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## FREEDOM AND ENTREPRENEURSHIP: NEW EVIDENCE FROM THE 50 STATES

Joshua C. Hall, Assistant Professor, Department of Economics, Beloit College  
John Pulito, Mercatus Center MA Fellow  
Benjamin VanMetre, Mercatus Center MA Fellow

### RESEARCH FINDINGS

- Humans are entrepreneurial by nature. We desire to improve our material well-being, which drives us to innovate, often through new business creation. Despite the ever-present tendency toward entrepreneurship, public policy can have a significant impact on the incentives for entrepreneurial activity. Economists often call these incentives the “rules of the game.”
- When making the decision to take on a new business, entrepreneurs must weigh the risks against the potential payout. Policy makers have the power to raise the cost of starting a new business by raising taxes or increasing regulatory costs, and they have the power to lower the cost by pursuing stable and consistent public policy initiatives consistent with economic freedom, such as low, broad-based taxes and prudent regulation.
- Previous research has demonstrated that “rules of the game” favoring lower taxes and limited regulation—as measured by economic freedom indices—encourage entrepreneurship. Studies have found similar results both in comparisons across the states and in comparisons across countries. “Freedom and Entrepreneurship: New Evidence from the 50 States” uses an index of freedom, the Mercatus Center at George Mason University’s *Freedom in the 50 States* by Will Ruger and Jason Sorens. The study confirms earlier results: economic freedom permits higher levels of entrepreneurship, as measured by the creation of new businesses.
- *Freedom in the 50 States* includes measures of both economic and personal freedom. Personal freedom had not previously been studied as a factor in the entrepreneurship level, and this study found that it did not in fact have a significant impact on business creation. Only economic freedom appears to have a positive impact on entrepreneurship, although personal freedom is of course important for other reasons.
- This additional evidence that economic freedom is correlated with entrepreneurship should encourage policy makers to pursue changes that increase their states’ economic freedom. The evidence suggests that by increasing economic freedom, policy makers have significant power to improve their states’ climate for new business creation. For example, if policy makers in Ohio—which currently ranks 32<sup>nd</sup> in the *Freedom in the 50 States’ Economic Freedom* index—increased the state’s ranking to the level of Nevada, which ranks 23<sup>rd</sup>, Ohio residents could expect to see a 33 percent increase in new business creation. Lower tax rates, lower regulatory burdens, and lower barriers to trade can all encourage citizens to pursue their drive toward entrepreneurship.

Joshua Hall, John Pulito, and Benjamin VanMetre, “Freedom and Entrepreneurship: New Evidence from the 50 States” (working paper, Mercatus Center at George Mason University, Arlington, VA, 2012).

For more information or to meet with the scholars, contact

Emily Washington, Associate Director of State Outreach, (703) 993-4886, ewashin1@gmu.edu  
Mercatus Center at George Mason University • 3351 Fairfax Drive, 4<sup>th</sup> Floor • Arlington, VA 22201

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