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## The role of culture on self-employment

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## ABSTRACT

This work examines the effect of cultural differences on self-employment. All the individuals considered in the analysis are second-generation immigrants who were born and live under the same laws and institutions in the US. Following an epidemiological approach, the variation in self-employment rates by ancestors' national origin can be considered as supporting evidence of the effect of culture on self-employment. Our results show that culture has quantitatively significant effects on self-employment. This finding is robust to alternative specifications and to the introduction of several controls. Additional analysis shows that there are differences in the impact of culture on self-employment by gender, in that men are more sensitive than women to culture; and by economic activity, in that those individuals involved in professional, scientific, and technical activities, and those in accommodation and food service activities, are more affected by the impact of cultural differences. We also examine the transmission of culture, observing an important role of the inter-generational transfer of culture, although the impact of culture on self-employment diminishes from generation to generation.

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## 1. Introduction

During the last three decades of the 20th century, self-employment tended to increase its share of non-agricultural civilian employment, which entailed an important source of job growth in many OECD countries (OECD, 2000). However, there are still considerable differences in self-employment rates across countries. In 2009, the rate of self-employment measured as the number of self-employed per hundred civilian employed individuals varied from around 6% in Luxembourg to almost 40% in Turkey, clearly reflecting considerable diversity among countries (OECD, 2012). Researchers have analysed several determinants of self-employment in an attempt to explain differences in self-employment decisions, including economic factors such as lack of capital (Evans and Jovanovic, 1989; Evans and Leighton, 1989), or the existence of an inheritance or gift (Blanchflower and Oswald, 1998; Holtz-Eakin et al., 1994a,b; Hout and Rosen, 2000; Laferrère and McEntee, 1995).<sup>1</sup> Less work has been done on the study of the influence of institutional factors on self-employment. For example, Blau (1987) studied the role of minimum wage legislation; Quinn (1980) analysed retirement policies; Long (1982), Blau (1987) and Schuetz (1998) focused on the effect of tax systems, and Borjas and Bronars (1989) studied the impact of immigration policy. In this paper, we present evidence that cultural differences also have an important influence on self-employment decisions.

Examining the determinants of self-employment is important because governments frequently foster self-employment. Policy makers provide subsidies to set-up and to remain self-employed given special

attention to some groups, including young people, minorities and women. In Australia, France, UK and US, for example, government programmes provide easier access to finance, training, and networks of contacts such as transfer payments to the unemployed while they attempt to start businesses; they also provide loans to small businesses, and even exempt small businesses from certain regulations and taxes. Nevertheless, the effect of all these policies is not the same in all countries, which can be due to cultural differences in self-employment. In spite of the widely held view that small firms are the greatest creators of jobs (Birch, 1979), small firms also disproportionately destroy jobs (Davis et al., 1996). Additionally, there is no evidence that the increases in the self-employment rate increased the real growth rate of the economy (Blanchflower, 2000).

The literature on the impact of racial and ethnic differences on self-employment mainly focuses on examining dissimilarities between African-Americans and whites, Mexican-Americans and Non-Hispanic whites (Fairlie and Meyer, 1996, 2003; Fairlie and Robb, 2007), and on the differences in self-employment rates and earnings between immigrants and native-born individual (see Borjas, 1985, 1986, 1987, 1994, 1995; Lofstrom, 2002). However, as Fairlie and Meyer (1996) explain, it is evident that broad categories such as European or white have significant differences across groups. Thus, it is not simply race that is driving these differences, other factors such as social norms, values, and traditions that define the culture of a social group can underlie these dissimilarities in self-employment decisions.

Nearly all researchers agree on the relevance of culture in economic decisions, but they also agree that culture is quite difficult to define and to measure. With respect to the definition of culture, we consider that suggested by UNESCO and Fernández (2007). In 2001, UNESCO defined culture as *the set of distinctive spiritual, material, intellectual and*

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emotional features of society or a social group, that encompasses, not only art and literature, but lifestyles, ways of living together, value systems, traditions and beliefs. Similarly, Fernández (2007) described culture as a set of identifiable beliefs, traditions, and preferences that vary across time, space, or social groups. To measure cultural differences, we follow the epidemiological approach Fernández (2007). We focus on a specific country, in our case the US, and analyse the behaviour of second-generation immigrants – those individuals who were born and live under the same laws, economic conditions, and institutions in the US. Assuming that culture can be transmitted from parents to their children, differences in self-employment rates by parent's country of origin can be considered as evidence of the existence of a cultural effect on self-employment decisions.

In our analysis, we use the U.S. Census microdata from the Integrated Public-Use Microdata Sample, IPUMS, (Ruggles et al., 2010), to estimate the probability that a second-generation immigrant residing in the US is self-employed based on a cultural proxy, the self-employment rate defined as the number of individuals who are self-employed with or without employees, divided by the total number of individuals who are part of the labour force (obtained from OECD Labour Statistics). Our results point to the relevance of culture in explaining dissimilarities in self-employment at the country level. We find that, when the self-employment rate increases by 0.01, the probability of being self-employed increases by 0.15, indicating that those second-generation immigrants whose parents originated from Turkey (the country with the highest self-employment rate, 0.69) are about 9 percentage points more likely to be self-employed than a second-generation immigrant from the UK, the country with the lowest self-employment rate, 0.08. This result holds even when controlling for a list of socio-economic indicators typically associated with self-employment.

Our findings add to the research on the effect of culture on demographic and economic outcomes.<sup>2</sup> Utilizing empirical strategies very similar to those presented here, recent studies have explored the effect of cultural differences on savings rates (Carroll et al., 1994), fertility and female labour force participation (Antecol, 2000; Bellido and Marcén, 2013; Fernández, 2007; Fernández and Fogli, 2006, 2009), living arrangements (Giuliano, 2007), unemployment rates (Brügger et al., 2009), preferences for a child's gender (Almond et al., 2009), and divorce (Furtado et al., 2013). We not only contribute to this literature by presenting supporting evidence of the relevance of cultural differences on self-employment decisions, but also we present evidence of the differences in the impact of culture on self-employment by gender and by economic activity.

Results are consistent and robust. Our findings are maintained after re-defining the cultural proxy by changing the denominator of the rate to, for example, exclude unemployed individuals, to tackle the non-clear relationship between self-employment and unemployment (Meager, 1992), and after measuring the self-employment rate over several years, suggesting that cultural differences spread over time. We have also checked the consistency of the cultural effect, considering that self-employment refers only to the self-employed with employees, or to the self-employed without employees. Results do not vary with either sub-sample, lending further credibility to our research design.

The origins of gender differences on self-employment have been extensively explored to explain why men become self-employed in greater proportion than women (Verheul et al., 2012). In our case, we separate the analysis by gender to test whether men are more influenced than women by the concept of self-employment culture. If cultural differences are driving our results, and men develop their identities under the role of being the worker and breadwinner, while women constitute their character based on wife and mother gender roles (Akerlof and Kranton, 2000), we may expect a greater impact of self-employment culture on

men than on women, due to the characteristics needed to set up a business. This is exactly what we obtain.

We also divide the analysis by economic activity, in order to examine the hypothesis that those involved in tertiary sector activities are more exposed to self-employment. If self-employment matters, and second-generation immigrants behave as their immigrant parents, becoming self-employed in activities such as those in the tertiary sector, where they feel less discriminated against, then we might expect a stronger impact of culture in those activities. Precisely, this is what we observe with those involved in accommodation and food service activities, and professional, scientific and technical activities being more heavily influenced.

In the final two sections, we examine the transmission of the self-employment culture. First, we focus on transmission within communities, horizontal transmission of culture, developing a similar analysis to that developed in Furtado et al. (2013). We examine whether second-generation immigrants responsiveness to parents' country of origin self-employment rates vary, depending on whether they live in ethnic enclaves or communities with a majority of people of the same ancestry. Our results are not conclusive, due to problems with the availability of data on the ancestry of all individuals. Second, we consider the transmission throughout generations, vertical transmission of culture. If there is inter-generational transmission of culture, we would expect that second-generation immigrants whose parents were self-employed will be more likely to be, themselves, self-employed. We find a significant role of inter-generational transfer of self-employment culture, at least from first to second-generation immigrants. Finally, we examine whether the effect of culture is maintained from generation to generation, using more recent data. Our results suggest that the impact of self-employment cultural differences of ancestors diminishes as time goes by.

The paper is organized as follows. Section 2 describes the empirical strategy. Section 3 describes the data. Section 4 presents the main evidence of the effect of culture on individual self-employment probability. Section 5 shows robustness checks. Section 6 provides empirical evidence of the differences in the impact of culture by gender, and Section 7 examines the different impact by economic activity. Section 8 explores the transmission of culture, and also shows the impact of culture from generation to generation, and Section 9 concludes.

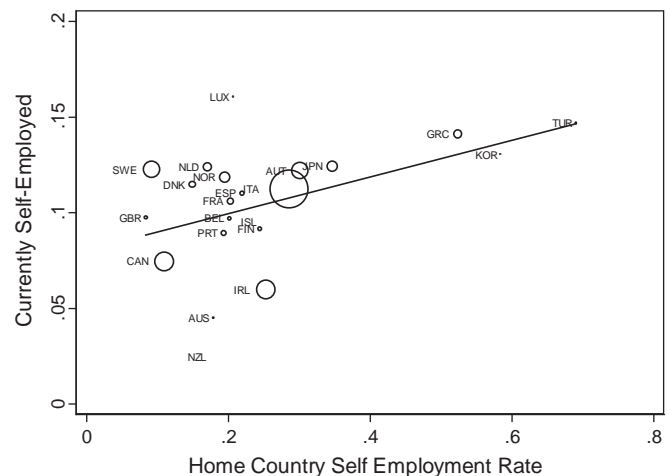


Fig. 1. Notes: The share of second-generation immigrants in the US who are currently self-employed is plotted on the y-axis while ancestors' home country self-employment rates, measured as the number of self-employed individuals divided by the total number of individuals who are part of the labour force, are plotted on the x-axis. Circle sizes represent the number of second-generation immigrants from each parents' country of origin in our U.S. Census sample.

<sup>2</sup> See Fernández (2011) for a review of this literature.

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