
The Effect of Economic Freedom on Entrepreneurial Activities: A Global Entrepreneurial Observer Approach

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Abstract:

The purpose of the present study is to investigate the effect of economic freedom on the level of entrepreneurial activities in 30 selected countries from 2005 to 2014. Unemployment and the demand for government jobs have created deep socio-economic crises in world economy. However, in the context of competition, global developments, downturns, political and security events, threats and sanctions, limited access to natural resources, difficult geographic location and several other conditions, many countries have experienced economics growth and development. For example, net job growth in the United States, the European Union, and some Asian economies is largely driven by small businesses and entrepreneurship.

Economic freedom and globalization are important factors that can contribute to increasing entrepreneurial and self-employment activities. With globalization and economic freedom, the move toward efficiency and optimization of resource use has begun and employment of inefficient activities that are only viable with government support will disappear and firms will be more prepared to gain self-employment and work in the private sector and global markets.

In this study, based on the Freezer Institute's Economic Freedom Index, economic freedom was investigated using the following five indicators: 1. Government size (government spending, transfer payments, government ownership and government investment, highest tax rate); 2. Legal structure and security of

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property rights (judicial independence, protection of property rights, law enforcement, legal system integration); 3. Access to safe money (liquidity growth, inflation rate changes, standard deviation of inflation); 4. International trade freedom (Legal barriers to trade, export and import costs, capital market controls); 5. Regulation of foreign laws (Financial, Labor and Trade Laws). Entrepreneurial activities were selected based on the Global Entrepreneurship Observer's definition of five-level entrepreneurship, emerging, new, nascent, stabilized entrepreneurship, and business exit rates.

The research method in this study followed models based on panel data (hybrid) using Generalized Least Square Estimation (GLS) in Eviews9 and Stata14 software environments. We adopted this model because in panel data models, the value of variables is measured both at certain points and over time, and the use of cross-sectional data for several consecutive years yields better and more reliable results. It also increases the explanatory power of the model.

In order to determine the econometric model based on the theoretical and empirical studies of Verheil et al. (2002) in "Eclectic Theory on Entrepreneurship - Policies, Institutions and Culture", variables affecting entrepreneurial activities were identified for estimating and deducing the five models.

The results show that economic freedom has a significant relationship with the level of entrepreneurial activities. Among the indicators examined, the indices of government size, the legal structure, and access to safe money had a positive and significant relationship, but the property security index had a negative and significant relationship with the level of entrepreneurial activity. A large government and a coherent legal structure encourage burgeoning entrepreneurial activities and have generally played a protective role since the founding of state-owned entrepreneurial activities. However, as entrepreneurial activities move forward, the role of the government becomes less and less to the extent that greater size and interference prevents them from leaving the business and market.

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