

Entrepreneurial activity affected by degree of states' economic freedom

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A new study in the journal *Entrepreneurship Theory and Practice* examines how entrepreneurial activity and level of employment in U.S. service industries respond to changes in the degree of economic freedom among states. Researchers found that the relationship between entrepreneurial outcomes and economic freedom varies significantly by industry.

Stephan F. Gohmann, Bradley K. Hobbs, and Myra McCrickard used data from economic freedom indexes for each state in the U.S. and from the U.S. Census Bureau to examine the effects of economic freedom on industry growth rates.

Results present the following dichotomy: some service industries exhibit firm and employment growth as economic freedom rises while other service industries grow as economic freedom declines.

For example, business and personal services firms are relatively small, and states with greater economic freedom typically have fewer regulations that lower the costs for smaller firms. Consequently, entrepreneurs are more able to grow these services during times of increased economic freedom.

Conversely, legal services grow in response to decreased economic freedom and heightened government regulation because firms affected by these policies increasingly require legal services. Similarly, health and social services respond to demand generated from government programs

and grow as the government's purview broadens.

As such results relate to government policy, the authors conclude that:
"Policy makers should consider both the spillover effects of targeted policies as well as the direct effects of changes in economic freedom on entrepreneurial decision making."

Source: Wiley

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