

Abstract

Labor market institutions enable and constrain particular behaviors on the labor market and beyond. We take a closer look at country-level employment protection legislation (EPL) and its unintended effects on entrepreneurial activity in society. We unpack the effects of EPL by disentangling the mechanisms of two of its main elements, and their relationship with an individual's occupational status. More specifically, this study uses multilevel analyses to examine the separate effects of severance pay and the notice period on the allocation of entrepreneurial activity across employment and self-employment. Severance pay is found to be negatively related to entrepreneurial activity by employees, whereas the notice period shows a positive relationship. The opposite is true for the effects on self-employed individuals. Future use of one-dimensional measures of EPL should be reconsidered.