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## ENTREPRENEURSHIP AND UNEMPLOYMENT DURING THE GREAT RECESSION (INTERACTIVE PAPER)

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≈ INTERACTIVE PAPER ≈

**ENTREPRENEURSHIP AND UNEMPLOYMENT  
DURING THE GREAT RECESSION**

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**Principal Topic**

This study examines the level of new business activity throughout the U.S., and the relationship between this new business activity and the high levels of unemployment arising during the Great Recession. It provides an opportunity to address three questions: (1) How did entrepreneurial activity vary with levels of unemployment in the states of the U.S. during the Great Recession? (2) Did entrepreneurial activity associated with unemployment depend on prior levels of entrepreneurship in those states—that is, is there an interaction between unemployment levels and prior rates of entrepreneurship in predicting entrepreneurship during the Great Recession? (3) Did states with higher levels of entrepreneurial activity prior to the recession experience less unemployment during the recession?

**Method**

The percentage of the adult population in each state that starts a business in a given period of time was acquired through the Kauffman Foundation (Fairlie 2010; [www.kauffman.org](http://www.kauffman.org)). Data were collected for the six years 2005 through 2010, selected to include the three years prior to the Great Recession, when unemployment levels were relatively low, and the three subsequent years of higher unemployment. Average unemployment rates in each state for the same 2005–2010 period were obtained from the Bureau of Labor Statistics. Control variables were also included.

**Results and Implications**

Multiple regression analyses indicate that prior levels of entrepreneurship and levels of unemployment during the recession were found to interact in predicting entrepreneurship during 2008–2010. The findings support a more nuanced view of the role of necessity-based entrepreneurship in the U.S. during the Great Recession. Increased entrepreneurial activity was found to be related to unemployment only in those states which had already established strong levels of entrepreneurship prior to the recession. In states with low prior levels of entrepreneurship, there was no relationship between unemployment and new business formation. No significant relationship was found between prior levels of entrepreneurship and unemployment during the recession. The findings of this study can potentially be related to different levels of normative and policy support for entrepreneurship that had been in place well before the recession began.

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