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**The legacy of past institutions in explaining variation in entrepreneurship rates across space**

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# The legacy of past institutions in explaining variation in entrepreneurship rates across space

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## Introduction

- Culture, tradition, and institutional quality are important influences on entrepreneurial activity.
- Rural economies are dependent on goods production.
- Rural entrepreneurs build smaller firms and generate lower incomes than urban counterparts.

## Historical Institutional Strength

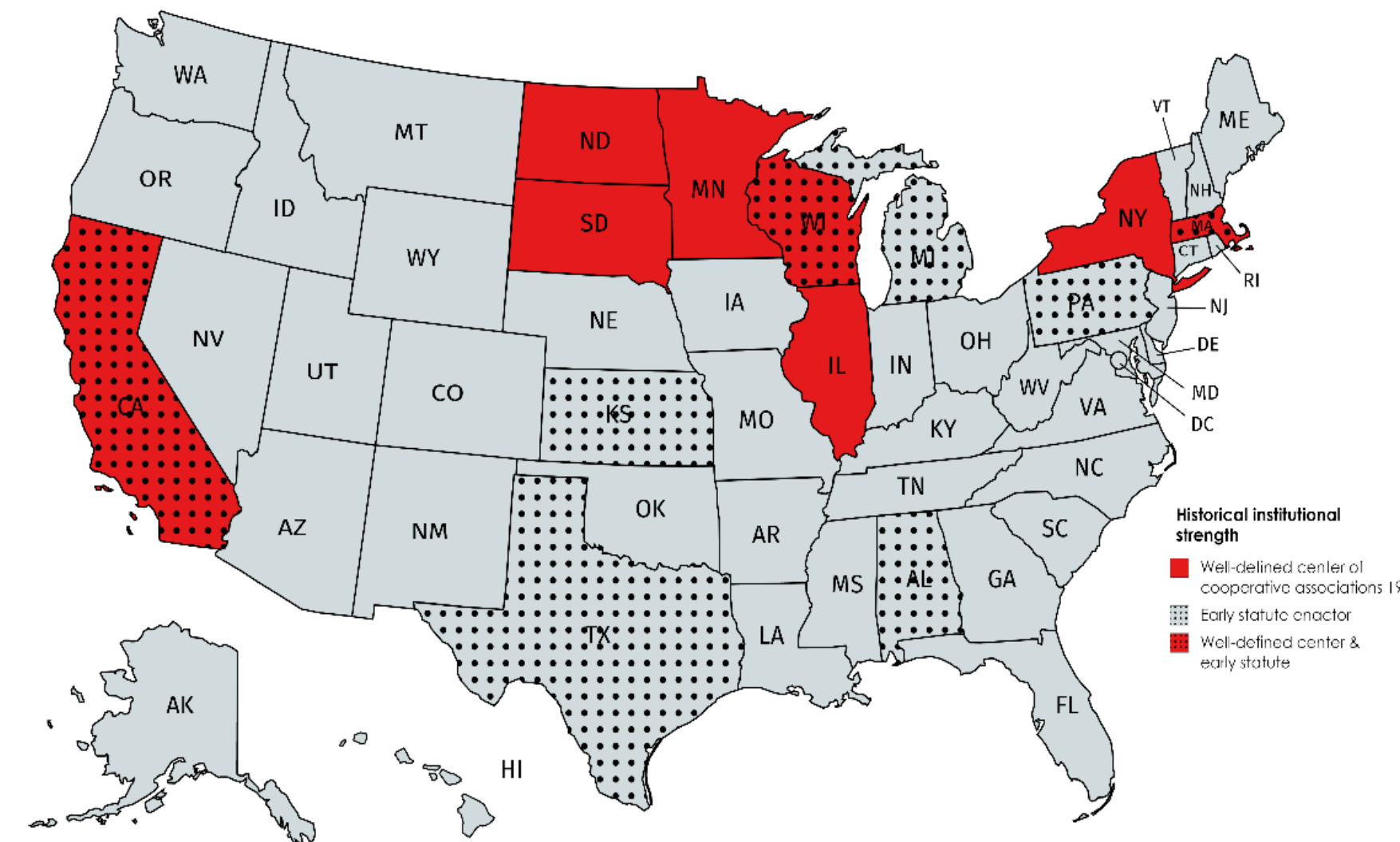
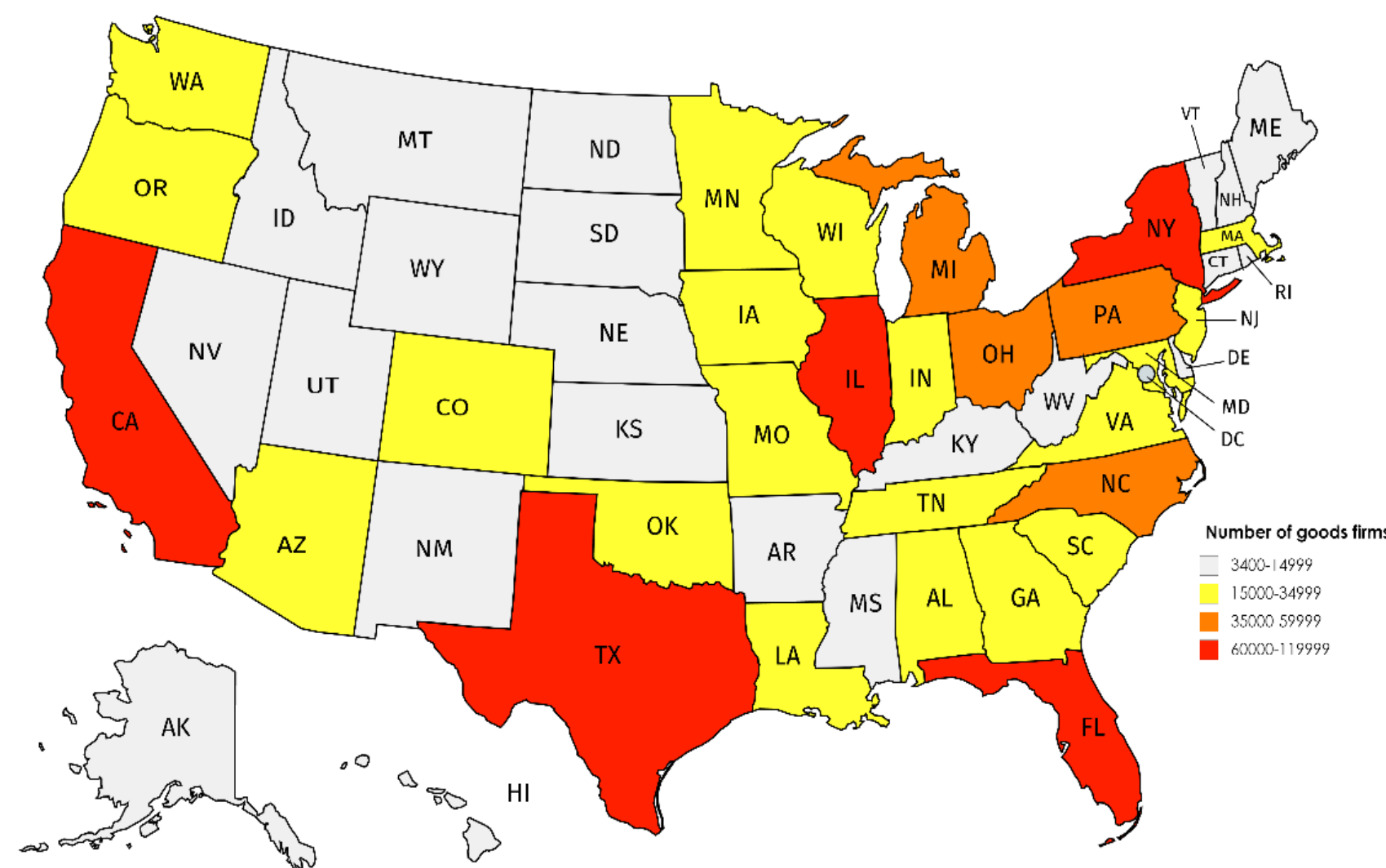


Table 1. Historical institutional quality & cooperative performance 2000-2015 (N=800)

Independent variable	Dependent variables		
	No. of rural coops	Coop members	Coop bus. volume
Rural pop % <sup>a</sup>	.53***	.86***	9.82
Well-def. 1920	56.60***	10.81	2850.18***
Roch/Non-stock statute	30.93***	3.06	-49.10
Av leaders 1951-89	24.47***	32.02***	3243.70***
Constant	15.78***	14.45**	1443.32***
F	167.12***	57.38***	129.50***
R-squared	.46	.22	.39

<sup>a</sup>logged variable

## Privately Owned Goods Producing Firms 2012



## Research Question

Can variation in entrepreneurship rates across space be explained by institutional imprinting?

## Method

To analyze these relationships, I specified the following models:

$$\begin{cases} Coops_i \\ Members_i \\ Bus Vol_i \end{cases} = \alpha + \beta X_i + \gamma welldefined_{1920_i} + \delta roch\_nonstock_i + \vartheta avleaders_{1951\_89_i} + \varepsilon_i$$

$$\begin{cases} Firms_i \\ Employ_i \\ Wages_i \end{cases} = \alpha + \beta X_i + \gamma welldefined_{1920_i} + \delta roch\_nonstock_i + \vartheta avleaders_{1951\_89_i} + \varepsilon_i$$

*Coops/Firms* = Number of rural cooperatives/privately owned goods producing firms in a state 2000-2015

*Members/Employ* = Number of member firms of rural cooperatives/Goods producing firm employment in each state 2000-2015

*Bus Vol/Wages* = Total gross volume in dollars of rural cooperatives/wages paid by goods producing firms in each state 2000-2015

*welldefined 1920* = 1 if the state was identified as a well-defined center of consumers' cooperative associations in 1920 and 0 otherwise

*roch\_nonstock* = 1 if the state was an early adopter of cooperative legislation and 0 otherwise

*avleaders 1951\_89* = number of notable coop people residing in each state in any of the years between 1951 and 1989

In vector  $X_i$  I consider control variable *rural population %*.

Table 2. Historical institutional quality & goods producing firm performance 2000-2015 (N=800)

Independent variable	Dependent variables		
	No. of goods producing firms	Employment	Wages
Rural pop % <sup>a</sup>	-663.46***	-9.53***	-549.02***
Well-def. 1920	9829.04***	85.98*	7371.63***
Roch/Non-stock statute	21236.22***	527.50***	30435.35***
Av leaders 1951-89	4365.47***	113.63***	4360.53***
Constant	36832.71***	554.13***	28856.00***
F	130.56***	134.91***	148.04***
R-squared	0.40	0.40	0.43

<sup>a</sup>logged variable

## Motivation

- Rural communities tend to view new business and change in general with skepticism, inhibiting entrepreneurial activity.
- The cultural identity of founding settlers leaves a lasting imprint on social and cultural attitudes.
- Rural cooperatives were formed by settlers in order to reduce transaction costs of smallholders.
- Reduced transaction costs make it easier for rural entrepreneurs to generate adequate economic incentives.

## Discussion & Conclusion

- The historical strength of rural cooperatives has a significant and positive effect on the performance of modern day rural cooperatives.
- The historical strength of rural cooperatives also has a significant and positive effect on the performance of modern day goods producing firms.
- Institutional structure is an important determinant of entrepreneurship, and its roots can be traced back into the past.