

Bachelor Thesis: Department of Applied Economics

B.Sc. International Bachelor Economics and Business Economics (IBEB)

Erasmus School of Economics

Should the government subsidize self-employment programs in order to increase reemployment?

Abstract: Over the past years, permanent unemployment has begun to become a more severe issue in the U.S. as well as in Western Europe, making current unemployment compensation systems less effective, since they often do not provide the laid-offs with a proper support system to re-enter the workforce. This paper discusses findings on how effective Entrepreneurial education programs, targeting the unemployed are in pursuing the goal of reemployment and economic stability. The results reveal that the analyzed programs do not significantly contribute to this aim, in terms of indicators such as start-up rates, success rates, employment rates or income. Thus entrepreneurial education aiming to increase reemployment can only be considered a viable policy tool, if efficient readjustment will be undertaken.

Keywords: Entrepreneurship, Education, Reemployment

Author: Yasmin Eckstein

Supervisor: Dr. P.D. Koellinger

Date of Completion: 26/07/2013



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1. Introduction

Over the past years, permanent unemployment has begun to become a more severe issue in the U.S. as well as in Western Europe, making current unemployment compensation systems, which, in many countries, can be equated to a monthly allowance, less effective since they often do not provide the laid-offs with a proper support system to re-enter the workforce. According to Benus (1994) “these displaced workers require more than temporary income maintenance to re-enter the workforce. For some of these workers, self-employment may be the best path to re-enter the workforce.” With this knowledge, self-employment training programs as a reemployment tool for the unemployed obtained a high degree of attention from U.S. policymakers over the past 20 year (Michaelides & Benus, 2010). Many economists, social scientists, and politicians expect entrepreneurship education not only to lead to an increase in the number, but also in the quality of entrepreneurs entering the economy (Matlay, 2008), which is expected to result in an improvement in the aggregate economic performance.

Next to many politicians wanting individuals to become entrepreneurs, also many persons desire to become entrepreneurs themselves. According to a U.S.-based study, more than 70 percent of the participants express a wish to become self-employed. A similar picture can be drawn in countries like Germany, Italy, and Canada, where more than half of the surveyed individuals reported a desire for self-employment (Fairlie, 2005). However, even though the willingness in these countries is high, the actual rate of entrepreneurship in the highly developed countries like the U.S., Sweden, and Germany is only at around 10 percent (Kritikos, Fossen, & Caliendo, 2011).

To counteract this failure of pursuing the goal of self-employment, the number of establishments offering training and support in terms of self-employment rose from only a handful in the 1982 to around 700 in 2002 in the U.S. (Benus J. , 2008). These establishments are very heterogeneous in their execution and vary significantly not only between countries but also within. They are frequently administered by, among others, associations like community action groups, community development groups, or women’s economic development centres. Next to the unemployed they also target low-income,

welfare recipients, women, refugees, and other disadvantaged groups (Benus J. , 2008), which often suffer unemployment as well as worse job opportunities. Disregarding their heterogeneity, all of the mentioned institutions have a common goal of increasing the quantity as well as the quality of new ventures.

This paper aims to summarize and compare, firstly, theoretical literature and empirical findings concerning entrepreneurial education programs, targeting the unemployed with each other. Secondly, this paper tries to review Policy recommendations on this specific topic and determine to what extent the current institutions are actually successful in their execution. To the author's knowledge, this is the first literature review, which considers theoretical and empirical research as well as it is the first to compare different reemployment programs and their effects.

In order to pursue this, this paper will first give a definition of entrepreneurship in general, and more precisely what this essay refers to when talking about an entrepreneur. Second, another important topic will be discussed, namely why economists and politicians consider entrepreneurship to be important. This part is essential, because if they would not consider it to be very beneficial for the economy, this research would be redundant. Third, the different entrepreneurial education possibilities will be briefly discussed in order to get an overview of the great variety of programs offered to all possible interested parties. After talking about the most fundamental parts the essay will go into a detailed review of the different short- and long-run effects entrepreneurial education is expected to have compared to the effects it actually has.

When reviewing empirical findings, this paper in this part always refers to three programs, namely the "Growing America Through Entrepreneurship" program, the "Washington Self-Employment and Enterprise Development" (SEED) Demonstration Project and the "Massachusetts UI Self-Employment Demonstration" (MSED). Those programs are all executed in the U.S. and specifically target unemployed individuals. Furthermore, they all offer comparable free entrepreneurship training but differ significantly in their financial support structure. Thus, they are suitable tools to determine which combination of financial support and entrepreneurship training is most successful. Additionally since they are all U.S. based there will not be a country bias, which might disturb the results.

The different effects of those programs discussed in this paper, which also have been discussed in previous theoretical and empirical literature, include the general start-up rate, the success rate, and the effect they have on total employment, income and work satisfaction as well as how they affect minorities and discriminated groups. This paper aims to always take into account long and short run effects. However, for some subcategories no significant research has been done so far, limiting the credibility of an unambiguous policy recommendation. This issue will be further discussed in the final parts of the paper, the limitations and policy recommendation, which will also conclude the research question:

Should the government subsidize entrepreneurial education programs in order to increase reemployment?

To tackle the above mentioned research question and provide a reliable and relevant literature review, this paper used many publications such as articles and books. This thesis relies on secondary data from available literature, which was mainly collected via the Search engine from the Erasmus University library of Rotterdam, as well as other public search engines. Also this paper relies on other sources like the “Journal of Small Business and Enterprise Development”. Entrepreneurship training and education and reemployment are key concepts in the search for relevant literature. Besides those, key words like self-employment rate, unemployment and discrimination have been used to find data.

2. Definitions

2.1. Entrepreneurship

As implied above, this paper will first determine what is to be understood by the term entrepreneurship and more precisely how it determines who is considered to be an entrepreneur and who is not.

The topic of entrepreneurship is a multi-dimensional concept, which has been discussed for a very long period of time and undergone extensive and diverse analysis. Nonetheless, it remains “the phenomenon which is most emphasized yet least understood by economists” (Herbert & Link, 1988). This lack of understanding is also due to the absence of a general accepted and agreed upon definition. The subject of entrepreneurship suffers under the failure to diminish definitional divergence, which has led to a polarisation of emergent theory. Thus entrepreneurial models and theories are considered to be either too unsophisticated or too compound, and thus, do not accurately represent “the complexity, heterogeneity and intensity of entrepreneurial practice” (Matlay, 2005a), which makes theory and policy implication necessarily ambiguous (Herbert & Link, 1988). In order to avoid this ambiguity, it is essential to exactly determine what this paper refers to when using the term entrepreneurship. To do this, the few notions of entrepreneurship which seem to be widely accepted among economists and are frequently reoccurring in their analyses, will be considered.

The first widely used definition of entrepreneurship involves owning a small business or starting up a new company (Gedeon, 2010). This is ideally due to an innovative idea of the entrepreneur himself. This directly leads to the second widely accepted definition, which sees the entrepreneur as an innovator who spots opportunities to either, as the Austrian School argues drive the market toward equilibrium, or as Schumpeter states, causes disequilibrium through creative destruction (Schumpeter, 1975) [orig. pub. 1942]). Thus it can be stated that an entrepreneur either changes the factors of production to create something new (Montanye, 2006) or serves the consumer’s interest by looking at things as they are and change them in an innovative way to increase its economic rent (von Mises, 1949, 1996). Generally one can say that entrepreneurship is seen as a “dynamic process of

vision, change and creation” (Kuratko D. , 2005) and thus an important stimulant for economic stability and technological development. A third, yet sometimes discordant definition, which is especially emphasized by the Traits School is, that Entrepreneurs are seen as leaders (Gedeon, 2010). However since there is some dispute around this subject, going into a deeper discussion about this quarrel is out of the range of this paper’s topic.

There are a variety of other theories, claiming that there are, for example, typical characteristics which determine whether one becomes an entrepreneur or not. Some of those concern risk attitudes, locus of control, impulsiveness, and even the topic of genetics. Kritikos et al. (2011) discovered in an empirical analysis that, “personality significantly influences entrepreneurial choices and affects entrepreneurial process in many ways”, thus leading towards another essential aspect of this paper concerning the debate whether entrepreneurs are born or can indeed be made. Some argue that entrepreneurs have certain personality characteristics, which come along with their DNA, their education, the value implementation they get from their parents and the culture they grow up in. Other economists, on the other hand, argue more in favour of entrepreneurial education. Peter Drucker (1990) states that certain aspects of entrepreneurship can undeniably be taught to everyone and that the myth of born entrepreneurs is now obsolete. Donald Kuratko (2003) agrees with Drucker and refers to Gorman, Hanlon and King (1997) when adding that empirical research ascertains that self-employment can indeed be taught “or at least be encouraged by entrepreneurship education”. Furthermore, he claims that training is beneficial prior to, during, and after the start of entrepreneurial activities.

This paper will go along with the argumentation of Kuratko and Drucker. Thus, it will assume that entrepreneurship can at least partly be taught to participants of the different programs offered. However this paper also recognizes that the level of success rates differs greatly among the different programs, since different programs might differ slightly in their objectives. Thus there is a great heterogeneity among the entrepreneurship education, making it relatively difficult to come to a single conclusion.

Considering all of the above, when referring to entrepreneurship or more precisely an entrepreneur, this paper refers to an individual, who despite risk and uncertainty, solely

or with others, started up a new enterprise – spotting a new and innovative opportunity of how to serve the market efficiently and/or grasp a higher economic rent.

2.2. Why is Entrepreneurship considered to be important

After defining what this paper means when referring to an entrepreneur, it will now explain why economists consider entrepreneurship to be important and beneficial for the economy.

It has long been realized, and also has already been mentioned above, that entrepreneurship is a key mechanism in the process of economic growth and in aggregate wealth accumulation in modern economies (Baumol, 1968) (Parker, 2009). The most obvious reasoning why entrepreneurship is beneficial is stated clearly by Acs (2006). He expects entrepreneurs to create new businesses which in turn increase total employment, strengthens competition, and may even boost productivity through technological change. Also Schumpeter refers to what Acs (2006) calls technological change and via a similar argument identifies a concept of creative destruction. He argues that an entrepreneur carries out “new combinations” of ideas and resources and thus, in case of success, gathers temporary monopoly rents (Montanye, 2006). Additionally, he demonstrates that entrepreneurial innovation is an essential disruptive force, which sustains economic growth even if it destroys the current value of established businesses and workers that currently enjoy some degree of monopoly power (Schumpeter, 1975) [orig. pub. 1942]). To trigger economic growth and stabilization, Schumpeter attributed some functions to the entrepreneur which include “innovating new and improved goods and services, new and expanded markets, and improved production methods, organizational structures, and supply sources” (Montanye, 2006). Also van Praag and Versloot (2007), along with other social scientists, agree that entrepreneurship contributes to higher incomes, an increased number of jobs, research and development, as well as innovation, which all generate economic benefits that might even be larger than the individual private benefits reaped by the entrepreneurs themselves.

Theoretical literature not only assumes entrepreneurship and economic growth to be positively correlated at some level, but also empirical evidence revealed that smaller and newer enterprises receive higher average growth rates than their larger and more experienced counterparts, thus supporting the assumption of a positive relationship between entrepreneurship and growth at the level of the industrial firm. Furthermore “there is evidence suggesting that they may be linked at higher level of aggregation as well, including industries, region and the national economy” (Parker, 2009), supporting the initial supposition.

Besides economists, the European Commission also believes that entrepreneurial education plays a central role in improving entrepreneurial key competence of individuals and thus increasing economic wealth. They further find that this kinds of “[entrepreneurial] education has a positive impact on the entrepreneurial mindset of young people, their intentions towards entrepreneurship, their employability and finally on their role in society and the economy” (European-Commission, 2012). Furthermore, policy makers anticipate that people who participated in an educational program do not only help the economy grow through more innovative business start-ups but that individuals also improve their role in society and the economy because they feel more socially included. Ideally participants will gather a greater entrepreneurial mindset, which enables them to be more creative and self-confident. Additionally, those who partake in one of the programs should become automatically more attractive for employers (European-Commission, 2012), which is also beneficial for the aggregate society.

In addition, Donald Kuratko (2005) claims that the U.S. has only achieved its highest economic performance in the past decade due to the promotion and encouragement of entrepreneurial activity. He also agrees with the above-mentioned economists and the European-Commission, in terms of the importance entrepreneurship plays with respect to innovation, technological change, and productivity growth. However, he makes an important supplementary remark by pointing out that millions of individuals, including minorities, immigrants, and women, enter the economic mainstream via an entrepreneurial firm, in the quest of economic success, which is also vital for a functioning economy.

2.3. Entrepreneurship education

There are many possibilities how an individual could participate in such an educational program. Even though this paper is only interested in the unemployed, other programs with a differing target group will be mentioned briefly, since they represent viable alternatives for the participants.

The programs offered in society are either partially or fully government subsidized (including courses one can take at the university or other types of schools), sponsored by private companies or organizations, or private classes that require the individual to pay a certain tuition fee. Also, the goals and target groups of the different programs vary widely, which makes this whole topic very heterogenic. The goals of the programs range from making the students understand why it is important to foster Entrepreneurship including all theories and background knowledge, up to simply supporting people to start up their own business. Also the target group grasps a large spectrum. It ranges from high school students, to university students, to wage workers, up to minorities and the unemployed. Even though this paper only focuses on educational programs aiming for reemployment, it is important to consider other opportunities individuals have to gather knowledge about this subject, since they can always apply it in case of unemployment.

Today, more and more universities and even some high schools offer courses on entrepreneurship. Donald Kuratko (2005) claims that the number of programs targeting university students increased tremendously from only a handful in the 1970 to over 1,600 in 2005 with a tendency to increase even further in the near future (Shane, 2003). The contents and application to real life of those courses can vary extremely, from very theory based to practical start-up support classes (Startup Campus), and are designed uniquely to each university's specific needs. It is claimed that even though there is a high level of heterogeneity among the different programs, most business schools appear to use a "combination of theoretical and practical approaches, often reinforced by detailed analysis of entrepreneurial problems and solutions grounded within "realistic" case and field studies" (Timmons, 2003). Disregarding their differences, the main goal of most of the courses offered is to "increase awareness and understanding of the process involving in initiating and managing a new business enterprise" (Hills, 1988). Thus one can say that

university students gather a more in depth education which however covers very similar topic as the programs targeting the unemployed.

Next to high-schools and universities, there are also other possibilities for individuals to participate in an entrepreneurship program without having to pay a tuition fee or enrolling in an official schooling system. Many of these programs are sponsored by previous entrepreneurial start-ups, which grew big in the past, like Hewlett-Packard and IBM (Saulpaugh, 2011). The former one founded a website, the HP “Learning Initiative For Entrepreneurs” (LIFE), which offers free online classes teaching individuals how to become an entrepreneur, improving one’s business and IT skills, as well as giving tips and resources about branding, financing, strategy, and how to write a good business plan (LIFE-HP learning Initiative for Entrepreneurs). However, there are also some entrepreneurship classes offered which are solely provided by non-profit organizations like the “Network for Teaching Entrepreneurship” (NFTE). This program tries to educate and “inspire young people from low income communities to stay in school, recognize business opportunities, and plan for successful futures” (NFTE - Network for teaching Entrepreneurship).

With this mission LIFE and NFTE especially target individuals who might be willing and capable to become an entrepreneur but do not have the opportunity to attend a university course. Thus they aim to equip those individuals to not only start a business and create jobs but also to be opportunity-focused and be ready to fill existing jobs, which in the long run, as discussed above, ultimately promotes economic stability and induces economic growth.

Also, as mentioned above, the government offers entrepreneurial programs and support for entrepreneurial interested individuals. Nowadays, almost every developed country offers a couple of these support programs, often targeting the unemployed.

One of these government-financed programs, which has also been used for many studies on entrepreneurship education, is the GATE program. GATE, “Growing America Through Entrepreneurship”, offers mainly self-employment scholarships to middle aged laid-off workers. These scholarships include custom training, education and other free assistance to help explore self-employment (Alliance). Next to GATE, the U.S offers two other, similar programs, which were also used for important analysis, namely the

Washington Self-Employment and Enterprise Development (SEED) Demonstration Project and the Massachusetts UI Self-Employment Demonstration (MSED) (Benus J. M., 1994). Both have relatively comparable structures, which next to mandatory entrepreneurial training courses and technical assistance services also offer unemployment insurance and/or a lump-sum payment, which should be used as business start-up capital. Their training courses include topics like marketing, personal effectiveness, financing, legal requirements and insurance, bookkeeping, business feasibility, organization and management, along with others.

Similar programs to GATE, SEED and MSED, which target specifically the unemployed, are also offered in many European countries like Germany, Ireland, Italy, the Netherlands, Sweden, Portugal, Spain and many more (Benus J. M., 1994).

The comprehensive European example for this particular sort of program is the European Entrepreneurship Foundation (EEF), which is a non-profit organization not specifically targeting the unemployed, aiming to train potential entrepreneurs, for becoming leaders by improving their entrepreneurial skills and abilities (European Entrepreneurship Foundation). Other famous examples are the French Chomeurs Creatures, which provides participants with a single lump-sum payment, next to the obligatory trainings, for business start up. The British version, known as the British Enterprise Allowance Scheme, provides participants with weekly allowance, which they also receive next to training and support (Benus J. M., 1994).

Von Graevenitz et al. (2010) come to the conclusion that “any course on entrepreneurship can therefore be expected to generate three types of outcomes: students who learn nothing and students who both learn and discover that they like or dislike entrepreneurship”. Furthermore one has to remember that there are three different kinds of participants who can take part in those programs, employed, including individuals who are already self-employed or wage employed, unemployed, and participants who are out of the labour force (von Graevenitz, Harhoff, & Weber, 2010). Since this paper wants to research whether those entrepreneurial education programs are beneficial for reemployment and whether governments should subsidize and promote those programs, this paper will mainly focus on programs targeting the unemployed.

3. Short and Long Run Effects of Entrepreneurship Training

In this section, the paper will evaluate the short as well as the long run effects of entrepreneurship education by analyzing the consequences it has on start-up rates, success rate of those start-ups, firm size and distribution, the effects on the employment rates and the average Income of the educated entrepreneurs, as well as the effect it has on minorities. Furthermore, this paper will discuss literature, which reviews trained entrepreneurs' general work satisfaction. It will also focus on the effect of research and innovation and the general Intentions individuals have to start their own business after being educated.

Theoretical research assumes that common education is positively associated with entrepreneurial performance (Van der Sluis, van Praag, & van Witteloostuijn, 2006) and furthermore, that entrepreneurial training is effective for individuals starting their own business (Sánchez, 2013).

3.1. Effect on General start up rate

Due to the belief that an increase in the number of new ventures has a positive influence on economic growth, many programs aim to increase the start-up rate. There has been some theoretical as well as empirical research done on this specific topic. Parker (2009) indicates that smaller and younger firms boost industrial efficiency, thus contributing to overall industry productivity growth. Additionally, further evidence identifies that regions and nations containing a larger percentage of small and young firms enjoy higher rates of economic growth. Nevertheless, van Praag (2007) detects that new entrants are not productive straight away. They "may lag behind in the levels of productivity but they are catching up to the production efficiency of the control group due to higher growth rate". Another advantage of increased entry, next to a potential productivity growth is the formation of new independent firms. This development is associated with significantly higher rates of regional income and immigration. Moreover, an increase in the amount of new ventures increases competition and drives uncompetitive businesses out of the market, thus fostering economic strength. For all the above mentioned theoretical reasons,

politicians and economists aim to increase general start-up rates with the help of those entrepreneurial support and education programs.

One of the empirical researches, concerning this topic was done on the GATE program. This investigation revealed somewhat disappointing results. Robert Fairly et al. (2012) discovered that there was evidence that training increased business ownership in the short run. However, those businesses were unsuccessful and failed to produce tangible or subjective benefits at any of the follow up horizons which the study set up at 6, 18, and 30 months after the training (Fai12). Also, other research confirms that GATE's training had a strong positive effect on business ownership for the unemployed in the short run, hence accelerating the process of start-ups for unemployed participants (Michaelides & Benus, 2010), but that these effects disappear in the long run (Fai12).

The study on the SEED and the MSED program show very similar results leading to the conclusion that the programs do not result in a long-run increase of business start-ups. Research finds that self-employment programs increase the likelihood of entry into self-employment and accelerate its timing of those who were in the control group (Benus J. M., 1994) in the short run only. Furthermore it is noticed, that the new jobs created by new entrants are often of low quality, thus not stimulating economic growth (Parker, 2009).

3.2. Effect on Success rate

Another important point to consider, next to the general start-up rate, is whether those businesses are more or less successful than start-ups created by non-educated entrepreneurs. Furthermore it is important to consider how long these businesses survive, in order to determine whether there are long-term benefits of those programs. Program directors aim to lengthen the generally very low survival rate of new ventures via their specific education offers to the unemployed. Without this entrepreneurial education, one third of self-employed in the U.S. and UK markets exit the market within the first two or three years after their entry (Parker, 2009).

However not all businesses exit solely due to being unsuccessful. Simon Parker (2009) states that only 10-15 percent of the U.S. businesses shut down due to bankruptcy, and that 40 percent of American entrepreneurs whose venture closed, claimed that it was

still successful at the point of discontinuation. Even though the latter claim might be biased, it shows that there are many other reasons next to business failure, which can lead to an exit out of the market. These reasons can include a better business opportunity in a different market, a better paid job opportunity, personal reasons and many more. Therefore, one should distinguish between successful and unsuccessful exits, which is very difficult to determine and has not been taken into account by many empirical studies.

Fairly et al. (2012) discovered in their GATE research that there is no evidence that entrepreneurs who underwent training were more likely to be very successful in creating a flourishing business than individuals who did not undergo this kind of schooling. Furthermore, education did not increase the likelihood of creating high revenue or high employment firms in a five-year post-random assignment, and thus did not significantly contribute to the anticipated economic growth (Fai12). However, Benus et al. (2008) state that “by the sixth quarter after random assignment, 44 percent of the program group and 41 percent of the control group owned a business, a difference of 3 percentage points”, thus leading to the conclusion that even if the difference is small, more participants of GATE did stay in business for, on average, longer period of time.

Benus (1994) when analysing the SEED and MSED program came to a similar conclusion, meaning that on the one hand more treatment group members entered self-employment than the control group members, but on the other hand he determined that both demonstrations had no significant impact on the likelihood of ending up as a self employed during the observation period. The finding that the treatment and control group had similar termination rates further supported this idea.

Thus, it can be stated that when looking at the 3 analyzed programs, one can see that none of those significantly elongated the business survival in the long run. Thus they do not fulfil the aim of policymakers.

3.3. Effect on Firm size and distribution

The next important impact of entrepreneurial education, which has to be investigated is how it effects firm sized and distribution in general. The goal of those programs is of course to create more creative, technology driven firms, which are successful in the long run and increase competition.

Robert Fairly et al. (2012) find in their GATE research that there is no evidence that training shifts the distribution of firms in an important way, like for example creating disproportionately successful firms or very large firms.

3.4. Effect on Employment

It is also important to consider the effects entrepreneurial education has on aggregate employment. If one follows Acs (2006) reasoning, then increased and better-educated entrepreneurs should ultimately also lead to increased employment, due to the increase in the number of new ventures creating new jobs. This is aimed to be achieved via the exploitation of new technology and the response to changes in consumer demand.

However, in practice, only few new businesses are innovative, but rather imitative, thus leading to an overall ambiguous effect (Parker, 2009). Parker furthermore discovered that only 20-30 percent of entrepreneurs in the U.S., Canada and the UK employ external workers. A different picture can be drawn in some countries of continental Europe, where 46 percent of the Danish and 51 percent of the German self-employed, hire external workers.

Empirical research, which used the GATE program as a benchmark, discovered that total employment is only increasing in the short run, and declines again in the long term (Michaelides & Benus, 2010). This is a logical conclusion when remembering the above mentioned finding which states that the educated entrepreneurs are only more successful in starting and maintaining their business in the short run (Fairlie, Karlan, & Zinman, 2012) but fail to do so in the long-run. Also Jacob Benus (2008) analyzed the outcomes of the GATE project, and supported Fairlie et al.'s conclusion. He as well discovered that the GATE program had no significant effect on total employment. Even though the self-employment

rate increased after partaking in this program, over a longer period of time the difference between program and control group was negligible. Michaelides and Benus (2010) have very similar findings, thus giving significant evidence, that the GATE program had no impact on total employment.

However, when analysing the Washington state's SEED and the Massachusetts' Enterprise project, Benus (1994) discovers that those two educational self-employment programs do indeed "increase the likelihood of total employment as well as the duration of this employment." Thus one can assume that the different programs' success rates might be due to the different structures both have. While the GATE education only offers training to the unemployed, the Washington State's SEED and the Massachusetts' Enterprise project both offer free training as well as the provision of additional financial support via for example a lump sum payment. However this should be further analysed in order to make such a statement.

3.5. Effect on Household Income

Another significant point of discussion is whether the entrepreneurship training has any significant effects on individual or aggregate income. There has been some theoretical research done which state that on average entrepreneurs have lower earnings than wage earners. The investigation by Hamilton (2000) supports this assumption by suggesting that entrepreneurs do not only have a smaller initial earning than employees with the same observed characteristics but also a lower earnings growth. However there exist a handful of entrepreneurs earning substantial returns on self-employment, such as the founder of the famous social network Facebook, Mark Zuckerberg.

Empirical investigations, concerning this topic, have found that there is no significant increase, more precisely that there was no impact at all in the level of earnings after participating in the GATE program (Michaelides & Benus, 2010). Thus it was not an effective intervention for people who were already self-employed or had a wage-job at the point of application.

Furthermore Robert Fairlie et al. discovered that similar to their observation on the business ownership effect, the employment effect disappears over time and thus only lead

to a short-term increase (Fairlie, Karlan & Zinman, 2012). When analyzing the MSED and SEED demonstration, examination revealed that only the earning in the SEED treatment group was higher than the control group. However this positive effect was “largely driven by large, positive impacts on wage and salary earnings, rather than by impacts on self-employment earnings” (Abt Associates Inc, 1994). Thus one can say that overall the programs were ineffective in increasing individuals or aggregate Income level.

3.6. Effect on Work satisfaction

Research claims that entrepreneurs report significantly higher utility levels than those who have a wage-job (Blanchflower & Oswald, 1992). It can be further assumed that this increase in utility should be especially significant if the Individuals move from unemployment towards self-employment.

Unfortunately in the empirical research, Fairlie et al. (2012) do not find significant results on work satisfaction. Other field studies on this specific topic, to the author’s knowledge, do not account for the change in work satisfaction yet.

3.7. Effect on Research and Innovation

A surprising trend emerged from the data regarding entrepreneurship education and the use of technology. “Only, 21% of the respondents indicated they use distance-learning technologies in their entrepreneurship education courses or concentrations” (Solomon, Duffy, & Tarabishy, 2002). This outcome is startling, because research, as mentioned before, suggests that entrepreneurs do contribute to technology and furthermore technological disruption, and thus should be thought so in the trainings.

Nevertheless, one third of the start-ups in the U.S. are considered to belong to the most creative companies due to registering more than 15 U.S. patents (SBA, 2003), thus supporting the hypothesis of the “innovative start-up”.

Some of the reasons backing up this assumption, are, their diseconomies of scale, diminishing marginal returns on research and development, and the fact the replacement effect favours small entrants (Parker, 2009). Furthermore, Audretsch (2003) observed

“greater displacement of incumbents by entrants in Innovative industries, suggesting that new firms have a more pronounced Schumpeterian creative destruction innovation impact compared in incumbents”. Additionally, it is argued that productivity growth and innovation is greater in industries with high rates of entry the author’s small and young firms.

However, it is also riskier for new entrants to innovate since they do not possess scale economies and also have less money available to spend on R&D (Parker, 2009). Unfortunately there has, to the author’s knowledge, not been research done on how programs like the SEED or GATE change the innovativeness of previously unemployed participants.

3.8. Effect on Entrepreneurial Intentions

Another aspect one has to look at when investigating the impact of entrepreneurial education is the effect it has on general expectations and intentions of becoming an entrepreneur. Entrepreneurial intention means that someone is committed to starting a new business (Krueger, 1993), and may be influenced by educational measures (von Graevenitz, Harhoff, & Weber, 2010). Prior research on entrepreneurship education found that entrepreneurship courses could reduce the number of students who intend to start a new business, since it makes students’ expectations about becoming an entrepreneur and starting an own enterprise more realistic (van Praag, Oosterbeek, & Ijsselstein, 2010). In their research van Praag et al. found that after attending classes intentions for starting an own businesses were significantly lower for both males and females. However, the negative impact was stronger for women “who may have experienced that running an own business is hard to combine with other time uses” (van Praag, van der Sluis, & Vijverberg, 2008). Also, von Graevenitz et al. (2010) come to the conclusion that there was a decline in the intentions of becoming an entrepreneur. They argue that this is happening because those courses have a significant positive effect on students’ self-assessed entrepreneurial skills. Thus they probably obtained a more realistic perspective both on themselves as well as on what it takes to becoming an entrepreneur and owning a business, since their beliefs about their entrepreneurial ability got updated. Another explanation for the decreasing entrepreneurial intentions could be that participants might have lost their “(Over-) optimism (as reflected in their lower self-perception) and this may have caused a lower

interest in entrepreneurship” (van Praag, Oosterbeek, & Ijsselstein, 2010). Von Graevenitz et al. (2010) also state that this change of entrepreneurial intentions mostly affects initially undecided students. They also show that the entrepreneurial aptitude varies more when one focuses only on the students who are learning during the course.

Even though most findings showed a negative effect, some empirical studies do confirm that entrepreneurial courses (in this case courses offered at universities) can also have a positive impact on “perceived attractiveness and perceived feasibility of new venture initiation” (Tkachev & Kolvereid, 1999). However, this literature usually involves serious methodological limitations, and thus cannot have a heavy weight when considering the real impact self-employment education has on the entrepreneurial intention (von Graevenitz, Harhoff, & Weber, 2010).

Sánchez (2013) confirms those positive findings and additionally adds that in his study, the risk taking and the intention of becoming self-employed are higher after participation, which furthermore leads to a great improvement in entrepreneurial competencies and intentions, fostering the intentions of becoming self-employed. This claim goes hand in hand with the human capital theory, which states that individuals who possess higher levels of competencies will also achieve greater performance outcomes, in this case more successful businesses. He also agrees with van Praag et al. (2010) when stating that entrepreneurial education provides students with a more realistic view. However he sees this realism in a more positive way, encouraging students to enter self-employment as compared to van Praag who states that this self-realisation will decrease entrepreneurial intentions.

However, the research above was only constructed for programs, which do not specifically target unemployed people, who sometimes have no other possibility than starting their own business, even though they noticed that starting a new venture is tougher than they thought prior to the program. Thus, since the jobless have a completely different situation than university students, it is difficult to deduce a conclusion from the above research. However this was the only way, to the author’s knowledge, to get some information which can be used as a guideline.

3.9. Effect on Discrimination

Entrepreneurship, however, is not only interesting for students or unemployed, but also for disadvantaged groups such as women, immigrants, blacks and generally less advantaged individuals such as the uneducated. Even though it was stated above that this paper will focus on the effect entrepreneurship programs have on reemployment, the topic of discrimination is considered to be important, since it is generally more difficult for this group to find a job (Fieldhouse, 1999). Furthermore, there is often some overlap between the unemployed and disadvantaged groups – many of them also partake in the programs targeting the unemployed. Since those groups often suffer economic exclusion, partaking in such an entrepreneurial education program could be beneficial for them, as the aim is not only to support participants in starting up their own business, but also to make them more attractive to employers and to increase their social integration (European-Commission, 2012).

In Western Europe and the U.S. all the above mentioned groups have generally lower self-employment than white men. Recent research discovered that more than 60 percent of young women and 75 percent of young African-American would be interested in starting their own business (Fairlie, 2005), but have trouble accomplishing their desires.

The OECD (2012) claims that women and African-American have a lower business entry as well as a higher business exit rate, in almost every reported country. The higher failure rate for both groups can partly be explained by the fact that they tend to on average run smaller businesses than white males, which are negatively correlated to the firm survival rate. Another explanation for the lower female self-employment rate can be that women tend to work fewer hours than men, which enables them to spend less time taking care of their nascent business. The reason for working fewer hours is often due to child and house care (Parker, 2009), which forces them to operate on a smaller scale than their male counterparts.

An indicator for the higher exit rates is the positive relationship between survival rate and education, meaning that the level of education can increase the likelihood of entry as well as the business survival and decreases the chances of exit (Fairlie, 2005). Since

disadvantaged groups do often not possess the assets to invest in education, they are on average less advantaged than whites, especially in countries where the cost of education is very high.

One would assume that immigrants also often suffers under the same disadvantages like the above-mentioned ethnic groups do – a general lack of assets and lower education, as well as language, income and cultural barriers. However Simon Parker (2009) discovers that immigrants are, on average, more highly educated and more motivated, and, as such, are more likely to be involved in entrepreneurial activity than natives. The latter claim is based on the pure assumption that they are self-selected risk takers, since they were willing to leave their home country in order to make it in a foreign country.

Robert Fairlie (2005) and Levie & Smallbone (2007) discover similar outcomes in their respective researches, claiming that the self-employment ratio among immigrants is only slightly lower than the native ratio and furthermore the self-employment rate is the same as the native rate. Further studies confirm this and furthermore claim, that the great economic success of earlier U.S. immigrants such as Chinese, Japanese, Jews, Italian and Greeks has been partly due to their ownership of small businesses (Vroman, 1997). Also in the UK, the success of Chinese, Pakistanis, Bangladeshis, and Indians was assumed to be due to the substantially higher self-employment rates (Parker, 2009).

In empirical research conducted by Benus (2008) it was discovered that the GATE project increased business ownership more among men, by a difference of eight percentage points, than among women over the entire 18-month follow up period. However one has to mention that to the paper's knowledge, no other studies confirm these findings. Nevertheless Fairlie (2005) concludes that minorities benefit less from educational programs than others. However since the empirical research on this topic does not precisely indicate what the effects are when unemployed minorities partake in one of the entrepreneurial education programs, but only make a gender distinctive analysis, it is difficult to support his statement, with further literature.

4. Limitations

This paper came across a couple of issues, which limit the paper's credibility. First, the essay's research, especially the empirical literature, mainly focuses on the U.S, making generalization very difficult. This confinement is mainly due to, on the one hand, a lack of English literature on non-English speaking countries, and on the other hand, due to a space limit. Taking all countries into consideration would have required a lot more explanation, since it can be expected that outcomes will, at least slightly, differ among countries. Nevertheless taking the U.S. as a sample country is still contributing towards general policy recommendations, since it can be used as a general guideline for other developed economies. Furthermore it is a very large country, which gives economists the possibility to take a big and random sample, making the analyses more reliable, however also complicating the measurability. It is very time-consuming and costly to precisely measure the small anticipated program effects and it is also complicated to track trainees over a longer period of time. The tracking is very important because only this enables economists to measure the whole inter-temporal impact of the training (Ashenfelder, 1978).

Another limitation, impacting this literature review, is the lack of empirical research conducted on the fields of satisfaction and intention change, as well as discrimination. Since those three sub-topics are also considered to be very important in theoretical literature (van Praag, Oosterbeek, & Ijsselstein, 2010), this paper took the empirical literature performed on entrepreneurial education programs, which do not necessarily target the unemployed, as a guideline. However as mentioned above, due to the differing situations and reference points of university students and unemployed, the outcomes cannot be taken too literally.

Moreover, the direct comparison of GATE, SEED, and MSED demonstrations themselves has to be done very carefully, since they all differ in important aspects of their execution, like the financial support. Furthermore, the programs themselves are not strictly homogeneous. The implementation and offer of, for instance the GATE training program, is differing at different locations. Thus, the final conclusions of each sub-location should be weighted more heavily in order to find the most efficient training structure.

5. Policy recommendations

The topic of policy recommendation concerning entrepreneurial education programs, in order to reemploy the unemployed via self-employment, has been diverse. For instance, Benus (1994) believes that “self-employment programs like Washington State's SEED and Massachusetts' Enterprise Project represent viable policy tools for promoting the rapid reemployment of UI claimants”. On the other hand Fairlie et al. (2012) come to a very different policy recommendation. This research does not consider the GATE program to be a viable policy tool in order to decrease unemployment. The costs, which vary from \$850 to \$1,300 for each individual, are just not a “cost effective method of addressing credit, human capital, discrimination, or employment constraints”. Thus, it is very important to analyse more thoroughly in the future which parts of the training are the most and least helpful and also for which part of the population, in order to make those programs more effective.

Furthermore, it is argued that self-employment programs like GATE should be made available more easily, for example at One-Stop Career centres (Benus J. , 2008). This would enable researchers to replicate those programs on a wider scale and gather more data on their weaknesses and benefits, which could be easily done by statistically analysing the exact differences between the GATE, SEED and MSED programs, in order to determine beneficial and unbeneficial commonalities and differences. One obvious distinction is the monetary incentives those programs offer. One can see that statistically the SEED and MSED, which both offer some form of financial back-up, lead to a greater employment outcome. To make an accurate statement about whether this monetary remuneration impacts employment should be researched more methodically.

Moreover the European commission (2006) stresses the importance of public-private partnership and “involving more enterprises as part of their corporate social responsibility”. They also stress that ventures should spend a small part of their working time on motivating and educating their staff in general.

However, it is not only important to support the unemployed but also the minorities of a country. Offering free language courses or cultural integration courses to those groups, in order to foster the increase of high quality Entrepreneurship, would be a good starting

point. However, one has to determine more thoroughly how to best support these groups and make them more efficient. Some research has been done on this specific topic, which analyze the issues of each group in more detail.

Thus, it is important to research which part of entrepreneurial education is successful, and adjust the current programs accordingly. Furthermore it is essential to have great motivating teachers, supporting their students not only practically but also emotionally. Additionally one should also take policy recommendation concerning disadvantages groups into account, in order to increase and stabilize economic growth.

6. Conclusion

This literature review reveals that there is no significant evidence among the discussed programs of efficiently fulfilling the anticipated goal of economic growth and stabilization in the long-run. There were no long-run effects on either the start-up rate or on the success rate of businesses established by individuals of the control group. Also generally the difference among treatment and control group were not very large in any of the three discussed programs, the GATE, SEED, and MSED. Also the consequence on employment, income, and firm distribution were not considerably affected. Unfortunately, to the author's knowledge, there has not been sufficient research done on the effects the programs have on work satisfaction, R&D, intentions and discrimination, to come to a satisfactory conclusion.

Thus one can conclude that the programs aimed at reemploying the unemployed via self-employment are not using their full potential yet. There have to be some analyses, further research and appropriate adjustments made, in order to make them more successful in the long run.

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