

Self-employment growth does not bank on access to capital

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An entrepreneurial climate is more important than access to financing and banks in encouraging self-employment growth, according to rural economists.

"Because people who get laid off may end up working for themselves, [self-employment](#) can be a good news, bad news situation," said Stephan Goetz, professor of agricultural and regional economics, Penn State, and director of the Northeast Regional Center for Rural Development.

"However, the self-employed do tend to support other nearby businesses and that can lead to employment growth and income growth across the county."

The researchers found that counties with a history of favoring entrepreneurship, maintaining stronger business networking and fostering economic self-dependence tended to predict higher self-employment growth rates in the future.

"The initial share of self-employment in a county predicted more growth for self-employment in the future," said Goetz. "This was across the spectrum—rural and urban."

From 2000 to 2009, the percentage of rural workers who were self-employed, as opposed to wage and salary workers, rose from 24 percent to 30 percent. There were more than a half-million fewer wage-and-salary jobs in rural areas during the same time, according to the researchers.

Many economic development specialists believe that access to capital—for example, the number of banks and credit union branches—is the most important way to promote self-employment, but the researchers found that the availability of capital mattered only minimally to the growth of self-employment.

"Increasing the number of bank branches per capita or finding other ways of increasing availability appeared to be an effective strategy only in small rural counties that were close to metro areas," said Goetz. "But, otherwise, lack of access to capital does not appear to limit self-employment growth."

States can encourage entrepreneurship and self-employment by creating lower and simpler tax codes, as well as allowing more flexibility in the hiring and firing practices of businesses in the county, according to the researchers, who report their findings in the current issue of *Economic Development Quarterly*.

The number of college graduates bolstered self-employment growth in all counties, except medium-sized rural counties that were adjacent to urban areas.

An attractive environment may also be linked to self-employment growth, according to Goetz, who worked with Anil Rupasingha, research economist and policy advisor, Federal Reserve Bank, Atlanta.

"It's interesting that some counties have features, such as a beautiful environment and mountain views, that seem to stimulate self-employment," said Goetz. "These counties may want to market these amenities."

Provided by Pennsylvania State University

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