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## ENTREPRENEURIAL ACTIVITY ACROSS EUROPEAN CITIES (INTERACTIVE PAPER)

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## INTERACTIVE PAPER

### ENTREPRENEURIAL ACTIVITY ACROSS EUROPEAN CITIES

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#### Principal Topic

The importance of entrepreneurship as a driving force in the economic development has been widely recognised. Respectively, a growing number of empirical studies have focused on explaining variation in entrepreneurial activity at various spatial levels with the majority of them taking either a cross-country perspective or looking at the inter-regional differences. More recent studies on entrepreneurship have shifted their focus to examining cross-city variation in entrepreneurship. However, overall, given limited city-level data availability, scarce work has been undertaken so far on cross-city entrepreneurship within the spatially oriented entrepreneurship research. Furthermore, to our best knowledge, no empirical studies exist on entrepreneurship in European cities and our paper aims to fill this gap.

#### Method

This paper investigates variation in entrepreneurial activity across European cities. More specifically, by harmonizing city indicators for the NUTS3 level in 31 European countries, based on European Urban Audit Survey (Eurostat) data, we undertake a panel data study of how various demographic, socio-economic, ethnic and geographical characteristics of European cities and institutional country-level settings affect entrepreneurship in 377 European cities during the period of 1989-2006. Within this time span the reference years for data collection were 1991, 1996, 2001 and 2004. We use the rate of self-employment as a measure of entrepreneurship.

#### Results and Implications

While controlling for various spatial effects across cities we find that the rate of self-employment is largely explained by city size, socio-economic characteristics, such as the level of education and city inhabitants' wellbeing, city ethnicity and size of a local government. We also find that institutional quality, including a property right system and democratic institutions, affect entrepreneurship. Our findings fail to support the hypothesis of the importance of capital city incubators, Euroregions and EU enlargement for entrepreneurial activity. Finally, we find that city location, namely latitude and longitude, emerge as significant predictors of entrepreneurship. Surprisingly, our city location results suggest that cities in the south of Europe are more entrepreneurial than in the north. Along with a positive effect of a lower education and insignificant effect of a city typology associated with high-tech entrepreneurship, these results suggest that a self-employment variable captures rather a low-value added entrepreneurship in the context of European cities.

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