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## **LOCAL ECONOMIC CLIMATE AND MUNICIPAL COOPERATION AS FACTORS OF FIRM CREATION: EVIDENCE FROM FRENCH LOCAL PANEL DATA**

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### **Référence à la session / reference to the session**

### **Résumé / Summary**

The knowledge spillover theory of entrepreneurship developed by Acs et al. (2013) has proposed a framework to better understand firm start-up and explain the interplay between entrepreneurship and economic growth. As mentioned by Audretsch et al. (2010), the regional context should be a particularly important determinant of entrepreneurship. More precisely, Audretsch and Keilbach (2005) highlight the positive influence of entrepreneurship capital on business start-ups and Audretsch et al. (2010) show the role played by cultural diversity. Entrepreneurship capital involves the existence of a regional milieu that favors business start-ups.

In this paper, we concentrate on two factors of firm creation which are rarely analyzed in the literature while they may significantly impact the speed and depth of knowledge spillovers. We thus introduce two original explanatory variables, that to the best of our knowledge, have never been used to measure the local environment:

-Output gap, that captures the cyclical component of GDP per capita in the department, measures the economic climate in the jurisdiction where a firm is created.

- An index of local public cooperation between municipalities (share of municipalities in a EPCI), a variable that intends to test the possible positive effect of public cooperation in terms of higher public capacity to help firm starters.

Using Blundell and Bond (1998) GMM estimators, we estimate a dynamic panel data model of the determinants of entrepreneurship in French departments (NUTS 3) over the period 2000 to 2008, considering four different sectors (industry, services, trade and building). As in Andersson and Koster (2010) and Fritsch and Wyrwich (2014), more than one lagged dependant variable is necessary to remove autocorrelation and to deal with persistence. Our specification also includes explanatory variables to deal with agglomeration effects (Krugman (1991)), demand effects and the refugee effect (Holcombe (1998)).

We thus provide two main original results. First, as expected, local economic climate measured by the output gap, has a significant and positive effect on the rate of firm creation in departments in most of the sectors. Our results are in contradiction with Aubry et al. (2015) who analyze the correlation across the national output gap, measuring the national business cycle, and French regional entrepreneurship activity. But our approach is different as, in our case study, the output gap considered is specific to each department. Finally, those contrasting results support our hypothesis that the output gap may be a good measure of the economic climate if measured at the local level. Indeed, we show that the local economic climate, varying from a department to another, matters to favour entrepreneurship.

Second, results on the impact of municipal cooperation are mixed, with some negative effects, showing that more cooperation reduces the ability of mayors to help firm starter in industry, but also some positive effects suggesting that more economic local cooperation gives more tools to a reduced number of local actors, thus facilitating the processes of firm creation in the French departments in building and services.

Finally, results reveal a statistically significant refugee effect in services and building sectors. About market specificities, the effect of specialization appears to be insignificant in all models and the effect of concentration is significant but contrasted in three sectors only (industry, trade and services). The negative effect obtained for industry and also in trade, probably reveal inherent scale barriers which deter new firm formation. On the reverse, agglomeration effects seem to dominate in services as the concentration of firms favor firm start-up in this sector.

Keywords: Entrepreneurship determinants, regional milieu, output gap, municipal cooperation.

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