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SELF-EMPLOYMENT AND UNEMPLOYMENT IN SPANISH REGIONS (SUMMARY)

Antonio Golpe
University of Huelva, Spain

André van Stel
EIM Business and Policy Research, and Cranfield University, School of Management, The Netherlands & UK, ast@eim.nl

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SUMMARY

SELF-EMPLOYMENT AND UNEMPLOYMENT IN SPANISH REGIONS

*Antonio Golpe, University of Huelva, Spain
André van Stel, EIM Business and Policy Research, and Cranfield University
School of Management, The Netherlands & UK*

Principal Topic

The interrelationship between self-employment and unemployment has been the topic of many scientific investigations. The relation is of considerable policy importance as self-employment is seen as a route to escape unemployment. The relation is quite complex however as there are two directions of causality involved. On the one hand self-employment may lead to a decrease in unemployment (we label this the “entrepreneurial” effect), and on the other hand unemployment may lead to an increase in self-employment (“refugee” effect). As these two effects are in opposite directions, it is important to disentangle these two effects in empirical work. The present paper focuses on the relation between self-employment and unemployment for Spain.

Method

We apply the vector autoregression model (VAR) proposed by Audretsch, Carree, van Stel and Thurik (2005) to a data base for Spanish regions over the period 1979-2001. Basically the model explains the change in unemployment from past changes in self-employment (“entrepreneurial” effect) and it explains the change in self-employment from past changes in unemployment (“refugee” effect). We also investigate whether these relations are different for high and low income regions.

Results and Implications

Our regression exercises provide empirical support for the “entrepreneurial” effect to exist. As regards the “refugee” effect, the evidence is mixed. We find empirical support for this effect for higher income regions. Remarkably, we do not find evidence for a “refugee” effect in lower income regions of Spain, even though unemployment rates are on average higher in these regions.

Our paper has several policy implications. First, the empirical support for the “entrepreneurial” effect suggests that entrepreneurship is a promising route to combat unemployment. Research by Congregado, Golpe and Millán (2005) shows that particularly the high-educated self-employed are likely to contribute to bringing down unemployment. Hence it may be good policy to invest in (higher) education levels of the population in general and in entrepreneurship education in particular. Second, concerning the lack of a “refugee” effect in the lower income regions, we argue that a lack of incentives to find employment --due to high unemployment benefits-- might play a role. This suggests that the government could consider reforming parts of the social security system.

CONTACT: André van Stel; ast@eim.nl; EIM, Zoetermeer, The Netherlands.