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DOES ENTREPRENEURSHIP MATTER? TYPES OF ENTREPRENEURSHIP AND ECONOMIC GROWTH (SUMMARY)

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Summary

Does Entrepreneurship Matter? Types of Entrepreneurship and Economic Growth

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Principal Topic

While the link between entrepreneurship and economic growth has been the subject of considerable research interest during recent years (Carree & Thurik, 2003; van Stel, Carree, & Thurik, 2005), empirical inquiries into this effect have been constrained by lack of data. Most analyses have assumed a positive link between entrepreneurship and economic growth, but the evidence remains limited to cross-sectional data and simple OLS regressions at best. Other studies have suggested more complex relationships, arguing that a country’s level of economic development moderates (in a curvilinear fashion) the relationship (Acs, 2006). Rigorous tests of this notion remain equally scant, however, and again mostly based on cross-sectional data. We provide a longitudinal analysis on the effect of entrepreneurial activity on economic growth, using seven years of data from the GEM survey and distinguishing between three indices of entrepreneurial activity: Total Early Stage Entrepreneurship (TEA); High-Expectation Entrepreneurship (TEA); and the Anatomy of Entrepreneurship (rHEA). The GEM dataset is uniquely qualified for the study of this question, as it offers high-quality, internationally comparable micro-level data, which distinguishes between high-potential and low-potential entrepreneurial activity.

Method

We created a panel of GEM data from 2000 to 2006, with a total of 222 year-country observations from 48 countries. Fixed-effects panel regression is used to analyse the data. In the analyses we control for the effect of GDP per capita, GDP per capita squared; population growth; recent GDP growth; education level of the population; rule of law; and ease of doing business. The control variables were retrieved from World Bank, IMF, and Unesco databases. We analysed effects of national-level entrepreneurial activity on GDP growth using contemporaneous, one-year, and two-year time lags.

Results and Implications

We find significant influences of entrepreneurial activity on economic growth, especially with a one-year time lag. Somewhat surprisingly, the Total Entrepreneurial Activity index TEA appears to exhibit more robust associations with GDP growth than the GEM index for High-Expectation Entrepreneurship.

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