DOES ENTREPRENEURSHIP IMPROVE WELL-BEING? (SUMMARY)

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SUMMARY

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Principal Topic

Entrepreneurship, and specifically Schumpeterian entrepreneurship, has historically played a central role in development (Acs & Mueller, 2008). Its effects have primarily been linked to the process of industrialisation and economic growth (Schumpeter, 1934 & 1943; Solow, 1957; Penrose, 1959; Audretsch & Thurik, 2001). However, since the 1990s, policy-makers increasingly tend to emphasize the overarching importance of development (UNDP, 1990), defined as sets of capabilities that are enabled thanks to sets of resources (Sen, 1999). In this perspective, economic growth represents one of the important means to achieve the end of development, understood as well-being and freedoms.

This issue, in the current socio-economic context, is of general common interest to both developed and developing countries. Nonetheless, a stylized fact of developing countries is their large pool of micro and often informal enterprises, which seems to fail contributing to productivity and GDP growth. This idea is supported by La Porta & Schleifer (2008), who, using cross-country firm data analysis, find that informal micro-businesses - that provide for half of all economic activity - are relatively unproductive, and serve as a social security net “keep[ing] millions of people alive, but disappearing over time”. Determining whether those enterprises contribute to overall development is therefore of central importance.

Method

This paper’s focus lies beyond the link between entrepreneurship and growth, rather, it explores the relationship between entrepreneurship and development in the case of emerging economies. We narrow down the analysis to the effect of households’ participation to micro-entrepreneurship on well-being. We contrast and compare the impact of entrepreneurship on the different components of well-being, as well as on the composite well-being index.

We argue that restricting entrepreneurship contribution to development to its productivity or production contribution, especially in the case of micro and informal enterprises in developing economies, is not relevant to the more general issue of development. Rather, entrepreneurship ought to contribute to overall household well-being.

Results and Implications

We find that entrepreneurship participation reduces both the final level and the 10-year growth rate of households’ yearly total income as well as total household and business assets, but significantly reduces the variation of these two measures of well-being over the period, acting as a stabilizer. Also, entrepreneurship participation increases both average household health and education achievement, while employment tends to reduce it. Overall, we find that entrepreneurship participation boosts composite well-being, hinting that trade-offs between the different components turn out positive.

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