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The emergence of new entrepreneurs in Europe



Emilio Congregado*, José María Millán, Concepción Román

Departamento de Economía, Universidad de Huelva, Facultad de Ciencias Empresariales, Plaza de la Merced 11, 21071 Huelva, Spain

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ABSTRACT

This work tries to shed some light on the decision of becoming self-employed with and without employees, distinguishing between paid-employment and unemployment as starting status and exploring if the exposure to foreign competition also influences this decision. In doing so, we apply binary and multinomial logit models to data drawn from the European Community Household Panel for the EU-15 (ECHP, 1994–2001). Thus, we provide some evidence supporting the existence of different factors affecting each considered transition in terms of intensity of the causal relationship. Finally our study also suggests the existence of a negative relationship between the degree of openness and the probability of become entrepreneur, across the EU-15 countries, as some theoretical models suggest.

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1. Introduction

Having faced high and persistent unemployment rates, it is hardly surprising that European entrepreneurship policy has always been biased in favour of promoting transitions from unemployment to self-employment, which has been used as an instrument of the active labour market policy.¹ This appears to be in line with the usual politicians' view that a higher rate of self-employment

* Corresponding author. Tel.: +34 959 217 832; fax: +34 959 217 828.

E-mail addresses: congregado@uhu.es (E. Congregado), jose.millan@dege.uhu.es (J.M. Millán), concepcion.roman@dege.uhu.es (C. Román).

¹ There are two channels through which self-employment can contribute to reduce unemployment. First, there is the direct effect of removing a newly self-employed individual from the unemployment. In addition, there is also an indirect effect of job creation if these new entrepreneurs decide also to hire workers.

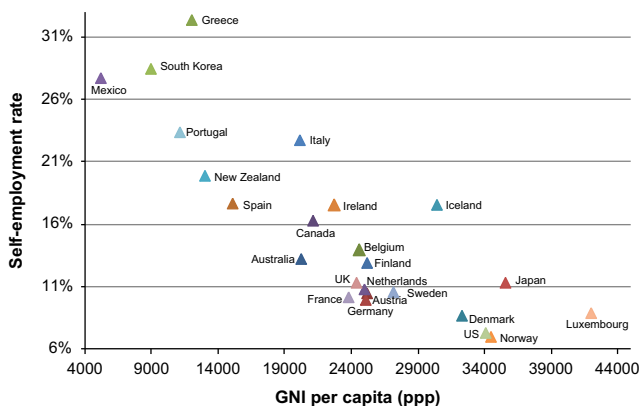


Fig. 1. Self-employment rates and GNI *per capita* in OECD countries, 2000 (ex-communist republics excluded).
Data Source: International Labour Office, Labour Force Survey and World Bank. GNI *per capita*, (US\$, purchasing power parities).

promises innovation and growth for the economy. However, as richer countries present lower self-employment rates, the contribution of a higher self-employment rate with the economic growth is not such an obvious conjunction (see Fig. 1).

It is clear from a comparison of the self-employment rate and GNI *per capita* in the OECD countries that richer countries have lower self-employment rates (excluding the agricultural sector). For example, self-employment rates in Greece and Portugal are the highest in the EU, but their GNI *per capita* are the lowest. The EU's richest countries, Denmark, Ireland, and the Netherlands, have much lower self-employment rates.

There are several reasons for why it is not appropriate to associate a large number of self-employed in an economy as a sign of economic progress. On the one hand, the high number of self-employed in an economy may, instead, be associated with the existence of certain barriers to the access to other types of employment in such a way that self-employment sometimes becomes a means to avoid regulations (Román et al., 2011). In sum, if, by entrepreneurship, one allows informal sector, then high levels of self-employment may mean that the self-employment sector is creating too few wage-earning job opportunities. Under this framework high self-employment rates could be associated to poorer countries.

Furthermore, as mentioned above, entrepreneurship promotion programmes have been subordinated to the objectives of the active labour market policies, so that incentives, guarantees or even tax reductions were oriented to increase the rate of self-employment as a way to reduce unemployment. However, the introduction of these incentives alters the occupational choice of individuals (Román et al., 2013). Thus, the occupational decisions from long-term unemployed will be more sensitive to economic incentives than those choices of well-off individuals. Therefore, if long-duration unemployment tends to be concentrated among the worst individuals, an adverse selection problem can emerge among self-employed people.

However, most of these studies ignored the existence of different initial status (unemployment or paid employment) and final status (own-account self-employed or employers with employees).² It should be noted that if the instruments for the promotion for self-employment were based on the analysis of transitions to self-employment ignoring the existence of different starting and arrival states, prescriptions might be biased in favour of a certain type of transition.

In other terms, let us suppose that the determinants of the transitions from unemployment to self-employment were different or even contrary from those affecting a transition from paid-employment. In that case, the use of a unique receipt might be beneficial for one kind of transition and harmless or even harmful for the other kind.

Hence, for an adequate entrepreneurship policy design, it becomes necessary to check the possible existence of factors with varying or even in contradictory impact on each transition, that is, to test if each transition has its own receipt.

² See Carrasco (1999) among other exceptions.

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