INSTITUTIONAL REGIMES, ENTREPRENEURSHIP AND GROWTH IN EUROPEAN REGIONS (SUMMARY)

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Principal Topic

Entrepreneurship has been recognized as a driver of economic development, but this relationship has not been uniformly confirmed at the regional level. This may be caused by heterogeneity with regards to the institutional framework in a region. We test the hypothesis that regional informal institutional settings mediate the impact of entrepreneurial activity on growth at the regional level.

Method

We test this heterogeneity in institutions by estimating the relationship between entrepreneurship and growth at the regional level, controlling for country effects. We allow this relationship to differ over a number of regional classes and assess the predictive power of regional informal institutions on class membership. Our data on early-stage entrepreneurship is taken from the Global Entrepreneurship Monitor, collected between 2001 and 2006 and aggregated at the regional level. We obtain the residual of regional growth in a multilevel growth regression controlling for investment in physical capital and human capital, initial GDP and population growth. Consequently we conduct latent class regressions of the residuals on total early stage entrepreneurial activity and on innovative early stage entrepreneurial activity. Finally, the classes of regions emerging from this analysis are related to regional characteristics.

Results and Implications

Our initial results confirm that differences in economic performance at the regional level are driven by investment, human capital stock and convergence. After ‘cleaning’ GDP growth for this variation, we find that innovative early-stage entrepreneurial activity has no significant effect on growth. For total early-stage entrepreneurial activity, however, we do find a positive effect on unexplained growth. However, this effect seems to be homogeneous, as our test statistics do not suggest the existence of multiple classes linking entrepreneurship to growth. Our preliminary results do not show distinct effects of informal institutions mediating the impact of entrepreneurship on growth. This challenges the notion emerging in the literature that the link between entrepreneurship and growth is contingent on regional, informal institutions. A possible implication is that the impact of formal, national institutions may dominate over regional informal institutions. Robustness checks are in progress.

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