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The relationship between economic development and business ownership revisited

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Abstract

This paper revisits the two-equation model of Carree, van Stel, Thurik and Wennekers (2002) where deviations from the 'equilibrium' rate of business ownership play a central role in determining both the growth of business ownership and that of economic development. Two extensions of the original set-up are addressed: using longer time series of averaged data of 23 OECD countries (up to 2004) we can discriminate between different functional forms of the 'equilibrium' rate and we allow for different penalties for being above or under the 'equilibrium' rate. The additional data do not provide evidence of a superior statistical fit of a U-shaped 'equilibrium' relationship when compared to an L-shaped one. There appears to be a growth penalty for having too few business owners but not for having too many.

Keywords:

entrepreneurship

economic development

economic growth

business ownership

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Notes

Notes

1. In particular, the author uses data only from a 4-year period (1998–2002). Since the economic relations investigated in the two-equation model are intrinsically of a long-term nature (e.g. the speed of convergence towards equilibrium), the database is not suitable for estimating this type of model. Accordingly, it is not clear how the Belso Martinez estimations should be interpreted. In the present paper we use data for 23 OECD countries over the period 1972–2004.

2. The term 'equilibrium' is consistently put between quotes throughout this paper as it refers to an optimum or a norm rather than that it is derived from a regular demand and supply configuration. Note that the 'equilibrium' variable is latent.