1. Introduction

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While economists and policy-makers now seem to agree that institutions matter in the determination of economic outcomes, there is little consensus among economists and policy-makers regarding the next steps in encouraging productive entrepreneurial behavior to boost economic growth and improve the lives of people across the world. In the aftermath of the Great Recession, economists and policy-makers are reexamining nearly every school of thought in the field of economics and reconsidering the policy recommendations that result from the vast array of research in the field. The authors of this book embrace this opportunity to review and reconsider the economic outcomes that are the results of the different policies pursued in various locations around the world. The chapters that follow address a number of topical policy issues and conclude that economic freedom is ultimately the cornerstone to economic success. The authors provide theory, analysis, and policy recommendations for countries to build a foundation of economic freedom through policy to encourage productive economic activity.

In Chapter 2, Joshua C. Hall, Robert A. Lawson, and Saurav Roychoudhury make the case that economic freedom is the most important element in encouraging productive entrepreneurial activity. The authors highlight the significance of the protection of private property and general rule of law in facilitating the ability of individuals to trade freely, enter into contracts, and start businesses. Hall, Lawson, and Roychoudhury examine the Economic Freedom of the World index in order to provide a measure of economic freedom that can be employed to empirically assess the importance of economic freedom in encouraging productive entrepreneurial activity. They outline the five key components of the index, which include the size of government expenditures, taxes, and enterprises; legal structure and security of property rights; access to sound money; freedom to trade internationally; and the regulation of credit, labor, and business. The authors then break countries into quartiles based on the level of economic freedom in the country and examine new firm entry density, measures of entrepreneurship, economic prosperity, and the ease of starting a new business within the country. Their findings show that countries in the top quartile in terms of economic freedom substantially outperform countries in the lowest quartile of economic freedom across all measures.

After an overview of the relationship between entrepreneurship and institutions, Pavel A. Yakovlev and Saurav Roychoudhury provide an assessment of the impact of government regulation and taxation on entrepreneurship and migration in Chapter 3. The authors highlight the burden of government regulation on firms of different sizes, discussing the compliance costs associated with regulation. Yakovlev and Roychoudhury show that the costs that regulation imposes on small business is particularly onerous as small businesses are less able to absorb the increased fixed costs associated with regulatory compliance. The authors further analyze the costs of regulation by type, which include economic, environmental, tax compliance, and public safety regulations. They show that firms rather than consumers bear the brunt of regulatory costs. The relationship between taxation and entrepreneurship is also examined. A large literature finds that taxes are expected to diminish the accumulation of capital, cut the number of businesses, and stifle the overall amount of economic activity in general. Finally, the authors examine the link between migration and entrepreneurship. They discuss the likelihood of migrant individuals engaging in entrepreneurship based on characteristics of their country of origin and assess the entrepreneurial activity of migrant individuals in the United States.

James Fetzner and Gregory M. Randolph assess the relationship between regulation and entrepreneurship in Chapter 4. The authors explore both the challenges that regulators face in appropriately regulating the economy and the challenges that regulatory measures impose on entrepreneurs. Fetzner and Randolph assess the burden of regulation on society by exploring the growth in the size of the Federal Register, several high-profile reports including The Economic Freedom of the World Report, the Global Competitiveness Report for the U.S., the World Bank Doing Business Report for the U.S., and specific examples related to the health-care industry. The authors then examine the economic rationale for regulation and the current process by which regulations are designed and implemented at the federal level in U.S. Fetzner and Randolph conclude by evaluating the major proposals aimed at revising the regulatory process to best facilitate productive entrepreneurship and suggesting that regulators take a more entrepreneurial approach to regulatory decisions.

In Chapter 5, Matt E. Ryan assesses the impact of government attempts to directly influence small business and entrepreneurship through committee-based efforts in the United States House and Senate. Ryan shows, by examining business growth in states, that states with politicians on the congressional committees that are supposed to support business growth actually experience lower levels of entrepreneurship. In order to explain this somewhat counterintuitive result, the author explores the issue of congressional dominance, where individual legislators attempt to attain personal political goals by imposing their preferences on committees. Ryan then shows that politicians lack the ability to influence entrepreneurship in the way that they can influence other areas of government such as military spending because entrepreneurship is difficult to measure and ultimately beyond the geographical scope of the influence of politicians. Ryan then examines political calculation, showing that politicians are unable to force entrepreneurial activity, and that government attempts to spur entrepreneurship may crowd out private entrepreneurship.

Chapter 6, written by Michael T. Tasto, looks at how entrepreneurs can be affected by state spending on firm recruitment and economic development. If state spending on these programs is successful at increasing private non-farm/non-public employment, then there is a rational incentive for states to spend money on these programs to help grow or improve their economy. This opens the door for unproductive entrepreneurs to capitalize on this opportunity. Manufacturing plants, corporate headquarters, and call centers have a high degree of mobility and can be indifferent on their location. With this mobility and indifference, unproductive entrepreneurs can negotiate and bargain with competing states for the best offer, package, or deal—diverting funds away from other state programs to the firm that they represent. As long as states realize an increase in employment from these spending programs there will be a race to the bottom as they compete with other states to recruit the mobile firm. Consequently, this creates a role for an unproductive entrepreneur to capture the economic rents offered from these competing states.

Chapter 7 consists of Peter G. Klein's testimony before the U.S. House Committee on Financial Services: Domestic Monetary Policy and Technology Subcommittee. The testimony examines the Federal Reserve System and central banking through the lens of the economic theory of organizations. Klein highlights the challenges that the lack of information regarding the optimal supply of money and bureaucracy provide for an independent central banking system. The author provides an analysis of the Federal Reserve's performance before and after the Great Recession, outlining the former's role in the financial crisis. Klein assesses the power and autonomy of the Federal Reserve, suggesting that the rationale for Fed power and independence should be reconsidered given the lack of justification. The author concludes by debating the necessity of central banking and discussing alternative solutions.

Robert F. Salvino and Michael Latta discuss the relationship between human nature and economic policies in Chapter 8, providing a model of wealth and happiness that incorporates behavioral tendencies of individuals within a given country. The authors begin by discussing the relationship between formal rules and policy with observed behavior across locations. They show that informal institutions, such as culture and norms, can lead to observed behavior that can differ from formal rule expectations and vary across locations. Salvino and Latta examine the relationship between corruption and wealth at the country level and domestic housing policy in the United States in order to highlight the ways in which formal policy influences the behavior of economic actors and the impact on economic outcomes. The authors explore the extent to which an issue should be addressed through the private or public sector, utilizing Japan as an example. In order to provide a theory of behavior that includes human nature, Salvino and Latta then outline a model with two nations across two time periods where the individual agents involved attempt to maximize happiness and prosperity. The model includes uncertainty concerning the behavior of domestic and foreign agents that are unknown to the agents in the model. The authors allow institutions to both evolve over time and be created by agents through intentional design. They show that moral and economic outcomes are not dominated by conflicting ideals in an open society with narrow institutional powers, demonstrating that economic action and morality may converge given certain conditions.

In the final chapter, Gregory M. Randolph and Marek Rivero discuss the relationship between informal institutions, entrepreneurship, and public policy and the need for additional research in the field. After a discussion of the debate among researchers regarding the definition of informal institutions, the authors discuss the measurement of informal institutions across countries. Case studies, objective measures, large-scale representative survey techniques, and non-represented surveys are explored—with an emphasis on representative surveys that are widely available to researchers in the field. Randolph and Rivero provide a number of case studies that highlight the emergence of informal institutions to support the claim that informal institutions are critical in the determination of the incentives facing individuals. The authors conclude by discussing the policy implications of the research in the field of informal institutions, and urge researchers to devote additional efforts to exploring the critically important role that informal institutions play in the determination of entrepreneurial outcomes.

This book provides evidence of the economic benefits that accrue to countries that pursue policies consistent with economic freedom, and offers policy suggestions aimed at spurring economic growth through entrepreneurial action. The ultimate goal of the authors of this book is to assist policy-makers in unleashing the power of entrepreneurship in developed and developing countries to improve living standards across the world. The authors strongly believe that personal and business freedoms are necessary requirements for entrepreneurs to attain success in any given location. In order to maximize the potential for entrepreneurs to improve living standards, the authors sincerely hope that policy-makers seriously consider adhering to the principles of economic freedom in the development of policy going forward.