

WHAT DETERMINES ENTREPRENEURIAL CLUSTERS?

Luigi Guiso
European University Institute
Einaudi Institute for Economic and Finance

Fabiano Schivardi
University of Cagliari
Einaudi Institute for Economic and Finance

Abstract

We contrast two potential explanations of the substantial differences in entrepreneurial activity observed across geographical areas: entry costs and external effects. We extend the Lucas model of entrepreneurship to allow for heterogeneous entry costs and for externalities that shift the distribution of entrepreneurial talents. We show that these assumptions have opposite predictions on the relation between entrepreneurial activity and firm level TFP: with different entry costs, in areas with more entrepreneurs firms' average productivity should be lower; with heterogeneous external effects it should be higher. We test these implications on a sample of Italian firms and unambiguously reject the entry costs explanation in favor of the externalities explanation. We also investigate the sources of external effects, finding robust evidence that learning externalities are an important determinant of cross-sectional differences in entrepreneurial activity. (JEL: D24, D62, J23)