

Entrepreneurship in Southern Europe: Symptom or Solution to the Euro Crisis?

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Eurocrisis in the
Press

By *Stefan Bauchowitz*

2/14/2014

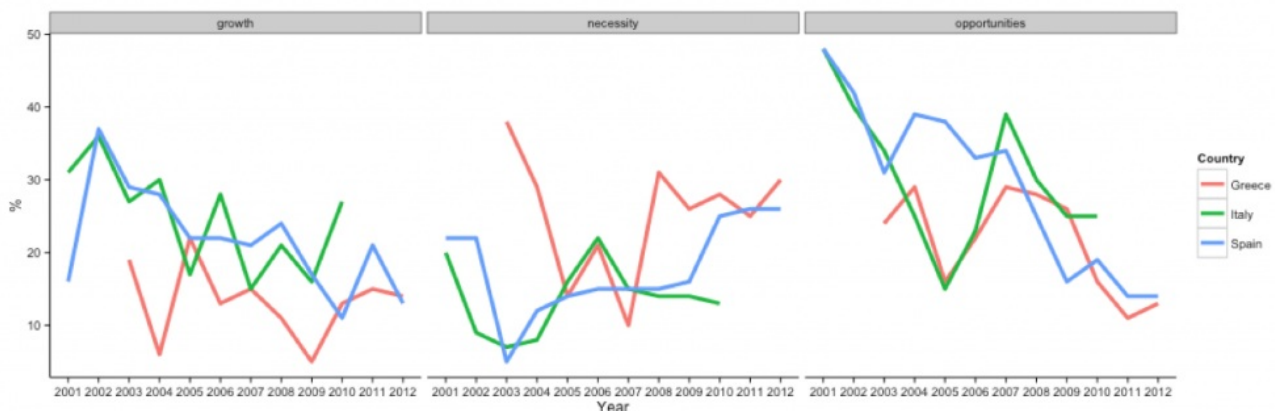
Against ample discouraging evidence, expressions of false optimism occasionally enter into the debate on the Euro crisis. As an example of such optimism, [a previous post on this blog](#) by Mark Esposito voiced high hopes for entrepreneurialism in Southern Europe. Unfortunately, the confidence in entrepreneurship is misplaced, because the symptom is being mistaken for a cure.

First, while there are indeed high rates of entrepreneurship Southern Europe, it is of the wrong kind.

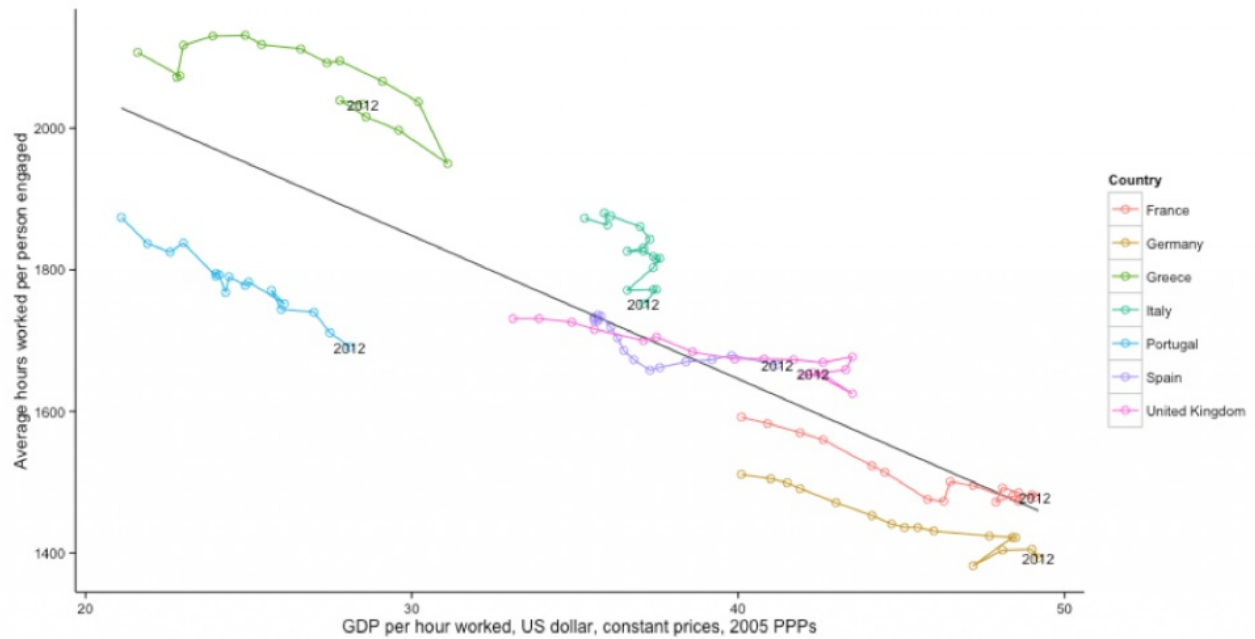
Entrepreneurship has long been recognised as an important factor in generating economic growth^[1], but the post gets the roots of Greece's (not so new) entrepreneurship wrong. Where there are few employment possibilities people will have to become entrepreneurs – but these are subsistence entrepreneurs, which are quite distinct from the holy grail of transformational entrepreneurs found in the more dynamic economies.^[2]

Subsistence entrepreneurs engage in basic economic activity that rarely go beyond meeting the entrepreneur's own needs. By contrast, transformational entrepreneurs tend to create larger enterprises, and provide employment opportunities for others. To be sure, there's nothing wrong about subsistence entrepreneurs – they do contribute to a large part of economic activity in developing and transition economies. However, this type of entrepreneurship will not solve the Euro Crisis or “ignite the beginning of a new dynamism.”

Rather than relying on the assumption that domestic capital formation is a sign of the great things to come, let's look at some actual data. Data from the [Global Entrepreneurship Monitor](#) show that in Greece, about 30% of entrepreneurs are subsistence entrepreneurs. Only about 20% of new entrepreneurs in Greece, Spain, and Italy believe that that they will employ more than 5 people within 5 years. Only about 13% of Greek entrepreneurs think that it is a good idea to start a business where they live.

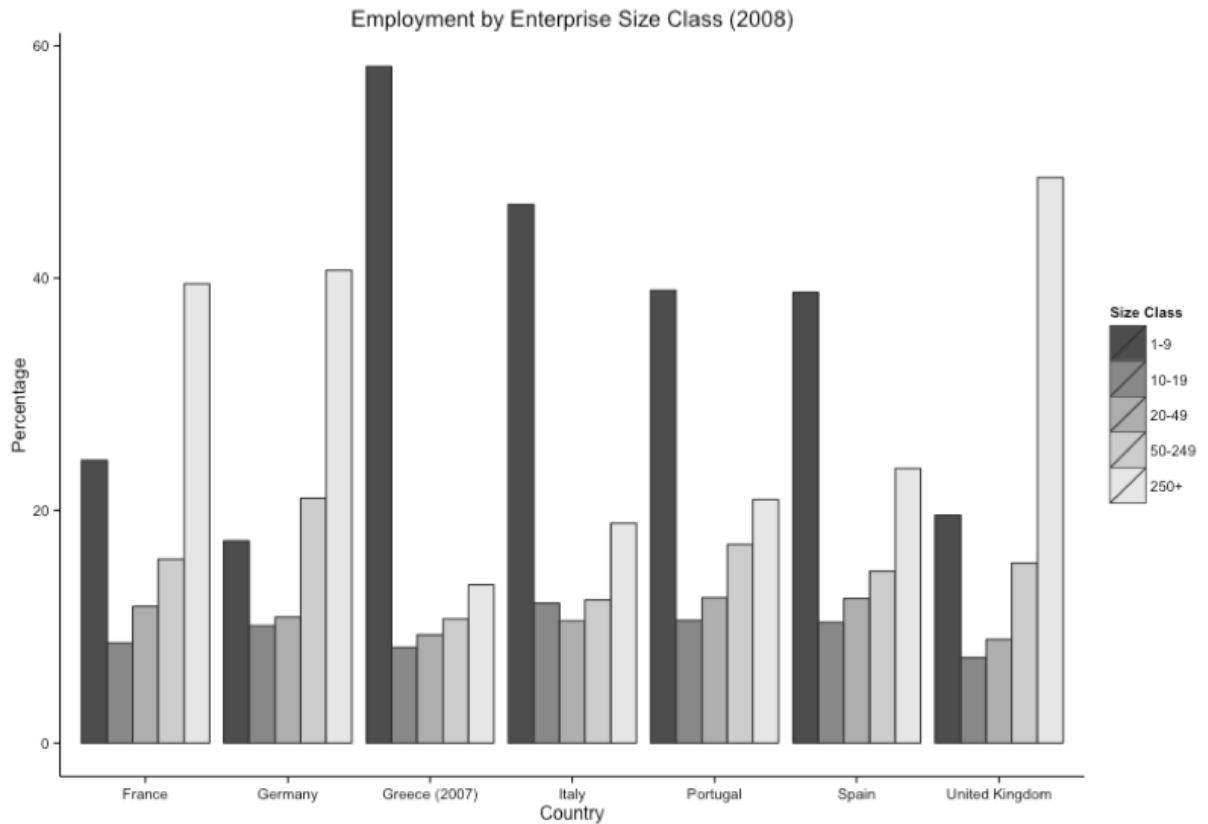


This subsistence entrepreneurship is also in part to blame for the high number of working hours that Esposito sees as a sign of the Greek economy's potential. Although a source of pride for some, it reveals inefficiency more than anything else. Countries with a large number of hours worked per employee tend to be those that are less efficient. What's worse, since 2009, Greeks had to work longer hours while labour productivity decreased. Moreover, in an economy with a share of self-employed as large as Greece's (31.9% in 2012) – often as farmers or shop-keepers – working hours tend to be longer (see [here](#) and [here](#)).



If anything, there are too many of these enterprises in Europe’s south. A quick look at employment data helps. The following graph shows that, in 2007, just over 58% of employed Greeks worked in firms with fewer than 10 employees. The situation in Italy, Portugal and Spain is similar, though somewhat less pronounced.

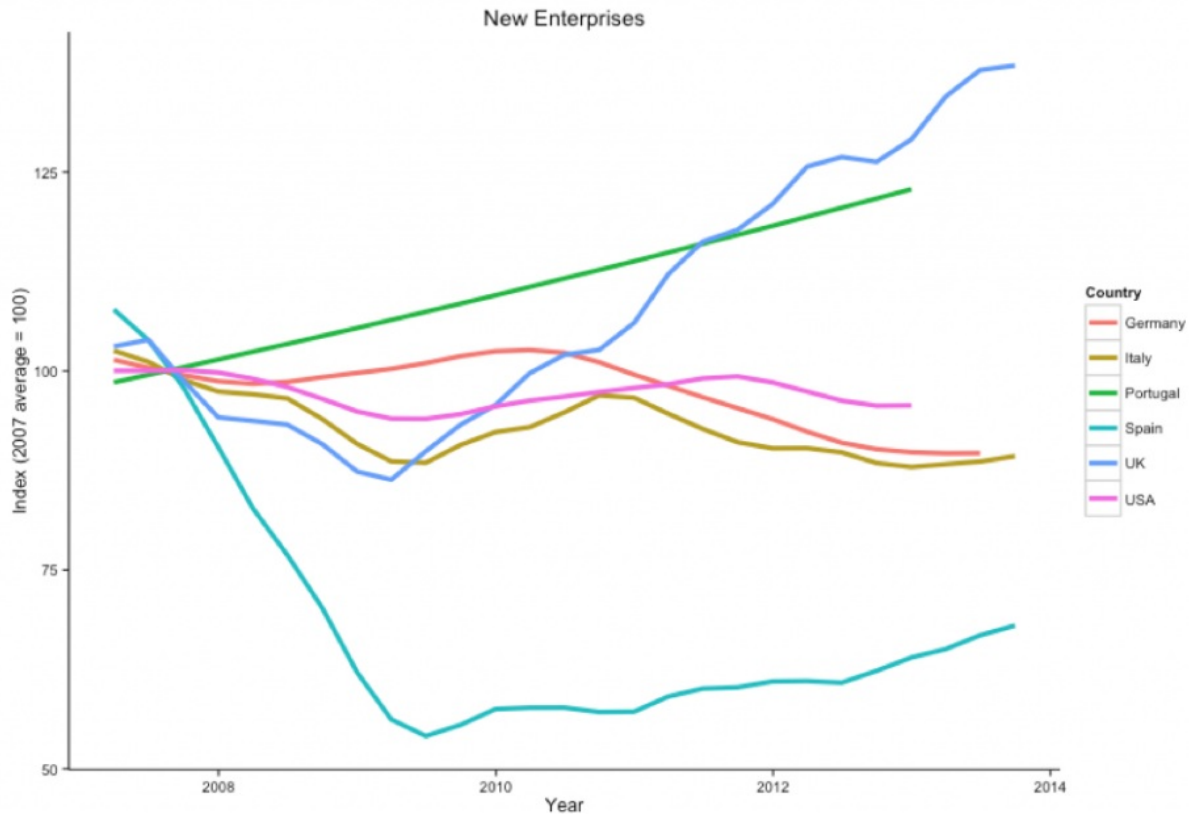
There are few medium-sized companies in these countries, which would indicate that most entrepreneurs do not make it to the transformational stage – not least because they are not “true”, i.e. growth and innovation-oriented entrepreneurs (see [here](#) and [3]). The entrepreneurship we witness in Europe’s South may help people to cope with the crisis, but it is at best a band-aid rather than a solution to the eurocrisis.



Second, despite this entrepreneurialism the conditions for small businesses to survive and expand in Southern Europe's economies are far from ideal.

Esposito assumes that private investment is a sign of entrepreneurial spirit – however, while a surge in entrepreneurship would indeed be reflected in domestic capital formation, an increase in capital formation is not necessarily a sign of entrepreneurship, much less so as an indicator of dynamism in times of crisis, as the data cited are 5 years old.

Unfortunately, the OECD does not provide data on entrepreneurship in Greece, but since Esposito urges us to look south, here are some data on enterprise formation in Spain, Italy and Portugal. Here, the picture is somewhat less clear-cut, but with the exception of Portugal and the UK (and ignoring bankruptcies), entrepreneurship is actually declining. The euro crisis has not enabled entrepreneurialism.



Data source

Lack of access to finance, corruption and overregulation stifle transformational entrepreneurship. According to an [EU survey](#), 32% of Greek entrepreneurs cite access to finance as the most pressing problem facing their ventures. And even though Greece and other Southern European countries have created more business-friendly environments, Europe's South still continues to lag behind when it comes to the ease of [doing business](#).

Of course, Germany's 'model' should not be transposed to countries such as Spain or Greece – it is no secret that any reform programmes need to address the local needs and priorities. How exactly these reforms should look like is subject to much debate. But wishful thinking, misinterpretation of data and lack of attention to the context surely don't make a good starting point.

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Note: This article gives the views of the author, and not the position of the Euro Crisis in the Press blog, nor of the London School of Economics.

[1] Schumpeter, Joseph (1942), *Capitalism, Socialism and Democracy*

[2] Schoar, Antoinette (2010), *The Divide between Subsistence and Transformational Entrepreneurship*, in: Lerner, Josh and Scott Stern (eds.), *Innovation Policy and the Economy*, University of Chicago Press.

[3] Naudé, Wim (2007), *Peace, Prosperity and Pro-Growth Entrepreneurship*
UNU-WIDER Discussion Paper 2007/2,