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Youth Entrepreneurship Between Necessity and Opportunity: An Empirical Analysis from Palestine

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We use the Palestinian labor force micro-panel data (2009-2016) to examine how both human capital and labor market characteristics affect the transition of youth into self-employment (self-employment decision) or entrepreneurship. This work deal with a vital issue in the Palestinian society which is the youth job transition in the Palestinian labor market. It tries to answer two important questions: What are the main drivers of youth self-employment in Palestine? Is the self-employment an opportunity-driven or a necessity-driven phenomenon?

To estimate the determinants and wage penalty of youth self-employment:

Firstly, we use a standard multinomial logit model (McFadden 1974), where one of the choices for self-employment (Wage employee, employer, self-employed, and unpaid family member), to estimate the determinants of youth entrepreneurship in the Palestinian labor market between 2009 and 2016. In other words, we estimate four multinomial logit models, each corresponding to a group defined job mismatch. The base specification includes individual characteristics of interest (age, sex, marital status, place of graduation, training) as well as locality (urban/rural, West Bank/Gaza strip), labor market characteristics (industry, sector if employment, job type (full-time job, part-time job). We control for labor market conditions in order to understand better the environment which drive workers to select jobs not consistent with their level of education.

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Secondly, most empirical studies worldwide consistently indicate that self-employment causes wage penalties on the individual level. In order to differentiate between a return to paid jobs and

self-employment, we propose the often-cited Verdugo and Verdugo (1989) model. In this model, paid jobs and self-employment are coded as dummies and attained a level of schooling is used rather than the level of schooling required for the job:

 $\ln \text{ wit} = \#120575; aS \text{ it}^a + \#120575; oS \text{ it}^o + \#120575; uS \text{ it}^u + x \text{ it}^+, + \#949; i$

Where S_(it)^o 〖(S〗_it^u) is a dummy variable equal to one if the worker is self-employed? In other words, The self-employment dummy is the main explanatory variable of interest in the Verdugo and Verdugo (1989) earning function, where the self-employment is divided into four categories: Wage employee, employer, self-employed, and unpaid family member.

Our result supports both the human capital theory, and the "opportunity-driven" entrepreneurship model in both West Bank and Gaza, i.e. pull motivations rather than push motivations who control the youth engagement in entrepreneurial activities, and older individuals are more likely to be pulled into entrepreneurship through more attractive opportunities rather than pushed into it in the absence of other alternatives. In contrast to the high unemployment rate among youth in Palestine, they have low propensity to be self-employed or entrepreneurs, and the likelihood of self-employment of individuals increases over years, which is relevant for both West Bank and Gaza. This finding contradicts the idea that older individuals have more opportunities to start a business tends but their willingness decreases. Youth individuals in West Bank have more likelihood to select self-employment as their main occupation compared to youth individuals in Gaza. This unexpected result might also support our previous evidence about the opportunity-driven entrepreneurship model in Palestine. Training is crucial to equip youth with skills and create their own jobs, it is positively affect the likelihood of self-employment in both West Bank and Gaza, but with a higher influence in Gaza.

Although women in Palestine outperform men academically, but they suffer a discrimination in the labor market, which is reflected in a lower participation rate, higher unemployment rate, lower resources for business creation, etc. In both West Bank and Gaza, youth women were less inclined to actively engage in self‐employment as their employment choice, which confirms the structural inequalities that women face regarding new business creation. Many of the women who don't not find formal jobs in the Palestinian public or formal private sector will not head to self-employment, rather they will leave the labor market to be inactive, which might contradict the historical view that women were "pushed" rather than "pulled" into entrepreneurship and business ownership.

Married workers have more likelihood to be self-employed which means that self-employment for most of the married people is not independent from external influences and entrepreneurs in this case are not treated as "lonely only" individuals. This might support the "necessity-driven" model rather than opportunity-driven model of self-employment. Results also does not provide any evidence about differences in youth self-employment at locality level; both individuals in urban and rural areas as well as refugee camps have a similar likelihood for self-employment. Youth has low likelihood for self-employment in non-manual jobs; either skilled or non-skilled.

Here we restress the importance role of academic institutions in providing youth with cognitive skills that needed for the transition from school to self-employment.