

# Chapter 44

## Determinants of Self– Employment Entry: Evidence from Portugal

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### ABSTRACT

*Self-employment is increasingly an attractive labor market option worldwide. In a European context, Portugal is well-known for displaying one of the highest rates of self-employment. This study explores the main determinants of the probability to enter into self-employment in Portugal. We present results from a binary logit model using individual data drawn from national-level statistics. Our findings suggest that individuals older than 35, males, married, low educated, individuals with previous experience, and heads of household are expected to enter self-employment. The empirical study also reveals important differences regarding households' compositions and dimensions, current and former unemployment levels, and at a regional level in Portuguese NUTS II.*

### INTRODUCTION

Self-employment has received a great deal of attention from academics and policy makers alike. National economic policies have encouraged self-employment as a way of fostering economic growth and reducing unemployment and poverty. Moreover, the economic literature on self-employment has studied this topic extensively, thereby giving support to more appropriated policy measures for promoting self-employment.

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Even though an economist would not expect a large share of workers as self-employed, self-employment rates are quite impressive for certain countries. Taking into account OECD countries in general, for example, the last available data show that self-employment rates are 16.6% for EU27 and 16.1% for OECD (OECD, 2013). Turkey (38.3%), Greece, and Mexico top the OECD ranking of self-employment rates. At the bottom of the table comes Luxembourg (5.7%). Considering European regions in specific, self-employment rates are higher in Southern European countries (e.g. Greece: 36.3%; Italy: 25%; Portugal: 21.3%) than, for instance, in Central European (e.g. Austria: 13.8%; Germany: 11.6%) and Scandinavian countries (e.g. Denmark: 8.7%; Norway: 7.0%).

Portugal is among the European countries with the highest rates of self-employment and thus an interesting case study on the subject. Indeed, several authors have acknowledged the relevance of self-employment for Mediterranean or Southern European countries in general and the Portuguese case in a European context (García-Mainar & Montuenga-Gómez, 2005; Baptista & Thurik, 2007; Portugal & Addison, 2008; Teixeira & Davey, 2010). As might be expected, in Portugal, interestingly, self-employment rates are persistently among the highest when compared to other countries (Blanchflower, 2000; Cabral, 2007). Moreover, the same goes for latent entrepreneurship (Blanchflower, Oswald, & Stutzer, 2001; Grilo & Irigoyen, 2006; Gohmann, 2012). Using the last available data from the Entrepreneurship Flash Eurobarometer Surveys (European Commission, 2012), the declared preference for self-employment over wage employment in Portugal is above the EU average (49% compared with 37% at the EU level). The relatively high interest and awareness about self-employment in Portugal may provide a broader perspective for policymakers.

On the determinants of self-employment Portugal has had high international momentum on entry regulations. A recent regulatory reform awarded Portugal as the top reformer in business entry in 2005-06 and its position in the World Bank's Doing Business Index improved markedly (Branstetter, Lima, Taylor, & Venâncio, 2014). Among other findings, key estimates from Branstetter et al. (2014) indicate a positive effect of that entry deregulation on firm formation and employment. Other studies addressing the question of the factors that exert an impact on self-employment have focused on the Portuguese case, but they are, surprisingly, few in number. Moreover, to our knowledge, the available empirical research center either on a specific sector (Teixeira & Davey, 2010; Filipe, Ferreira, & Coelho, 2013) or on a certain Portuguese region (Silva, Trigo, & Antunes, 2011; Duarte & Diniz, 2012). The present chapter attempts to fill the gap by providing empirical evidence from Portugal on the factors that motivate self-employment in general. Thus, with an eye on the under-explored Portuguese case and taking into account the wide array of determinant factors from the existing empirical literature on self-employment, we estimate an econometric model using individual level data from the Portuguese Labor Force Survey.

## **BACKGROUND**

According to Boskin (1974) and Taylor (1999), among others, the self-employment decision implies a comparison of the costs and benefits between paid employment and self-employment. A large number of factors influence that balance of costs and benefits, which might be either financial or non-financial in nature (Verheul, Wennekers, Audretsch, & Thurik, 2002). Much of the empirical literature has looked at the influences of these factors on an individual's entry into self-employment. Following Simoes, Moreira, & Crespo (2015), there are twelve critical individual determinant factors of the entry into self-employment grouped in seven categories: (i) basic individual characteristics (gender, age, and marital

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