

THE ENVIRONMENT OF PRODUCTIVE ENTREPRENEURSHIP: EVIDENCE FROM ASIA AND THE PACIFIC RIM

BENJAMIN POWELL

Department of Economics, San Jose State University

Asia and the Pacific Rim is one of the most diverse regions of the world in terms of standards of living and governing institutions. The region contains two of the most economically free countries in the world, Hong Kong and Singapore, as well as two of the least free, Vietnam and North Korea. Differences in standards of living are also dramatic. Although the region averages about \$4,000 of GDP per capita, individual countries vary greatly. Vietnam has a per capita income of only about \$2,300, yet Australia, Hong Kong, and Japan all have per capita GDPs of more than \$25,000. Some countries, dubbed Asian Tigers, experienced some of the most dramatic standard of living increases during the last half of the twentieth century. More recently, the large countries of China and India have experienced rapid growth. This economic and institutional diversity makes the region an excellent area in which to study economic development.

This paper explores the critical role entrepreneurship plays in economic development and the institutional environment necessary for productive entrepreneurship. First, the argument over early state development planning is examined. Then we explore the experience of contemporary Asian economies, looking closely at China and India and examining the overall region. The final section contains conclusions.

ENTREPRENEURSHIP AND ITS INSTITUTIONAL ENVIRONMENT

A visit to any dynamic, growing economy will immediately reveal the key role entrepreneurship plays in economic development. Formal economic theory, however, leaves little room for the entrepreneur.¹ Entrepreneurship doesn't lend itself to easy mathematical modeling and manipulation, and hence is often left out of both micro and macro economic theory. As Herbert and Link put it, "Walras expunged all of the things from his model that give force and range to entrepreneurial action" (1988: 73). They further argue that the introduction of mathematics "bludgeoned one of the fundamental forces of economic life—the entrepreneur" (1988: 158). Particularly in growth theory, building on Ricardo, models often look at output as a function of land, labor, and capital. To augment these inputs, human capital, technological change, and research and development are often added. The creative nature of entrepreneurship remains outside of the formal modeling.

Two major works in the twentieth century have emphasized the importance of the entrepreneur, Schumpeter (1934) and Kirzner (1973). For Schumpeter, the entrepreneur was a force of creative destruction where an initial equilibrium was disturbed and economic growth occurred with the reshuffling of resources. Schumpeter did not explain how to attain the initial equilibrium. In contrast, Kirzner used the entrepreneur as the equilibrating force in the market. By acting on previously unnoticed profit opportunities, the Kirznerian entrepreneur corrected the market process and drove it toward equilibrium. Kirzner describes his differences from Schumpeter by writing, "Schumpeter's entrepreneur acts to *disturb* an existing equilibrium situation... The entrepreneur is pictured as *initiating* change and generating new opportunities" (pp.72-75, emphasis in original). Kirzner's entrepreneur, "*brings into mutual adjustment* those discordant elements which resulted from prior market ignorance" (p. 73, emphasis in original). The disagreement largely stems from the authors' different purposes. Schumpeter was trying to explain economic growth while Kirzner was trying to explain how a market could obtain an equilibrium. In both cases, mainstream models ignored the importance of entrepreneurship.

Holcombe (1998) argues that when explaining economic growth, the Schumpeterian and Kirznerian entrepreneurs are indistinguishable. "Both are seizing unexploited profit opportunities, and in both cases the market environment will be different for all market participants in the future" (1998: 57). Kirzner's entrepreneur drives the market toward a given equilibrium, but in the process he reorders the economic environment for other actors and creates a new equilibrium. Hence, Schumpeter and Kirzner need not be at odds. Holcombe argues that other entrepreneurial acts create most of the profit opportunities seized by entrepreneurs. Thus, the very act of seizing an entrepreneurial opportunity creates more opportunities for others. Holcombe's central finding is that entrepreneurship can serve as an endogenous engine of economic growth.

Not all economies have the same type and quantity of entrepreneurial activity, however. A country's institutional environment influences entrepreneurship. Baumol (1990) points out that the seizing of profit opportunities can be socially productive, unproductive, or destructive. When entrepreneurship is directed toward activities such as innovating new products, reorganizing production processes, or creating new markets, it is socially productive and aids the market's process of coordinating individual behavior. When it is directed towards rent seeking activities, however, entrepreneurship can be unproductive and even destructive for society at large.² Baumol's key insight is that entrepreneurs respond to incentives. Entrepreneurs will seek out and exploit whatever opportunities are available, whether they are socially productive or not. For Holcombe's entrepreneurs to create endogenous growth, the institutional environment must funnel their activities toward productive entrepreneurship.

Olson (1996) shows that many production function models of growth fail to explain differing economic performance because most countries' economies are not on their production possibilities frontier—the institutional environment is not efficient. If the rules of the game improved, there would be "big bills on the sidewalk" for entrepreneurs to seize.

What is the correct institutional environment for productive entrepreneurship? At a theoretic level we know that markets mobilize and convey information to market

participants better than governments (Hayek 1945). Furthermore, Adam Smith's invisible hand often aligns incentives better in markets than in governments. We cannot count on governments to promote the "public good" because what is in an individual official's best interest is often not what is socially efficient (Buchanan and Tullock 1962 and Olson 1965). Because of incentive alignment and information, the more activities left to free, unhampered markets, the better the environment for productive entrepreneurship and economic development.

Examining the empirical relationship between economic performance and unhampered markets was difficult because of the inability to quantify and compare how free various economies were until 1995, when publication of economic freedom indexes began. The *Economic Freedom of the World* report, published annually by the Fraser Institute, examines 38 variables in 5 categories to determine an overall measure of how free from government interference different economies are. The index has also scored countries in five-year intervals back to 1970. Since publication of the index began, a large literature has emerged that shows the strong empirical connection between economic freedom and economic performance. Easton and Walker (1997) and others have shown that the level of economic freedom positively impacts growth rates. Gwartney, Lawson and Holcombe (1999) and others have shown that increases in economic freedom, regardless of the initial level of freedom, increase growth rates. A host of other papers tie higher economic freedom with other measures of well being, including life expectancy, literacy, and human development index scores. Recent research (Sobel, Clark and Lee 2005) has also found countries with higher levels of economic freedom have more entrepreneurial activity. Berggren (2003) summarizes much of the empirical literature on the importance of economic freedom.

Economic theory and empirical evidence suggest that economic freedom is the institutional environment necessary for productive entrepreneurship. Countries that are more economically free should perform better. Also, combining this observation with Olson (1996), those countries that improve their institutional environment to allow greater economic freedom should see new profit opportunities emerge that were previously unavailable because of institutional barriers. As productive entrepreneurship seizes these opportunities, economic growth rates should improve.

This paper examines East Asia and the Pacific Rim, an area with tremendous variation in institutions and performance, to illustrate the importance of improving the institutional environment in poorer countries in the region.

EARLY ASIAN TIGER SUCCESS

How well does the experience of the post war "miracle" economies from Southeast Asia fit with the above theory of the importance of free market institutions for economic development? Some authors (Johnson 1982, Amsden 1989, Wade 1990, Evans 1995, Stiglitz 1996, 2001, Woo-Cumings 1999) claim that state development planning rather than free markets caused the economic growth in the region. But the "tiger" economies of East Asia actually better fit the above theory of entrepreneurial development than they do the state-planning model.

Lavoie (1985) shows that the calculation and knowledge problem identified by Mises (1920, 1949) and Hayek (1940, 1945) applies to more limited attempts to guide the

market with development planning. Planners cannot know the optimal industrial structure until the market produces it. Any attempts to guide the market rigs the outcome before the relevant information has been discovered in the competitive pushing and pulling of resources. A strategic industrial policy in favor of one industry is in effect a strategic policy against others, and the government has no way of knowing in which industry the resources are more highly valued. Powell (2005) elaborates on Mises, Hayek, and Lavoie's insights and shows that advocates of East Asian state development planning fail to adequately address the knowledge problem faced by planners.

Economic theory makes it doubtful that development planning could be the cause of the Tigers' success, and there is evidence of development planning failures. In the early 1950s, for example, Sony needed government permission to get the rights to manufacture transistors from Western Electric. MITI refused; Sony needed more than two years to convince MITI give them the rights (Henderson 1993). Sony became a successful international electronics firm in spite of MITI, not because of it. Similarly, in the 1960s MITI tried to force Japan's ten auto firms to merge into two and attempted to stop them from entering the export market (Lavoie 1985: 195). The auto firms resisted MITI on both accounts, and many went on to be very successful in the international market. In addition, in Korea the ship building industry receives large subsidies in an attempt to make them an international success. Korea now has the second largest ship building industry in the world, but the companies need periodic bailouts to stay in business (Choi 1994: 241). While planning's failures are easy to point to, successes are not. Some businesses exist in Asian countries that industrial policies have helped. However, to call them planning successes is impossible because the very knowledge problem that prevents planners from knowing what is optimal prevents us from knowing the counterfactual: what would have developed in their place.

The institutional environment of productive entrepreneurship and economic freedom explains the post war success of Japan, Taiwan, Hong Kong, Singapore, and even South Korea better than state industrial planning does. World War II shattered much of the social and physical infrastructure in these countries. But a lower starting point alone does not explain their rapid growth. Convergence as predicted by standard neoclassical growth models is not an empirical regularity. However, there is evidence of convergence in incomes of countries with similar institutional environments of secure private property rights (Knack 1996). Olson (1982) describes how the war dislodged entrenched interest groups who hampered their economies with destructive rent seeking. This makes possible property rights reforms and the rapid growth that accompanies them until the interests groups reemerge. While some industrial planning occurred in these economies, they also opened up to international trade and became some of the most economically free countries in the world.

The earliest date for which the *Economic Freedom of the World* report ranks countries is 1970. In that year, Hong Kong was ranked the freest economy in the world, Japan and Singapore were tied for seventh freest, Taiwan was the sixteenth freest, and Korea was in the top 20 percent, ranking thirty-first. Hong Kong remains the freest economy in the world, and Singapore has improved to second place; Japan, Taiwan, and Korea all have fallen. Much of the strong growth occurred in these economies right after World War II when they were first able to free their economies and open up to global trade.

Japan's development fits our theory particularly well. After the Allied occupation of Japan, real increases in GNP averaged 9.6 percent from 1952 to 1971.³ This initial surge coincides with when entrepreneurial opportunities previously prevented by institutional barriers first became available. Japan improved its institutional environment during this period as well. Taxes as a percent of national income fell from 22.4 in 1951 to 18.9 in 1970. In addition, savings was high, averaging 36.1 percent of national income from 1960 through 1971. A favorable institutional environment encouraged the high savings. The Japanese tax code allowed a portion of savings to earn interest income-tax-free when in an employer-run savings plan. In addition, interest on the first \$13,000 in each postal savings account was tax-free, and many people had multiple accounts. After the initial surge, growth in Japan remained strong but less dramatic, averaging 4 percent per year from 1972 to 1991. This is consistent with Japan maintaining a reasonable institutional environment but failing to continue to make improvements. The rest of the 1990s and early 2000s have been a different story, however. From 1991 to 2003, real economic growth averaged just 1.2 percent per year. During this depression the Japanese government has actively interfered with the market process by introducing massive fiscal stimulus packages, bailing out businesses and banks, and manipulating monetary policy. This intervention has prolonged the depression by preventing the structure of production from adjusting to reflect consumer preferences (Powell 2002).

Overall, the experience of the original East Asian "Tiger" economies is consistent with the theory of the environment of productive entrepreneurship outlined in section one. We next examine contemporary East Asia.

THE ENVIRONMENT OF RAPID GROWTH IN CURRENT ASIAN SUCCESSES

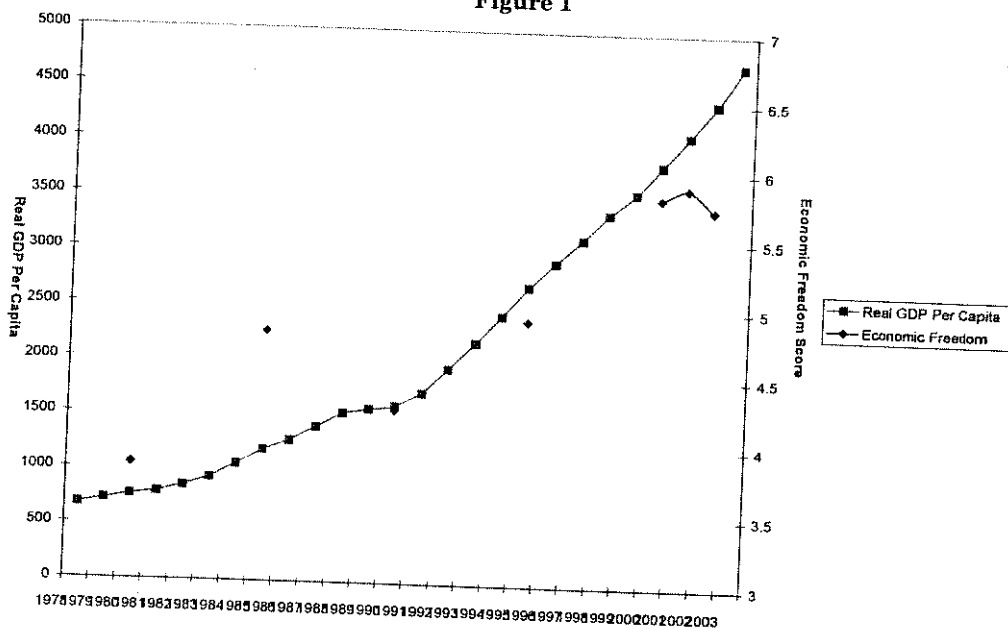
Does the development of present day East Asian economies correspond to the theory from section one? At first glance it may seem not. India and China are two of the most dynamic growers in the region, and neither is usually characterized as a beacon of economic freedom. Quite the opposite. In fact, of the 123 countries in the 2002 economic freedom rankings, India ranks 68th and China ranks 90th. Despite this, upon closer examination contemporary East Asian growth is consistent with our theory of entrepreneurial development.

Economic freedom levels are important for encouraging productive entrepreneurship that leads to economic growth, but so are improvements in freedom. When freedom has been repressed for an extended period, many entrepreneurial opportunities were not grasped because of institutional barriers. When these barriers are rolled back there are, in Olson's words, "big bills laying on the sidewalk" (1996: 1). Entrepreneurs quickly act to seize the opportunities, and growth rates jump while this occurs. As long as reform continues, growth rates should remain high, but if reform stalls growth should slow since new opportunities are no longer rapidly becoming available as barriers are rolled back. Since the overall entrepreneurial environment has improved, however, growth should remain higher than in the pre-reform period. This theory of development also predicts that the regions and sectors driving economic growth in countries that are improving their institutions should be the areas encompassing the greatest institutional reforms. With these implications in mind, we briefly examine the recent growth of China and India and then review data on the overall region.

China

Despite the fact that China remains nominally communist and is in the bottom third of the economic freedom rankings, it is actually the largest reformer in the region since 1980.⁴ China improved its 1980 economic freedom score of 3.8 to 5.7 by 2002 – an increase of more than 49 percent. Strong economic growth has accompanied the increase in economic freedom. Deng Xiaoping began China's reform process in 1978, when China's real GDP per capita was only \$673. By 2003 it had risen to \$4,726.⁵ Figure 1 plots China's GDP per capita and economic freedom index scores. As the figure shows, China's growth accelerated with initial reforms between 1980 and 1985, then slowed when China's freedom score declined slightly between 1985 and 1990. Since 1990 China has continuously made large improvements in economic freedom, and growth has again accelerated. China's overall growth and freedom is consistent with the above theory of entrepreneurial development and the institutions necessary to achieve it. Examining the different regions and industries where growth took place provides further evidence of this.

Figure 1



The lion's share of economic growth in China during the last 25 years has occurred in the newly emerged non-state sector. Reforms have allowed new forms of ownership, such as town and village enterprises, private firms, foreign invested enterprises, and subsidiaries of foreign corporations. In 1978 this non-state sector accounted for less than one-third of industrial output, but as freedom in this sector expanded, growth exploded. The non-state sector now accounts for more than two-thirds of industrial output (Dorn 2005: 2). In 2004, 3.8 million privately owned enterprises accounted for 60 percent of the nation's foreign trade (Dorn 2005: 2). Major changes in trade policy have

also helped fuel the private sector's growth. Only 12 state-owned enterprises had the right to import and export in 1978, but by 2001 more than 35,000 firms could do so (Dorn 2005: 13).

Some regions of China have opened up to private enterprise more than others. Starting in the mid-1980s, more economic freedom and foreign trade were allowed in special economic zones created in selected coastal cities. Most of the more economically free regions in China still tend to be coastal, as shown by the "Marketization Index" for the various regions of China created by Fan, Wang, and Zhang (2001). They rank regions according to how big the government is, what the firm ownership structure is like, how many trade barriers and price controls there are, the development of factor markets, and how secure the legal framework is. Dorn (2005: 16) finds that regions with higher scores on the marketization index are those that have grown the fastest. For example, from 1990-95 Guangdong, Zhejiang, and Fujian grew at an annual rate of more than 20 percent. In these regions, state-owned enterprises account for only a small fraction of output. In contrast, in Heilongjiang, the Nignxia Autonomous Region and Qinghai, where state-owned enterprises are more prevalent, growth was only 7-8 percent per year and this figure is likely overstated because the managers in state owned enterprises are likely to overstate production. Using the overall marketization index, Dorn finds that the GDP per capita in the six coastal provinces that score in the highest quintile on the marketization index is almost three times higher than the provinces in the lowest quintile and is even 70 percent higher than the provinces in the second highest scoring quintile (2005:16).

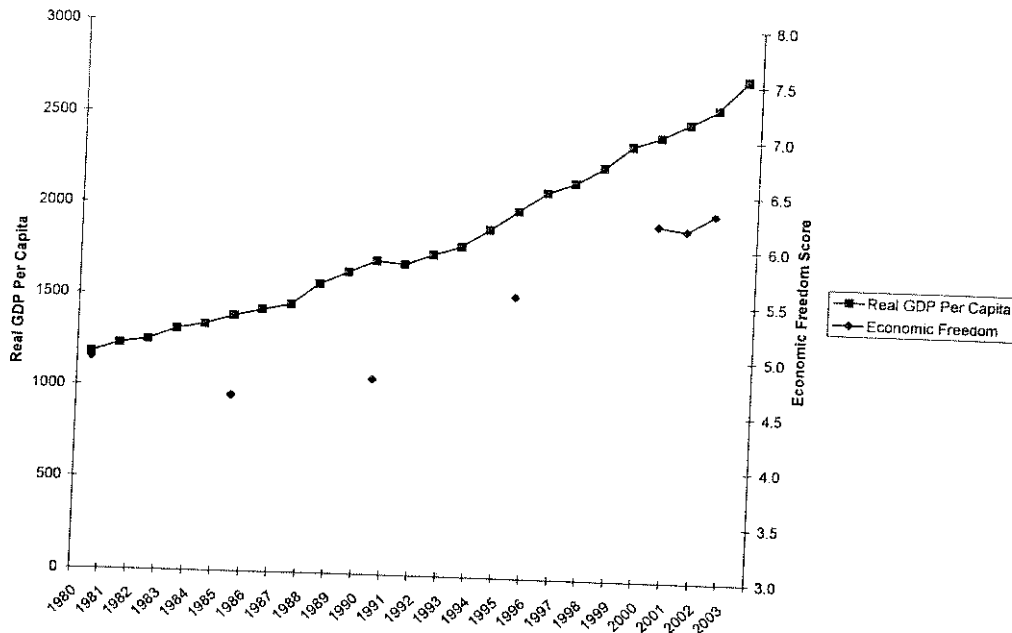
The evidence from China is overwhelmingly consistent with the notion that improvements in the entrepreneurial environment lead to economic growth. Despite the fact that it is still nominally communist, China has been the biggest pro economic freedom reformer in the region. Most of the growth has occurred in the private sector and those regions that have made greater pro-market reforms.

India

India, like China, still scores in the bottom third of the economic freedom index but has experienced an increase in economic freedom that has improved its entrepreneurial environment. India's reform period began as a reaction to a 1991 fiscal crisis. From 1990 to 2002 the nation improved its economic freedom index score by 32.8 percent. The only country in the region with a larger improvement was China. Though less dramatic than in China, India's accelerated economic growth also coincides with its period of reform. From 1980 to 1991 India increased its real per capita GDP at a rate of 3.03 percent. In 1991-2003, its growth rate picked up to 4.1 percent. These figures may understate the extent of India's turnaround, because, as Shah (2005: 2) notes, excessive government spending may have artificially created much of the "growth" in the 1980s. Figure 2 graphs India's per capita GDP and economic freedom index score for this period.

While India's overall turnaround is consistent with our theory of entrepreneurial development, it is again instructive to break down where reforms and growth occurred. When decomposing India's freedom index scores, the two main areas of reform have been in the size of government and freedom to trade categories. From 1990 to 2002, India's size of government score improved by more than 61 percent and its freedom to

Figure 2: India's Living Standard and Economic Freedom



trade score improved more than 58 percent. The improvement in the size of government ranking came mainly in the areas of government enterprises and investment and decreases in top marginal tax rates. In the freedom to trade category, improvements were made across the board, from decreases in tariff rates and regulatory barriers, to access to foreign capital. Prior to the reforms in 1990-91, the highest tariff rate stood at 355 percent, the average of all tariff rates at 113 percent, and the import weighted average of tariff rates at 87 percent (Panagariya, 2004: 24). During reforms the top rate has fallen numerous times and now stands at 25 percent in 2003-04 (Panagariya, 2004:24). Non-tariff barriers have dropped significantly as well. While 3,935 import items were prohibited, restricted, limited to only government enterprises, or required special import licenses in 1996, that number had fallen 85 percent to 568 in 2003 (Shah 2005: 17). Restrictions on foreign direct investment have been liberalized, and restrictions on capital mobility have improved. As a result of these reforms, India's trade to GDP ratio increased from 25 percent in 1992-93 to 35 percent by 2003-04 (Shah 2005: 2). In absolute numbers, from 1991 to 2004, India's combined imports and exports surged 362 percent to \$142 billion (Kulkarni 2005: 14).

Not all sectors in India have experienced liberalization. The poor in particular have not seen many of the benefits of liberalization because the main sectors in which they are employed, small-scale enterprises and agriculture, remain restricted. Shah (2005:11) notes that the poor,

Still live under the draconian license-permit-quota raj, as the system of extensive government intervention in India was known. Setting up a factory or a call center requires no license. But anyone wanting to run a tea-stall or to become a street hawker or a cycle rickshaw puller or

to work as a railway porter requires a license. For entry-level professions that require low skills and little capital, licenses are still required. The number of some of these licenses were fixed, sometimes 30-40 years ago, and never revised.

Similarly, he writes that for the rural poor who depend on agriculture,

Agriculture has been the area of least reforms. Much agriculture produce cannot be transported across a district line, let alone across the state or the country. India does not even have a common market for agriculture. A law in the state of Maharashtra requires farmers to sell their sugar cane to a specified sugar mill in the district. In Kerala, the law mandates that once the farm is registered as producing one crop, it cannot ever change! Recently, farmers who had planted sugar cane instead of rice saw their crop being uprooted by union workers. Unless agriculture is liberalized, the rural poor have little to look forward to (2005:12).

Although agriculture and small-scale enterprise have been some of the areas of least reform, the overall business regulatory environment has also not improved much since 1991. The index of economic freedom breaks down subcomponents measuring the regulation of business. Since 1995 scores for "time spent with government bureaucracy" fell 10 percent to 5.5, and "ease of starting a new business" remained flat at 5.0. Overall, according to the World Bank Doing Business report, it takes 89 days to start a business at a cost of just under 50 percent of India's GNI per capita.⁶

While India's overall business climate continues to be regulated, some areas have seen greater improvements. Telecommunications, information technology, and back office processing have all expanded more rapidly than India's overall economy. Once competition was allowed in the telecommunications sector, the number of connections exploded. Before 1995 India contained only 9.38 million telephone connections, but by 2005 there were 46.19 million fixed line subscribers and 52.22 million mobile phone users (Shah 2005: 6). The government neglected to regulate the software and back office processing industries that emerged in India, and their growth has been dramatic, about 54 percent during 2003-04 (Shah 2005: 7). Output of the Indian electronics and IT industry is estimated to have grown by 18.2 percent in 2003. Meanwhile, the number of Internet users in the country exploded from 6.6 million in 2000 to almost 32 million in 2003.

In the period from 1992-2001, agricultural output grew at an average rate of 3.2 percent, industrial output at 6.4 percent, and services at 8.1 percent (Shah 2005: 3). This falls in line with our predictions given India's reforms. Software and back office processing remained relatively less regulated and benefited greatly from India's opening to international trade and investment. While traditional industry benefited somewhat from the opening to trade, it remained encumbered by domestic regulations, and agriculture grew slowest while seeing few beneficial reforms. As such, India's growth is consistent with our theory of entrepreneurial development. Its overall growth rate improved when reforms to the institutional environment allowed entrepreneurs to seize previously ungrasped profit opportunities, and the fastest growing industries were those most closely tied to the areas of reform.

East Asia

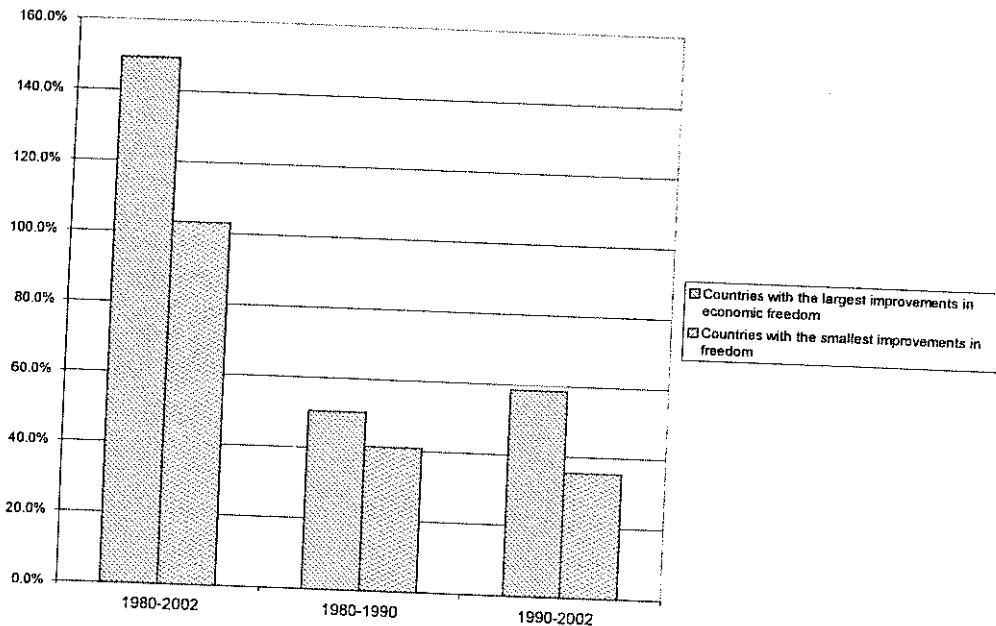
China and India both illustrate the growth that can be achieved by improving the institutional environment and allowing productive entrepreneurship. Although these

two major cases are illustrative, it is also useful to look at the other countries in the region to see how well they fit with our theory.

We used the 2004 Economic Freedom of the World report to obtain freedom scores for East Asian countries from 1980 to 2002. The World Bank World Development Indicators Online were used to compute real per capita growth rates. We have data for 14 countries for the entire time period and for Papua New Guinea from 1990-2002.⁷

Since improvements in the institutional environment that promote freedom allow entrepreneurs to seize previously ungrasped profit opportunities, our theory predicts that countries with larger improvements in economic freedom grow at faster rates than those with smaller improvements. Figure 3 breaks countries into two groups. One contains the half of the countries in East Asia with the biggest improvements in economic freedom, and the other contains the half with smaller improvements. The overall time period is examined as well as just the 1980s and 1990 to present, as in some cases countries reformed in one decade but not the other.

Figure 3: Change in Income of Reformers



We find that, for the whole time period and the individual decades, the groups of countries who improved their freedom more also achieved higher growth rates. For the overall time period, the top group of countries improved their freedom score by 31.7 percent and expanded their real per capita income by 149 percent, while the bottom half of countries improved their freedom score by 9 percent and expanded their economies by 103 percent.

Figure 4

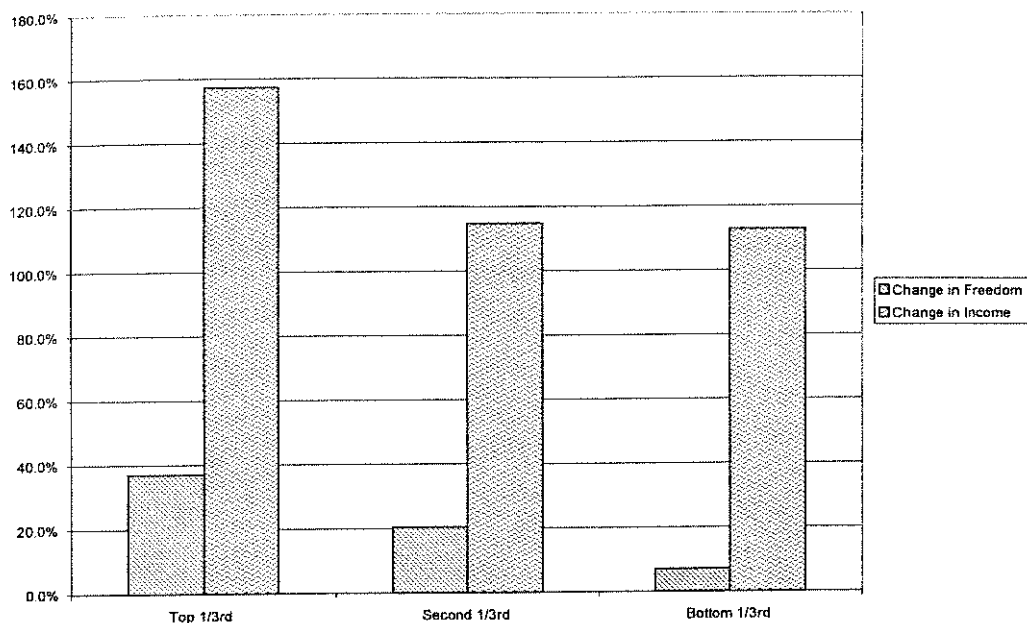


Figure 4 splits countries into thirds by amount of reforms. We again find the predicted relationship. The top third of countries improved their freedom score by an average of 37 percent and increased their real per capita incomes by 157 percent. The second third improved their scores by 20 percent and increased their incomes by 115 percent. The bottom group increased their freedom scores by 7 percent and increased their incomes by 112 percent.

Although more statistical work can be done in the East Asian region, our initial examination is consistent with our theory of entrepreneurial development and with prior empirical work that has found a relationship between improvements in economic freedom and rates of economic growth (Dawson 1998, Gwartney, Lawson, and Holcombe 1999, de Haan and Strum 2000, Pitlik 2002, Weede and Kampf 2002).

CONCLUSION

At a theoretic level this paper explored the literature on the important role the entrepreneur plays in economic development by acting on previously unnoticed profit opportunities and creating new opportunities for other entrepreneurs to act on. The key role the institutional environment plays in directing entrepreneurship toward productive activities was examined. It was shown that by improving the entrepreneurial environment, previously unavailable profit opportunities will become available, and as entrepreneurs seize these opportunities, growth rates should increase. These insights were identified as an engine of growth and linked to the empirical literature that finds that both the level of and improvements in economic freedom are important in explaining economic growth.

Then East Asia was examined to see if it fit with this theory of entrepreneurial economic development. We found evidence that both the historic "Asian Tigers" and contemporary East Asian economies are consistent with our theory of development. Although both China and India score poorly on economic freedom, their growth has coincided with tremendous improvements in economic freedom, and the sectors and regions in these economies that have grown the most are those that have seen the largest reforms. In the East Asian region as a whole, those countries that have improved freedom the most have also achieved higher economic growth rates.

To promote development in East Asia and other regions of the world, policies should focus on increasing economic freedom to improve the institutional environment in which entrepreneurs operate. Improvements in this environment make greater economic growth possible.

NOTES

I thank Alex Padilla for helpful comments on an earlier draft and Nick Rotsko for research assistance. The usual caveat applies.

1. See Barreto (1989) for a systematic analysis of the disappearance of the entrepreneur from neoclassical economics.
2. In this case, some may even question whether the term "entrepreneurship" describes this action since transfer seeking does not aid the market's process of coordination.
3. Statistics in this paragraph draw on Powell (2005).
4. According to the Gwartney and Lawson (2004) Index, Bangladesh increased freedom by a greater percent. However, Bangladesh's ranking may contain a measurement error. While the Gwartney and Lawson index shows Bangladesh improving by 18.6 percent since 1995, the Heritage/WSJ Index of Economic Freedom shows a 6.5 percent decrease. Because of the size of the discrepancy between the two indexes, Bangladesh was excluded from our sample of East Asian countries.
5. Data is from the World Bank World Development Indicators Online and is measured in constant 2000 dollars PPP.
6. <http://www.doingbusiness.org/ExploreEconomies/BusinessClimateSnapshot.aspx?economyid=89>.
7. These countries were Australia, China, Fiji, Hong Kong, India, Indonesia, Japan, Korea, Malaysia, New Zealand, Papua New Guinea (from 1990), Philippines, Singapore, Sri Lanka, and Thailand. Bangladesh is again omitted because of questions about the accuracy of its freedom score.

REFERENCES

- Amsden, A. (1989), *Asia's Next Giant: South Korea and Late Industrialization*. New York, NY: Oxford University Press.
- Barreto, H. (1989), *The Entrepreneur in Microeconomic Theory: Disappearance and Explanation*. London: Routledge.
- Baumol, W. (1990), "Entrepreneurship: Productive, Unproductive, and Destructive." *Journal of Political Economy*. 98 (5): 893-921.
- Berggren, Niclas (2003), "The Benefits of Economic Freedom: A Survey." *The Independent Review*. Vol. 8. No. 2. pp. 193-211.
- Buchanan, J. and Tullock, G. [2001 (1962)] *The Calculus of Consent*. Ann Arbor, MI: University of Michigan Press.
- Choi, Y. (1994), "Industrial Policy as the Engine of Economic Growth in South Korea: Myth and Reality." In Boettke, P. (Ed.) *The Collapse of Development Planning*. New York, NY: New York University Press.

- Dawson, John (1998), "Institutions, Investment and Growth: New Cross-Country and Panel Data Evidence." *Economic Inquiry*. Vol. 36 pp. 603-619.
- Dorn, James (2005), "Institutions and Development: The Case of China." in Powell, B. (Ed.) Making paper Nations rich: Entrepreneurship and the process of Development, Standord University Press, Forthcoming.
- Easton, Steven and Walker, Michael (1997) "Income, Growth, and Economic Freedom." *American Economic Review*. Vol. 87. No. 2. pp. 328-332.
- Evans, P. (1995) *Embedded Autonomy*. Princeton, NJ: Princeton University Press.
- Fan, G.; Wang, X.; and Zhang, L. (2001) "Annual Report 2000: Marketization Index for China's Provinces." National Economic Research Institute, China Reform Foundation. Beijing (April). Reprinted in *China & World Economy*, No. 5 (2001). See www.iwep.org.cn/wec/english/articles/2001_05/5fangang.htm.
- Gwartney, James, Holcombe, Randal and Lawson, Robert (1999) "Economic Freedom and the Environment for Economic Growth." *Journal of Institutional and Theoretical Economics*. Vol. 155. No. 4. pp. 643-663.
- Gwartney, James, and Lawson, Robert (2004) *Economic Freedom of the World*. Vancouver, CA: Fraser Institute.
- Haan, Jakob de, and Strurm, Jan-Egbert (2000) "On the Relationship Between Economic Freedom and Economic Growth." *European Journal of Political Economy*. Vol. 16 No. 2 pp. 215-241.
- Hayek, F. (1940) "The Competitive "Solution."" *Economica*. 8 (26).
- Hayek, F. (1945), "The Use of Knowledge in Society." *American Economic Review*. 35 (4): 519-530.
- Henderson, D. [2002 (1993)] "Japan and the Myth of MITI." *The Concise Encyclopedia of Economics*. Indianapolis, IN: Liberty Fund. Available at <http://www.econlib.org/library/Enc/JapanandtheMythofMITI.html>
- Herbert R.F. and Link, A. N. (1988) *The Entrepreneur: Mainstream Views & Radical Critiques*. (2nd ed.). New York: Praeger.
- Holcombe, Randall (1988), "Entrepreneurship and Economic Growth." *Quarterly Journal of Austrian Economics*. Vol. 1, No. 2 pp. 45-62.
- Johnson, C. (1982) *MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925-1975*. Stanford, CA: Stanford University Press.
- Kirzner, Isreal (1973), *Competition and Entrepreneurship*. Chicago: University of Chicago Press.
- Knack, Steve (1996), "Institutions and the convergence hypothesis: The cross-national evidence." *Public Choice*. Vol. 87: 207-228.
- Kulkarni, Kishore (1995), "Effect of Globalization on India's Economic Growth." *Working Paper*.
- Lavoie, D. (1985), *National Economic Planning, What is Left?* Cambridge, MA: Ballinger Publishing Company.
- Miles, Marc, Feulner, Edwin, and O'Grady, Mary (2004) *Index of Economic Freedom*. Washington D.C.: Heritage Foundation and *The Wall Street Journal*.
- Mises, L. [1990 (1920)] *Economic Calculation in the Socialist Commonwealth*. Auburn, AL: Ludwig Von Mises Institute.
- Mises, L. [1998 (1949)] *Human Action*. Auburn, AL: Ludwig Von Mises Institute.
- Naka, S., Brough, W., and Tanaka, K. (1994) "The Political Economy of Post-World War II Japanese Development: A Rent-Seeking Perspective." In Boettke, P. (Ed.) *The Collapse of Development Planning*. New York, NY: New York University Press.
- Olson, M. [1971 (1965)] *The Logic of Collective Action*. Cambridge, MA: Harvard University Press.
- Olson, M. (1982), *The Rise and Decline of Nations*. New Haven, CT: Yale University Press.
- Olson, M. (1996), "Big Bills Left on the Sidewalk: Why Some Nations are Rich, and Others Poor." *Journal of Economic Perspectives*. Vol. 10. No.2. pp.3-24.

- Panagariya, Arvind (2004), "India in the 1980s and 1990s: A Triumph of Reforms." *International Monetary Fund Working Papers*. 04/43.
- Pitlik, Hans (2002), "The Path of Liberalization and Economic Growth." *Kyklos*. Vol. 55, No. 1. pp. 57-80.
- Powell, B. (2002), "Explaining Japan's Recession." *Quarterly Journal of Austrian Economics*, Vol. 5, No. 2 (Summer 2002): 35-50.
- Powell, B. (2005), "State Development Planning: Did It Create an East Asian Miracle?" *Review of Austrian Economics*. Vol. 18, No. 3/4: 305-323.
- Powell, B. (2005), "Japan." In Henderson, D. (Ed.) *Concise Encyclopedia of Economics*. Indianapolis, IN: Liberty Fund. Forthcoming.
- Schumpeter, Joseph (1934), *The Theory of Economic Development*. Cambridge, Mass.: Harvard University Press.
- Shah, Parth and Renuka Sane (2005), "India: The Elephant in the Age of Liberation." To be published in Powell, B. (Ed.) *Making paper Nations rich: Entrepreneurship and the process of Development*, Standord University Press, Forthcoming
- Sobel, Russell, Clark, J.R. and Lee, Dwight (2005), "Freedom, Barriers to Entry, Entrepreneurship, and Economic Progress." *West Virginia University Working Paper*.
- Stiglitz, J. (1996), "Some Lessons from the East Asian Miracle." *The World Bank Research Observer*. 11(2): 151-177.
- Stiglitz, J. (2001), "From Miracle to Crisis to Recovery: Lessons from Four Decades of East Asian Experience." In Stiglitz, J. and Yusuf, S. (Ed.) *Rethinking the East Asian Miracle*. New York, NY: Oxford University Press.
- Wade, R. (1990), *Governing the Market*. Princeton, NJ: Princeton University Press.
- Weede, Erich, and Kampf, Sebastian, (2002) "The Impact of Intelligence and Institutional Improvements on Economic Growth." *Kyklos*. Vol. 55, No. 3. pp. 361-380.
- Woo-Cumings, M. (1999), *The Developmental State*. Ithaca, NY.: Cornell University Press.
- World Bank (2005), *Doing Business*. www.doingbusiness.org
- World Bank (2005), *World Development Indicators Online*. www.worldbank.org/data/wdi