

Regional Transitions from Socialism to Entrepreneurship: Russia and Germany compared

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Aim of the study:

We investigate the personal- and regional-level determinants of entrepreneurial activities in East Germany and Russia in the process of transition to a market-type economy. In this comparison entrepreneurship in West Germany is used as a benchmark. Whereas East Germany has experienced – after 40 years of socialism – a shock-like-transformation towards a market economy, Russia was under socialistic regime for a period of about 70 years, and its economic development after the breakdown of the Soviet Union diverged from the development in East Germany. Hence, one can expect substantial differences in the individual determinants of the decision to be self-employed in these two countries and their regions. While a number of studies indicate that East Germany has now largely overcome its socialistic legacy with regard to entrepreneurial activities (see, e.g., Fritsch, Bublitz, Sorgner, and Wyrwich, 2013; Fritsch, Kritikos, and Sorgner, 2013), the developments in Russia are still largely unclear. There are some cross-country comparisons of the overall level of entrepreneurial activity that include Russia (see, e. g. Djankov, et al., 2006; Djankov, et al., 2005; Ageev, et al., 1995; Aidis, et al., 2008). There is, however, hardly evidence on the dynamics of entrepreneurship in detail and with comparison to other post-socialist countries.

Method and data:

We conduct micro-data panel analyses for Germany and Russia that cover the time period from shortly after German reunification until recent years. The analysis for Germany is based on the Socio-Economic Panel (SOEP) that is a national representative survey of German households covering more than 20,000 respondents in more than 10,000 households. This data set contains rather detailed information about people's socio-demographic

characteristics, their educational background, their labor market experience, as well as their personality characteristics. It is possible to identify entrepreneurs based on the self-reported answers to the question about the current employment status.

Data for Russia comes from the Russia Longitudinal Monitoring Survey (RLMS). It is a national representative annual survey of households and individuals covering around 17,000 individuals in about 7,000 households from 1994 until the year 2012. This data set is comparable to Germany's SOEP and thus contains almost the same information about personal characteristics, educational background and other issues. A disadvantage of the RLMS is that it does not cover all regions. Therefore, we also use a second data set, the Overall Monitoring of Living Conditions (OMLC) with around 19,000 person-level observations for the year 2011 that provides information for all regions of Russia.

Results:

We find several differences with regard to entrepreneurial activities between East- and West Germany and Russia. While the level of entrepreneurship in East Germany has increased substantially in the last two decades and achieved the West German level of about 12 percent 15 years after the German reunification, the self-employment rate in Russia is still very low at about 4 percent. In all countries under inspection there is substantial variation of the level of self-employment across regions. In Russia, the self-employment rate is relatively high in wealthy regions with large agglomerations, particularly close to Moscow and in the south of the country. High self-employment rates are, however, also found in rather poor regions like in the far east of Russia. Many regions with relatively low levels of self-employment are characterized by the location of large manufacturing establishment and in regions that are dominated by mining such as Ural, places in the northwest and in Siberia.

With regard to the individual-level determinants of self-employment, we observe only few differences between Germany and Russia. For instance, an individual's age is not significantly associated with the probability of self-employment in Russia but is statistically significant in Germany. Moreover, the relationship between the formal level of education and the probability of entrepreneurship in Russia is positive and linear, whereas in Germany this relationship shows a reverse u-shape. Thus, entrepreneurs in Germany are more likely to be low- and high-educated, whereas paid employees tend to have medium levels of education. Furthermore, Russian entrepreneurs tend to work in occupations that do not correspond with their field of education, thus, probably pointing to a strong role of necessity-driven entrepreneurship in Russia. Nonetheless, there are some

similarities in the determinants of self-employment choice between the both countries: Russian and German entrepreneurs are more likely to be married and men.

Altogether, we conclude that a longer period of experienced socialism and peculiarities of the Russian economic development afterwards had a pronounced effect on the level of entrepreneurial activities and the determinants of entrepreneurship in Russia, which are quite different from what is observed in East Germany. Still, there are some similarities between the both countries with regard to regional distribution of entrepreneurial activities.

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