ENTREPRENEURSHIP: A LINK BETWEEN ECONOMIC FREEDOM AND ECONOMIC GROWTH? (SUMMARY)

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SUMMARY

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Principal Topic

Several studies have shown that economic freedom is correlated with size and growth of an economy. We also know that entrepreneurship has a major impact on economic growth (Schumpeter 1942). However, there has been relatively little exploration of the role of entrepreneurship as a link between economic freedom and wealth. Bagby, Palich, and McMullen (2003), examined 2002 data from the Index of Economic Freedom (IEF) and the Global Entrepreneurship Monitor. Their exploratory work supported a correlation between economic freedom and GDP per capita, and found evidence to support higher levels of necessity-based entrepreneurship in countries with lower GDP per capita less economic freedom.

Hernando de Soto (2000) helped to spur interest in the relationship between economic freedom, entrepreneurship and economic growth; showing how property rights influenced the ability to access capital. Djankov, et. al., (2001) found that higher regulation was correlated with corruption and a larger informal economy. These finding fit the thesis that regulation tends to restrict new economic activity to the informal sector, from which it has difficulty emerging.

Van Stel and Stunnenberg (2004) found that “perceived administrative complexity has a negative impact on the level of business ownership”. This supports the idea that people’s beliefs about the level of regulation in their country have a greater impact on entrepreneurship than actual regulation, and that changes in regulation follow a diffusion pattern.

Data were obtained from the Global Entrepreneurship Monitor, the Index of Economic Freedom, and the Economic Freedom of the World index. These were used in conjunction with GDP data from the CIA World Factbook and the Center for International Comparisons at the University of Pennsylvania.

We tested the following propositions: 1) Does the relationship between economic freedom and per-capita GDP hold over time? 2) Does the level of economic freedom impact the level of entrepreneurial activity? 3) If such impact exists, is it different for opportunity-based entrepreneurship than for necessity-based entrepreneurship. 4) Which other factors have the greatest impact on entrepreneurship? We found evidence to support the relationships between economic freedom and growth and freedom and entrepreneurship, and that these relationships were stronger for opportunity entrepreneurship than necessity entrepreneurship. However, these results are much stronger in developed countries than in less developed countries. These findings provide evidence that entrepreneurship, in developed countries, acts as a link between economic freedom and economic growth.

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