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Generous Unemployment Benefits and New Business Creation: How Relevant is Entrepreneurial Motivation?

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ABSTRACT

People may choose to create a new business for different reasons, and theory distinguishes between opportunity-motivated entrepreneurs, “pulled” into entrepreneurship by good business opportunities, and necessity-motivated ones, who are “pushed” in by the lack of means to earn their living. The pool of unemployed individuals is an important source of entrepreneurial initiative, especially for necessity reasons. High unemployment benefits may, nevertheless, diminish unemployed individuals’ incentives to look for a job or enter entrepreneurship. A few studies found compelling evidence that generous unemployment insurance schemes inhibit entrepreneurial initiative; however, there is no evidence if different forms of entrepreneurship, depending on the entrepreneur’s motivation, are equally affected by the design of unemployment benefit schemes. Our paper fills this gap and examines the effects of unemployment entitlements on opportunity- and necessity-driven entrepreneurship for 23 EU countries and a timespan of 19 years (2001-2019). Our results confirm that generous unemployment benefits hinder entrepreneurial initiative in a country. However, against common belief, the negative impact is higher for opportunity-driven entrepreneurs, and only weaker and dependent on the estimation technique for necessity-driven ones. These findings reiterate the need for a properly designed unemployment benefit system, which provides income replacement for the unemployed at a moderate level.

KEYWORDS unemployment benefits; opportunity-driven entrepreneurship; necessity-driven entrepreneurship; European Union countries

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