced to start businesses to solve the problems of survival and poverty to obtain basic living materials.

Second, the income gap undermines social trust and creates material conditions to restrain entrepreneurship. From the perspective of social trust, excessive income disparity undermines the basic trust that ordinary people have in the government, financial organizations, etc., and subsequently leads to their loss of enthusiasm and willingness to start businesses. Furthermore, an excessive income gap will shrink the market size, impose financial constraints, divide the social structure, and subsequently deteriorate the entrepreneurial environment, resulting in a lack of entrepreneurial opportunities for the public.

Thirdly, there is a significant difference in viewpoints between the pro-entrepreneurship theory and the anti-entrepreneurship theory. From the perspective of quantitative relationship, the pro-entrepreneurship theory holds that there is a U-shaped relationship between income gap and entrepreneurship, while the anti-entrepreneurship theory believes it is a linear relationship. From the perspective of the influencing mechanism and the causes of viewpoints, the support for entrepreneurship theory places more emphasis on the individual psychological factors of the influencing mechanism. There are relatively fewer studies on material conditions, and it is believed that the income gap stimulates entrepreneurship by influencing the individual psychological mechanism. The theory of inhibiting entrepreneurship pays more attention to the discussion from the dimension of material conditions. It holds that the income gap affects an individual's entrepreneurial behavior and willingness by deteriorating the material conditions for entrepreneurship, and pays less attention to the individual's psychology. From the perspective of differences in entrepreneurial decision-making, the pro-entrepreneurship theory places more emphasis on the irrationality and coercion of entrepreneurship, while the anti-entrepreneurship theory places more emphasis on the theoretical choices of non-entrepreneurial behaviors.

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