



# The effect of public policies on entrepreneurial activity and economic growth<sup>☆</sup>



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## ARTICLE INFO

### Article history:

Received 1 February 2016

Received in revised form 1 March 2016

Accepted 1 April 2016

Available online 17 May 2016

### Keywords:

Innovation

R&D

Economic policy

Entrepreneurship

Economic growth

## ABSTRACT

Policy makers' main interest is to avoid the problems resulting from the economic crisis. One way to avoid these problems is to stimulate economic growth as well as the necessary economic activity to reduce unemployment and to increase welfare. Specialized recent literature shows entrepreneurship as a key factor to enhance economic growth. Consequently, determining which economic policies could stimulate entrepreneurial activity and, indirectly, economic growth is relevant. This article's main goal is to analyze some of these policies' effects on entrepreneurship and economic growth. To achieve this goal, the study performs an empirical analysis of 13 European Union countries, divided in two complementary methods: Partial Least Squares (PLS) estimation and fsQCA. fsQCA allows completing the results obtained by PLS estimation, by allowing to obtain causal recipes or sufficient conditions that help to determine the relevant relation between economic variables.

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## 1. Introduction

The economic crisis that countries have experienced in recent years has led to a research of the factors that could guide a successful economic growth, thus reducing economic problems such as unemployment or inequality. Among these factors, entrepreneurship has an increasing importance, especially thanks to the availability of quantitative data. The study carries out this variable's analysis from two perspectives: Firstly, from a microeconomic level that has emphasized entrepreneurs' psychological characteristics and motivations. This perspective considers the analysis of the survival rate of entrepreneurial activities and other related aspects, such as kind of financing and type of business. Secondly, from a broader perspective that has studied the influence of entrepreneurship on the economic growth of countries. This study contemplates the possible effects on entrepreneurship of different quantitative and qualitative factors, such as the formation and social climate (Castaño, Méndez, & Galindo, 2015).

On the other hand, in recent decades research has also considered the effects of public policies on entrepreneurship. Besides, researchers should also determine what policies might affect entrepreneurship and their more or less direct effect on economic growth, as mentioned

previously. Therefore, tax changes and expenditure policies might encourage or discourage entrepreneurship.

Accordingly, the aim of this study is to analyze the effects of these policies on entrepreneurship and indirectly on economic growth, considering the circumstances and problems of each country. The study also aims to encourage the design of various measures to achieve economic growth, like R&D policy, training, and the elimination of administrative barriers to access financial support, and the promotion of entrepreneurial culture. European Union countries will implement some of these measures in the following years.

The next section briefly exposes the different policies that can have some effect on entrepreneurship and on economic growth. Section 3 empirically analyzes 13 European countries through two methods: Partial Least Squares (PLS) estimation and fsQCA. The study employs fsQCA (Ragin, 2008) to observe the combinations of economic variables that lie behind higher economic growth. Finally, Section 4 contains the main conclusions.

## 2. Public policies, entrepreneurship, and economic growth

As noted earlier, when analyzing entrepreneurship, the policies that can encourage or hinder this phenomenon are one of the main aspects to consider. The literature has investigated this issue through different aspects, such as the different types of policies (Gnyawali & Fogel, 1994; McMullen, Bagby, & Palich, 2008), or the impact of policy and regulation on entrepreneurship (Campbell & Mitchell, 2012). Kreft and Sobel (2005) argue that an environment with low taxes, low regulations, and secure private property rights is necessary to encourage the

<sup>☆</sup> The authors thank Professor Daniel Palacios, Universidad Politécnica de Valencia and Professor Miguel-Ángel Sastre, Universidad Complutense de Madrid, for their careful reading and suggestions.

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necessary entrepreneurial activity to produce economic growth. Audretsch and Thurik (2004) and Audretsch, Grilo, and Thurik (2007), distinguish between entrepreneurship policies, more focused on the impact of individual behavior in the early stages of the entrepreneurial process, and SME policies, which focus on existing SME. Stevenson and Lundström (2007) consider that policies can create conditions that allow emerging entrepreneurship; that is, a culture of promoting entrepreneurship, opportunity to acquire business skills, experience, and knowledge, facilitating the availability of financial and nonfinancial resources, and decreasing obstacles to implementation. From a critical viewpoint, Jacquemin and Janssen (2015) analyze the distinction between “supportive” policies and “constraining” regulations by discussing the existence of “enabling” regulations and policies that create opportunities for entrepreneurs.

In general terms, the design of policies should aim to create the right environment to encourage individuals to startup, either by promoting business opportunities generation, or by guaranteeing the property rights of the startup activity. For example, the first area could include those policies designed to facilitate access to finances and to promote higher education and the culture of entrepreneurship and innovation (De Clercq & Arenius, 2006; Gavron, Cowling, Holtham, & Westall, 1998; Reynolds, Hay, & Camp, 1999). This area should also include the role of taxes, as their reduction would promote economic activity such as increased consumption resulting from greater available income. Regarding the second level, and according to the European Commission (2012), the administrative burden represents one of the fundamental obstacles to business creation: almost three quarters of entrepreneurs in Europe consider as too difficult the creation of their own company, principally because of administrative complexity. Therefore, excessive administrative or labor regulation is detrimental for entrepreneurship (Begley, Tan, & Schoch, 2005; Grilo & Thurik, 2005; Hart, 2003; Stephen, Urbano, & van Hemmen, 2009). However, it is important to note the beneficial effects of an adequate rule of law and proper governance (Méndez-Picazo, Galindo-Martín, & Ribeiro-Soriano, 2012).

Another factor that the literature mentions to achieve sustainable economic growth is the existence of a group of individuals (entrepreneurs) who can take risks and use the available financial resources to create new business (Alpkan, Bulut, Gundy, Ulusoy, & Kilic, 2010; Audretsch & Keilbach, 2004a,b). These individuals are the main introducers of innovations and technological advances that may increase the economic productivity of a country and promote economic growth (Abramovitz, 1986; Audretsch, 2005; Griliches, 1998).

Accordingly, an extensive literature focuses on studying the direct and indirect effects of innovation on economic growth (Aghion, David, & Foray, 2009; Cumming, Johan, & Zhang, 2014; D’Agostino & Scarlato, 2015; Galindo & Méndez, 2014; Wong, Ho, & Autio, 2005). The examined literature introduces two different latent variables on the effects of innovation policies: the expenditure on R&D and innovative economic environment.

Taking into account the previous theoretical aspects, as well as Castaño-Martínez, Méndez-Picazo, and Galindo-Martín’s (2015) empirical analysis, the current analysis aims to answer the following questions:

- Q1. Could the R&D policy positively affect entrepreneurial activity?
- Q2. Do complex administrative processors and lack to access to credit hinder entrepreneurial activity?
- Q3. Do public policies that support human capital formation influence entrepreneurship and economic growth?
- Q4. Do the capabilities of the entrepreneurs and successful entrepreneurs encourage entrepreneurship?
- Q5. Does an innovative economic environment affect entrepreneurship and economic growth?
- Q6. Does entrepreneurship influence economic growth?

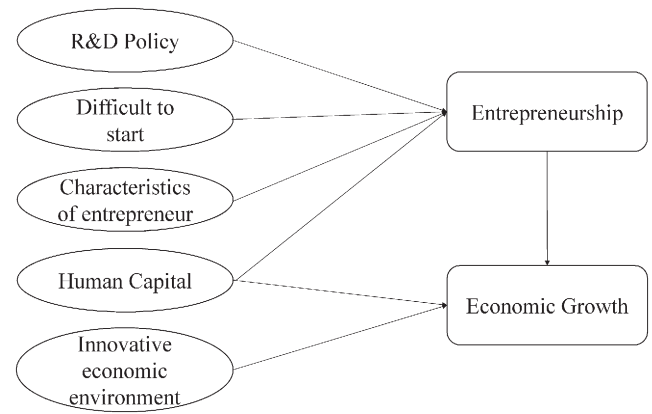


Fig. 1. Determinates of entrepreneurship and economic growth.

Fig. 1 shows the different economic relations that the empirical analysis takes into consideration.

Different databases act as source for the study’s variables. Table 1 includes various indicators from the Global Entrepreneurship Monitor (GEM) database and from Eurostat. The analysis also uses World Development Indicators from the World Bank database and United Nations Development Programme (UNDP) indicators, concerning 13 European countries (Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Netherlands, Portugal, Spain, Sweden, and the United Kingdom) in 2012. This economic fact can measure of incomplete way by different proxy variable that international organizations calculate. However, PLS allows introducing several of these indicators as latent variables. Besides, fsQCA enables an analysis of complex economic relations that is not possible in traditional regression estimation.

Table 1  
Constructs and indicators.

Constructs	Indicators
R&D policy (GR&D)	<ul style="list-style-type: none"> <li>• Gross domestic expenditure on R&amp;D (GERD) by Government sector (Eurostat, 2014) (rdgover).</li> <li>• Gross domestic expenditure on R&amp;D (GERD) by Higher education sector (Eurostat, 2014) (rduni).</li> </ul>
Difficult to start (AF)	<ul style="list-style-type: none"> <li>• It is difficult to start one’s own business due to the complex administrative procedures. Options: Strongly agree and Agree (European Commission, 2014) (administrative).</li> <li>• It is difficult to start one’s own business due to a lack of available financial support. Options: Strongly agree and Agree (European Commission, 2014) (financial).</li> </ul>
Characteristics of the entrepreneur (CE)	<ul style="list-style-type: none"> <li>• Percentage of 18–64 population who believe to have the required skills and knowledge to start a business (Gem, 2014) (capabilities).</li> <li>• Percentage of 18–64 population who agree with the statement that in their country, successful entrepreneurs receive high status (status).</li> </ul>
Human capital (HC)	<ul style="list-style-type: none"> <li>• Public expenditure in education (World Bank-database, 2014) (hc).</li> <li>• Mean years of schooling (UNDP, 2014) (meanhc).</li> </ul>
Innovative economic environment (INN)	<ul style="list-style-type: none"> <li>• Product innovative enterprises in proportion to innovative enterprises (Eurostat, 2014) (inv).</li> <li>• Product innovative enterprises in proportion to total enterprises (Eurostat, 2014) (innt).</li> </ul>
Entrepreneurship (TEA)	<ul style="list-style-type: none"> <li>• Total early-stage entrepreneurial activity (tea) (<math>X_{11}</math>).</li> <li>• Percentage of those involved in TEA who (i) claim to be driven by opportunity as opposed to finding no other option for work; and (ii) who indicate the main driver for being involved in this opportunity is being independent or increasing their income, rather than just maintaining their income (teaopp).</li> </ul>
Economic growth (EG)	<ul style="list-style-type: none"> <li>• GDP per capita (World Bank-database, 2014) (gdppc).</li> <li>• Gross National Income (GNI) per capita (UNDP, 2014) (gni).</li> </ul>

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