

# COMMON GROUND IN PROMOTION OF ENTREPRENEURSHIP AND HUMAN RIGHTS

by

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## ABSTRACT

A failure in providing human rights is generally due to at least four factors: bad governance, vested interests, cultural factors and poverty. We cannot eliminate human rights violations without a local countervailing power sustained by good governance. Local entrepreneurs, who are essential for creation of sustainable broad-based wealth, can provide just such countervailing power. This paper studies joint action by advocates for entrepreneurship on the right side of the political spectrum with advocates for human rights on the left. The statistically testable hypothesis here is that joint advocacy will not be at cross-purposes. Accordingly, we analyze data for seven variables dealing with governance, corruption, entrepreneurship activity, human rights, capital markets and economic freedom. The significant correlations between pairs of variables from left and right wings support a joint action. Somewhat surprisingly, borrowers from countries having a poor human rights record do not pay a significantly higher interest rate penalty in capital markets. An appendix lists 50 items involving economic freedoms, of which only 10 might lead to disagreements. If the two sides focus on what they agree and support a centrist position, they can become a formidable joint force in favor of higher living standards and improved human rights around the world.

*Key Words:* , Good governance, Cost of capital, Corruption, Economic Growth,  
Economic Freedom, Left-Right, Multinationals

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## 1. Introduction

President Franklin Roosevelt's 1941 "Four Human Freedoms" speech set the stage for the postwar human rights movement. He emphasized freedom of speech and expression, freedom of worship, freedom from want, and freedom from fear. Members of the United Nations later adopted the "universal declaration of human rights," which contains similar ideas. Commonwealth Human Rights Initiative of London and Delhi, India, had invited me to contribute to 2003 Report, which added a third generation human right called "Right to Information." Human rights violations are generally due to many factors including the following: bad governance, vested interests, cultural factors and poverty. We cannot eliminate human rights violations without a local countervailing power sustained by good governance. Hence human rights often involve a local fight against the powerful. It is beyond a left wing socio-political ideology of compassion and becomes more than a legal matter, since the laws have to be enforced and criminals punished.

Clearly, wealth is necessary for power. As a known force for creation of sustainable broad-based wealth, this paper considers whether entrepreneurship can also provide the needed countervailing power mentioned above. David Bornstein (2004) has popularized the notion of social entrepreneurship. Let us define it broadly as socially responsible

wealth creation and job creation with proper regard to the environment and labor welfare. Social entrepreneurs give some weight to the social profit beyond their financial gain, viewing business as an agent for social change. Social profit includes pre-tax earnings, viewing the taxes paid as a positive contribution to local and national governance. Social profit is earned in the form of enhanced mutual trust in business transactions, which are a foundation of prosperity induced by free enterprise. A survey of the large economics literature on entrepreneurship, Formatini (2004), lists nine views starting with Cantillon in the 17th century and conveniently tabulates who agreed or disagreed with them. A special issue edited by Kourilsky and Walstad (2003) is on social entrepreneurship.

In many communities social entrepreneurs coexist with arrogant businessmen who abuse their status and power, exploit workers and foil the environment for their personal gain. Unfortunately, the latter are more newsworthy and give entrepreneurship a bad name. Social entrepreneurs often have no forum to defend themselves against gossip and rumors alleging corruption and other misdeeds. Hence great many people including human rights activists tend to distrust all entrepreneurs. Unfortunately, such distrust discourages young persons from entering the business world. In the traditional division of employer versus labor, all advocates for entrepreneurs such as chambers of commerce naturally belong to the right wing of a political spectrum.

A good way to introduce true entrepreneurship to young people is by using stories similar to the following. School children were shown a photo slide of a person in a wheelchair and asked, "*Can* this person drive a car?" The answer was a straight "No." When another group of children was shown the same slide and asked, "*How Can* this person drive a car?" students' hands went up with suggestions. It was a whole different conversation. It is the latter kind of thinking that characterizes the opportunity-oriented mindset of an entrepreneur. Most entrepreneurs develop efficient, scalable and self-supporting business models, identify and evaluate opportunity and then start a business. They meld strength achieved by focus with a business strategy. For example, Smith (2001) describes of a Mexican entrepreneur who raised flowers and paid a living wage to workers so they will not migrate to the US. This view and such examples need to be discussed in communities where human rights violations are alleged.

Human rights activists desire changes in social attitudes and behavior of those in power by using regulatory and legal tools to establish human rights standards. Business activists also seek similar types of changes concerning economic life so that the entrepreneurs can make investment choices. Now both types of activists ultimately want to see many of the same things (i.e., widespread purchasing power, personal & economic freedom, access to education, security, due process with fair play, public utilities and transparency), yet they do not seem to cooperate, perhaps due to an ideological conflict concerning the best means to achieve the desired ends.

This paper is prepared for the August 2005 Conference at Fordham University in New York, which hopes to start a dialogue among advocates for entrepreneurship and human rights. A short history leading up to the idea of the conference is given in Appendix 1 of this paper. The timing of the conference is advantageous, being just before the World Summit of the largest collection of heads of state from countries around the world at the United Nations headquarters in New York, September 14-16. The human rights groups already appear to have obtained a voice in the summit. However, their pleas are more

likely to turn into practical actions if they use a centrist position advocated here. They need to harness the energies and resources of local entrepreneurs to their cause.

If and when the two groups settle their differences and speak with one voice, human rights-economic opportunity nexus will become the mainstream for public policy and research. For example, consider the problem of illegal Mexican immigrants in the US. Mexican entrepreneurs clearly lose when their good employees leave for the US after they are trained. It must hurt them all the more if their workers choose to become undocumented, rather than stay in their current jobs. The employee morale in US workplaces is hurt (i) when anyone abuses, threatens or hurts workers or their families, and (ii) by the uncertainty about the immigration status. If human rights activists join forces with business interests and find a centrist common ground by negotiation, they can draft specific proposals, which are likely to succeed in the US Congress.

The following discussion shows that if both sides disavow their left /right prejudices, cooperation is plausible. One of the useful tools in the human rights movement has been the use of television and media to expose the abusers of human rights. However, the activists fail to recognize that they may owe their success to a right wing idol called competition. It is the competition among national and international media outlets, along with press freedoms, which make persuasive media coverage possible. In general, business interests need honest and competitive economic life with property rights, anti-trust laws, fast and fair enforcement of business contracts, etc. These conditions are also implicit in Roosevelt's four freedoms, mentioned earlier as important to human rights. Similarly, competitive (adversarial) legal proceedings and free competitive elections for choosing political leaders promote greater justice and human rights. Jeffersonian checks and balances are important for competitive socio-economic and political institutions. These checks help prevent the abuse of power by the government, vested interests, or any other entrenched monopolist against disadvantaged persons or against maverick entrepreneurs. Thus **competition** is the first key word on which the two groups can agree.

The second key area of agreement between the two groups is the need for capital **infrastructure**. Access to education, credit, security, due process and public information are as essential to entrepreneurs as they are for human rights. The infrastructure consists of both human and physical capital. When a government respects human rights, it helps in the development of human capital, which includes the creative energies of all people.

The third area of potential agreement is the desirability of **migration**. If immigrants learn skills and return home as entrepreneurs, it can be beneficial for all concerned. The great renaissance artist Michelangelo migrated to Rome, allegedly because Rome gave him "a wall to paint". Each individual needs a figurative wall to paint, and talented people should be allowed to move from one place to another. Initially, the immigrants from the developing countries will help the local economy by copying things. Even imitation, modified to suit local conditions in developing countries, will require innovative cost reductions.

The fourth area of potential agreement arises from the opposition of both groups to a **common enemy**. There are powerful vested interests that seek rents, demand bribes, monopolize power, stifle innovation, and block reforms. Among obvious common enemies are bigoted suppressors minorities and women, extortionist thugs, money launderers, tax-cheats, defrauders and assorted criminals. All such overt or covert entities, whether within government or outside, can and should be opposed jointly.

The fifth area is preservation of property rights and fair taxation, which does not confiscate hard-earned rewards from entrepreneurs. Incentives for private initiative need to be preserved. Both human rights and property rights cannot be assured without the **rule of law**. However, if business advocates seek (economically unsound) preferential policy, regulatory concessions, or special legal or tax advantages, they will alienate human rights groups.

Although relative priorities can be different, we have so far noted five main factors on which human rights and business advocates can agree. Since we do not see much actual cooperation, let us discuss some of the reasons behind this anomaly. The *first* reason appears to be **ideological** left/ right divide. Human rights advocates are viewed as left wing bleeding hearts and entrepreneurship advocates are viewed as right wing *laissez faire* apologists for the wealthy and the powerful. In fact, these ideological characterizations are false and misleading.

The *second* reason for the apparent lack of cooperation may be perceived differences in **habits and attitudes**. In fact, there are only mild differences among those who succeed as entrepreneurs and those who succeed as human rights advocates. Both need charisma, leadership and persistence. Successful entrepreneurs often appear to be obsessed, willing to give up everything for a particular dream. But when something is obviously outdated, entrepreneurs are flexible and are willing to move on to something different. The flexibility in moving from one obsession to another (or serial entrepreneurship) is also admired. Although most human rights advocates have only one passion, the successful ones do show flexibility in field tactics and practical emphasis. Nijkamp (2000) notes the importance of networking for successful entrepreneurship and finds that urbanization is helpful. The successful human rights advocates often exploit the same tools and conditions.

Many successful CEOs have their initial venture die, sometimes leading to bankruptcy. Entrepreneurship thrives in societies that are willing to permit honest failures. If the system starts punishing failure, that will not encourage entrepreneurship in the long run. Entrepreneurs learn from their mistakes, are often reborn and reinvigorate themselves and their organization. Some even joke about their failures by saying “you cannot reach heaven before you die.” Hence entrepreneurs expect those who fail to pull themselves up, and may even blame the victims of human rights abuses in private conversations. They need a better understanding of the true dynamics of human rights abuse. Similarly, human rights advocates need to understand that a victim mentality is not helpful in the long run. If the victims seek training and stop complaining, they will earn the respect and support of entrepreneurs.

The key to success in business is to create value for the customers by selling a superior product at a lower cost provided to customers in a friendly and courteous environment. Many successful businesses have rather modest and humble beginnings, no big fancy offices or fat monthly checks unrelated to earnings. Some entrepreneurs attribute their success to only one customer, and describe how other customers discovered them by the word of mouth. Although all share an innovative spirit, risk-taking and creativity, specific talents and personal habits needed to become a great innovator, entrepreneur or manager are generally distinct. Great scientists can be poor entrepreneurs and great entrepreneurs can be poor managers. In the absence of patent protection, there is little evidence that the creator of the original idea gets a major commercial advantage.

The human rights advocates consider the facts in the previous paragraph and perhaps conclude that the members of victim communities they want to help can never acquire these attitudes and characteristics. The remarkable success of micro credit (Grameen Banks) shows that even semi literate rural women can succeed. We should not underestimate the potential of local entrepreneurs, especially after training, financial support and better understanding of so-called niche opportunities described in the next paragraph.

In general, there are many **niche products** or markets where the dominant producer is unable to meet a specialized demand, and hence there is room for a niche plays strategy. The niche has to be discovered, perhaps requiring some detective work and an ear to the ground. If the product is mature, the niche is usually found by addressing the needs of a section of consumers. Byron (2005) points out that studying some classical paintings can sometimes teach the art of careful observation of human reactions. The local would-be entrepreneur should study subtle reactions of consumers to available products. On the other hand, if the product is relatively new or technology-driven, the consumers do not know about it anyway, and the niche is found by innovation in design, packaging or implementation. Intel Corporation invests in such innovative technology startups, and collaborates with the University of Berkeley in teaching entrepreneurship to engineers.

There are many self-help books on entrepreneurship. Hansen and Allen (2005) contain several useful hints for those wishing to be entrepreneurs, including a notable statement: “Goliath was the best thing that ever happened to David.” If human rights advocates recognize such training and a focus on detecting niche possibilities, they will be willing to create a common cause with big and small local entrepreneurs.

Uhlener, et al (2002) use entrepreneurship and cultural factors data from rich OECD countries. They report that life satisfaction and religiousness (measured by church attendance) have a negative effect on self-employment, whereas political left-right extremism has a positive effect on entrepreneurship. Possible lessons for both groups from this are: (i) do not look for much help from self satisfied or religious groups, and (ii) do not be afraid of being classified as left or right wing. One caveat is that the cultural factors or their measurement in rich countries may not be relevant for developing countries.

The *third* difference preventing cooperation between the two groups is that most entrepreneurs view **multinational** corporations as desirable, while some human rights groups view them with suspicion. Once an entrepreneur successfully establishes a business, she has to diversify by going beyond one individual, one product, and one market. This is how many multinational corporations are born. For example, Mr. Bert Twaalfhoven, a famous Dutch entrepreneur, started 54 companies over 40 years in 11 countries. Entrepreneurship then becomes a marathon, not a 100-meter dash. In the long run, entrepreneurs as a group, including multinationals, help shift resources into channels most likely to create wealth. This leads to globalization, which can be temporarily painful to some groups. However, human rights groups need to understand that ultimately dynamic reallocation of resources into areas where there is greatest public demand is the only way with a proven record of achieving prosperity for all.

Meyer (1996) reports on the positive effect of multinational corporations on political rights, civil liberties, and socio-economic rights in developing countries. Although local politicians often strongly criticize multinationals for selfish motives and bad faith, the

evidence reported by Meyer reveals that multinationals promote human rights. For one thing, multinationals provide a countervailing power against the local exploiters of weak segments of society. Since they are transparent organizations answerable to their shareholders, they can serve as the eyes and ears of the international community. Moreover, the presence of multinationals provides local entrepreneurs certain niche opportunities to create wealth. Thus, despite the profit motive, multinational corporations help sustain positive human rights effects.

Smith (1999) argues that Meyer's results should not be an excuse to deny the importance of social rights and environmental regulations curbing the excesses by the multinationals. In any case, human rights advocates should try to improve rather than drive out the multinationals.

We have indicated five areas of potential cooperation and three areas where work might be needed if the two groups are going to create a joint front. Not all entrepreneurs have the broad long-run perspective to want to collaborate with the human rights movement, and vice versa. This paper hopes to convince enough members of the two groups that there are common grounds to be explored with some negotiations and give and take. Section 2 discusses data sources. Section 3 considers empirical evidence regarding the presence of common grounds. It supports my arguments by statistically evaluating the hypothesis that joint advocacy will not be at cross-purposes and therefore it can achieve more than separate and fragmented advocacy. Section 4 has final remarks.

## **2. Discussion of Data Sources**

Section 1 has listed several factors on which the advocates for entrepreneurs and human rights can potentially agree. This Section describes, in limited detail, some of the international data sources used in this study. We begin by a description of the seven data variables used in this study. For discussion purposes, the data in subsections 2.1 to 2.3 are considered centrist. The two human rights variables in subsection 2.4 are left wing and those in subsections 2.5 and 2.6 are right wing. Section 3 will present a table containing correlation coefficients between seven pairs of variables and their statistical tests to evaluate whether the data support joint advocacy.

**2.1 Description of GGI.** A broad view of corruption is achieved by considering corruption problem as a manifestation of bad governance. World Bank experts have recently focused on good governance and attempted to measure it. For example a World Bank study by Kaufman, Kraay and Mastruzzi (2003) uses six aspects of good governance to construct six sets of data for over 100 countries. Vinod (2003b) has developed a good governance index (GGI) constructed in three simple steps, which use a linear transformation. A measure based on all six dimensions listed below is rigorous and worthwhile for assessing how well a country is managing its own internal affairs.

(1) Voice and Accountability: Do the citizen participate in the political process to select leaders? Do they enjoy civil liberties and political rights? Are the media independent? Are those in authority accountable?

(2) Political Stability: What are the chances for violent overthrow of the government? Is the current governance compromised by the likelihood of such overthrow? Can the citizen of the country peacefully select and replace those in power?

(3) Government Effectiveness: Is the bureaucracy competent? Are the civil servants independent? Can the governments implement good policies and deliver public goods?

(4) Regulatory Quality: Are the policies market-friendly? Is there adequate Bank supervision? Is there burdensome regulation in foreign trade and business development?

(5) Rule of Law: Are agents confident in the rules of society? Is the judiciary effective in combating crime? Are contracts enforceable? Are rules fair and predictable for economic and social interactions? Are the property rights protected?

(6) Control of Corruption: How frequent are the bribes needed to get things done? Are government powers used for private gain? Has the governance failed to reduce corruption?

Using the six dimensions noted above, the GGI variable is designed to measure good governance. Kaufman, Kraay and Mastruzzi's (2003) report provides explicit aggregate indicators of the above-mentioned six dimensions of governance. These authors use the so-called "unobserved components method" to construct indicators in the range  $[-2.5$  to  $2.5]$ , with higher values representing better governance. The data are mostly based on perceptions of governance from 25 different sources created by 18 organizations. They include cross-country surveys of firms, commercial risk-rating agencies, think tanks, government agencies, international organizations, etc. The World Bank authors first create some 200 proxy variables for governance and then organize them into six clusters for 1996, 1998, 2000, and 2001, for some 199 countries. The six clusters try to answer some specific questions listed above.

Observed indicator  $k$  of governance in country  $j$ ,  $y(j, k)$ , is a noisy indicator of unobserved true governance in country  $j$ ,  $g(j)$ . The unobserved components model is given by:

$$y(j, k) = \alpha(k) + \beta(k)[g(j) + \epsilon(j, k)], \quad (1)$$

where  $\alpha$  and  $\beta$  are parameters empirically estimated for each governance indicator by the World Bank researchers. The measurement error  $\epsilon(j, k)$  has variance, which is assumed to be the same across countries for each data source, but different across data sources. Formal identification of parameters is achieved by assuming that the measurement errors are uncorrelated across data sources.

Finally we are ready to describe how Vinod (2003b) aggregates the  $y(j, k)$  indicators into good governance index (GGI) in three simple steps. Briefly, GGI is a linear combination and transformation of the World Bank's six governance indices  $y(j, k)$  in eq. (1). Step 1 is to sum the six indices in the range  $[-2.5$  to  $2.5]$  provided by the World Bank report. Step 2 divides the sum by 6 to represent an overall index in the original range  $[-2.5$  to  $2.5]$  and denotes it by  $S_2$ . Step 3 uses the formula  $GGI = (2/10) * (S_2 + 2.5)$  to force  $S_2$  in the intuitively meaningful range  $[0$  to  $1]$ . Thus GGI measures governance where 1 means a best-governed country.

**2.2 Description of CPI2004.** Vinod (1999) used corruption perception index (CPI) scores published by Transparency International, reporting on perceptions of the degree of corruption as seen by business people, academics and risk analysts. The CPI ranges between 10 (highly clean) and 0 (highly corrupt). Since a higher CPI score meaning less corrupt is somewhat counterintuitive, it may be better to think of CPI as corruption purity index. The CPI2004 data is available for a large number of countries at the Transparency International's website.

**2.3 Description of ExtraCoK variable:** The cost of borrowing to create physical capital is known to be higher in corrupt countries. For example, an international accounting firm, Price-Waterhouse-Coopers (2001), surveyed chief financial officers and their own personnel. The survey asks information about the percentage penalty in terms of cost of capital due to lack of transparency and corruption in 34 countries.

Vinod (2003) summarizes Price-Waterhouse-Coopers data by computing a weighted average evaluated at the midpoints of their intervals, weighted by frequencies. Let us call it extra cost of capital (ExtraCoK). For example, the data reveal that the cost of capital was higher by over 4.4 % per year for Indonesia. When one considers the large borrowings in billions of dollars the 4.4% becomes huge and avoidable. This means that entrepreneurs in Indonesia have to pay the higher cost, and hence are likely to be less competitive. Vinod (2003) uses ExtraCoK data to show that higher cost of borrowing hurts foreign direct investment and indirectly hurts economic growth.

**2.4 Description of Variables (CivilLibs & PoliRights) Related to Human Rights:** Freedom House (1973) is a well-respected, UN-approved non-governmental organization. It publishes objective reports using annual surveys on the status of political and other freedom in various countries since 1973. Their 2005 report, available on the Internet, uses the survey methodology to report on civil liberties (CivilLibs) and political rights (PoliRights) in 193 countries around the world based on events between December 2003 and November 2004. The reported numbers range between 1 and 7, with 1 meaning most free and 7 the least free. It is somewhat counterintuitive that a larger number means less free. We do not use Freedom House's broad categorization of countries into free, not free, etc. Instead, we use the two sets of numbers under CivilLibs and PoliRights.

**2.5 Description of TEA2004:** Similar to corruption and human rights, entrepreneurship is difficult to measure. The Global Entrepreneurship Monitor (GEM) program by Babson College in Massachusetts and London Business School is a unique new source of data for our purposes. The GEM project has published Reynolds et al (2004). It uses survey statistics to report data on 40 countries. They surveyed adult population between ages 18 to 64 to locate those who are active in entrepreneurial activity. The 40 countries cover a population of 2.4 billion in working ages and the authors estimate that some 300 million are nascent entrepreneurs who are trying to establish some 192 million firms.

An important point made in the GEM report is that job creation is highly correlated with business start-up activity with the new firms providing between 2 and 15% of all jobs in the 40 countries. It is also interesting that many entrepreneurs enter that activity for lack of any other choices, i.e., out of necessity, and that necessity entrepreneurship is greater in poor countries. Reynolds et al (2004) have data on total entrepreneurial activity (TEA) for the 40 countries. The TEA index for 2004 is referred to as TEA2004. These data appear to focus on actual occupation of the surveyed persons to assess whether they are behaving like self-employed entrepreneurs.

**2.6 Description of EcFree:** The Wall Street Journal and the Heritage Foundation make available data on Economic Freedom (EcFree), distinguished from political

freedom, for some years. Miles (2004) has the 2004 data. The distinguishing examples are Hong Kong and Singapore who are considered most free in terms of economic freedom, even if they lack political freedom according to the Freedom House data.

The construction of economic freedom index (EcFree) is based on scores in the range (1 to 5), with 1 for most free and 5 for least free. The right wing ideological point made by the Wall Street Journal and Heritage Foundation is that “less is better” for each of the ten factors. Appendix 2 lists the 50 items (10 factors with many sub-parts) in this international comparison where economic freedom means “less is better” for each of the 50 items. It is fair to assume that EcFree list is consistent with the viewpoint of the advocates for entrepreneurs. Unfortunately, many in the human rights movement will regard such unfettered economic freedom as potentially detrimental to human rights on ideological grounds. Instead, I recommend that they consider the detailed list of the 50 items, and quibble only about specific items of potential disagreement. It is convenient to assign an incompatibility code, NC (representing no cooperation) to only some of the total of 50 items.

For example, in Appendix 2, Part (a) under Factor #7 refers to minimum wage laws. EcFree is measured so that countries with such laws will get a higher score implying a lack of economic freedom. This is a controversial topic in economics with mixed empirical evidence. The competing claims are: (i) minimum wage laws hurt by denying employment to the disadvantaged, (ii) minimum wage laws help by offering a decent living standard to the ones who do obtain employment. Which of the two effects dominates in a given country obviously depends on the *level* of the minimum wage payments. Clearly, we should attach the code NC to this item because of the potential disagreement here between EcFree and human rights advocates.

Appendix 2 has a subjective incompatibility (NC) code to ten items from the list, when in my personal judgment, the advocates for economic freedom are not likely to agree with human rights advocates. The Appendix also includes some items related to infrastructure which do help economic freedom, but which are not included in the official list. I hope that future versions of EcFree will include them. The proposition that less government might be more efficient, less corrupt and hence potentially good for human rights is supported by the results presented below and also by considerable related research, including my own. Hence it is not surprising that the two sides can potentially agree on 40 out of 50 items. This completes our description of the seven sets of variables. In future work it would be useful to include additional data sources.

### **3. Analysis of Data and Discussion of Results:**

Having described the seven sets of data variables we are now ready to analyze the correlations among them to see if they support joint action. Vinod (1999) provides a formal statistical analysis, apparently for the first time, linking a lack of good governance (corruption) with economic development. Vinod used a sample of 79 countries to study various relations between corruption and social, political and economic variables by using correlation and regression methods. Table 1 uses the same set of countries and has seven variables described above as column headings. Let us begin with general comments on the methodology and caveats.

Many of the variables are defined from categorical variables with a non-intuitive origin and scale. At first sight, the reader may not find some signs of correlation

coefficients to be intuitively correct, but a careful look at data definitions given earlier will reveal that they are. The correlation coefficient should not be computed for categorical variables, and we note that our variables are not categorical in the sense of having only discrete values. We are admittedly considering proxy variables based on sample survey data with questionnaires containing few discrete categories. Hence it is better to focus on statistical significance, rather than numerical magnitude of the correlation coefficient.

We propose that low P-values are a good preliminary indicator of the strong relationship between the two variables. Thus, we are using correlations to assess approximate general relations, rather than definitive numerical conclusions.

Table 1 reports correlations among the seven variables described above in seven columns divided into three groups based on approximately perceived political ideology as: center, left and right. The seven variable names are repeated along rows and correlation coefficients between the seven pairs of variables appear at the intersections of variable names along the column and row headings. The correlation of each variable with itself is unity, appearing along the “diagonal” in Table 1.

This paper argues that the three ideological classes: left, center, or right are simplistic, and often misleading. We have placed our seven variables into these 3 classes only for the purpose of discussion. We regard the three governance related variables (GGI, CPI2004 and ExtraCoK) as centrist, representing desirable actions leading to good governance, less corruption and reducing the penalty on cost of capital imposed by capital markets. Hence these are the first three columns in Table 1. Since we can regard the two human rights variables (CivilLibs and PoliRights) as left wing, they are placed in the next set of two columns. Entrepreneurial activity and economic freedom variables (TEA2004 and EcFree) may be more focused on employers and hence right wing. Hence they are placed in the last two columns of Table 1.

There is an obvious problem of missing data in correlation computations because the data on two variables, TEA2004 and ExtraCoK, are available only for 40 and 34 countries, respectively. Moreover, different countries are missing for different variables. Instead of throwing out any data, correlation coefficients in Table 1 are computed by using the largest number of non-missing observations (Nobs) in each variable pair. Rows marked Nobs in Table 1 report the number of observations used for each calculation. Table 1 also reports the P-values for each correlation coefficient along rows marked P-value. Note that many P-values are 0.0000, suggesting highly significant correlations for a 5% level of significance. It is convenient to discuss within and between correlations in separate subsections.

**3.1 Correlations *Within* the Block for Political *Center*:** The top left corner of Table 1 reports correlation coefficients between the variables in the first three columns GGI (governance index), CPI (corruption perception index for 2004) and ExtraCoK (the extra cost of capital). These correlations are all fairly large and statistically significant, suggesting that countries with a high (low) value for one variable (within the political center) also tend to have a high (low) value for another. Not surprisingly, capital markets do impose a penalty in the form of extra cost of capital for bad governance and corruption in a country.

**3.2 Cross Correlations *Between the Blocks for Center and Left*:** The next set of two rows along the first three columns of Table 1 report correlations among (GGI,CPI, ExtraCoK) on the one hand and the two human rights variables (CivillLibs, PoliRights) on the other. Note that GGI and CPI have statistically significant correlations with these human rights variables as seen from the 0.0000 as P values in the first two columns along the rows marked P-value for CivillLibs and PoliRights in Table 1.

The ExtraCoK, the variable in the third column in Table 1, refers to capital markets, where the data refers to physical not human capital. Since victims of human rights abuse often lack marketable skills (human capital), it seems intuitively possible that removal of human rights abuses will also help the entrepreneurial class. The evidence regarding human capital is potentially suggested by the human rights variables: CivillLibs and PoliRights. The correlations between (CivillLibs, PoliRights) and ExtraCoK in the third column are both lower in magnitude and statistically insignificant. Their respective P values are 0.0611 and 0.106, both larger than 0.05 for the usual 5% level of significance. It is interesting that in Table 1, these two correlations are the only ones that are statistically insignificant, with large P values. This suggests that the interest rate penalty imposed by capital markets on a country is not much related to the human rights record of that country. Although we can correctly argue that human rights are an investment in human capital, capital markets are currently not assigning borrowing costs to countries in a manner consistent with this argument.

Farber (2002) argues that if a country guarantees human rights, it can attract foreign investment by providing an indirect assurance to investors that the government will not expropriate. Moreover, enforcement of human rights by local courts, which rule against the government from time to time, dramatizes their judicial independence, which too is a valuable assurance for foreign investors. The evidence uncovered in this paper does not support Farber. His alleged 'signals' about expropriations and judicial independence might be too subtle to influence the fast-moving capital markets focused on the short-term gains. Since the high borrowing cost obviously hurts creation of physical capital, everyone can agree on the desirability of reducing the ExtraCoK.

**3.3 Correlations *Within the Block for Political Left*:** The middle center block of two columns reports that the CivillLibs and PoliRights are highly correlated with each other with a correlation coefficient of 0.94 and P value of 0.0000.

**3.4 Correlations *Within the Block for Political Right*:** The bottom right block of two columns reports the correlation coefficient 0.45 within (TEA, EcFree), the block for the political right is reported close to the right hand bottom corner of Table 1. It is statistically significant with a P value of 0.0109 which is less than 0.05. Hence we conclude that economic freedom also creates conditions favoring entrepreneurship.

**3.5 Cross Correlations *Between the Blocks for Center and Right*:** The last set of two rows along the first three columns of Table 1 report correlations among (GGI,CPI, ExtraCoK) on the one hand and the two (TEA, EcFree) variables related to entrepreneurial activity and economic freedom. These correlations are all fairly large in magnitude and statistically significant. For example, the correlation between governance index GGI and the TEA index for 2004 is -0.69 in the first column and the row marked

TEA2004. It is statistically significant, because it's P-value is 0.0000, reported below the -0.69, where the correlation calculation is based on only 31 countries (Nobs=31).

Not surprisingly, Reynolds et al (2004) who develop the TEA index also find that personal contact with other entrepreneurs; business skills, research infrastructure, and social acceptance of entrepreneurial careers among peers are all positive factors. Local entrepreneurs are best positioned to help guide the local economies to adjust to global market forces. Economic growth requires both physical and human capital nurtured by local entrepreneurs.

Significant correlation between ExtraCoK and TEA suggests that the penalty imposed by capital markets discourages entrepreneurs. Significant correlation between ExtraCoK and EcFree suggests that capital markets reward economically free countries by not imposing as much interest penalty on their international borrowing.

**3.6 Cross Correlations *Between the Blocks for Left and Right*:** The last set of two rows along the second set of two columns of Table 1 report correlations between the left (CivilLibs, PoliRights) on the one hand and the right (TEA, EcFree) variables. The correlation coefficient between the first human rights variable CivilLibs and TEA is 0.58 in the column marked CivilLibs. Similarly, the correlation between PoliRights and TEA is 0.54 along the column marked PoliRights. Both of these coefficients are based on 30 observations with P-values of 0.0007 and 0.002, respectively. The small P-values suggest that human rights are significantly correlated with entrepreneurship indicators, supporting my hypothesis stated above.

The correlation coefficient between CivilLibs and PoliRights on the one hand and EcFree in Table 1 is seen to be statistically highly significant. This shows that there need not be any conflict between left and right in our context. The supporters of business (EcFree) have an ideological preference for competitive, social and market-oriented economic arrangements, rather than government regulation. By contrast, human rights advocates generally rely on government regulation to correct unfair treatment to the victims of racism or mistreatment of women. Although human rights advocates may not immediately see the relevance of increasing economic freedom, Table 1 shows that they are better off with finding a common cause, available for 40 out of 50 points (those without the NC code). Table 1 shows that countries adhering to the left wing ideals are also adhering to apparently right wing ideals.

### **3.7 Further Discussion of Table 1 and Related Results**

The obvious implication from subsection 3.6 is that the goals are largely complementary implying little or no conflict between left and right. Hence a common ground should be sought. This may, of course, mean compromise, where each side does not insist too strongly on its ideological biases or tools.

Consider the hypothesis that entrepreneurship and human rights can be viewed as important aspects of the human capital. It has some support in Table 1, since human rights variables (CivilLibs and PoliRights) have a statistically significant correlation coefficient with GGI and TEA, the governance and entrepreneurship indicators. Hence Table 1 suggests that human rights goals will be advanced by greater entrepreneurship. This can mean fostering business skills and supporting infrastructure development. Clearly there are certain communities, which are victims of human rights abuses more

than others. In light of our data, a less commonly used method for relieving their plight is to support social acceptance of entrepreneurial careers among the victim communities. These careers naturally foster freedom and financial independence, which will enhance civil society and also earn the victims their dignity and rights.

The correlations in Table 1 show that local wealth can also nurture human rights. One may wonder whether members of disadvantaged communities will have entrepreneurial talent. We have already remarked on the evidence of such talent in micro credit movement. Bosma et al (2002) show that it is not the innate talent of a small business founder that determines his or her performance, but industry-specific investments in human capital (such as experience) matter a great deal. Earlier experience in starting up a business, irrespective of its success, is also found to be relevant by these authors.

Although the evidence from Table 1 mostly favors cooperative action by the two advocacy groups, it is useful to review some related questions discussed by other researchers. Does activism by human rights advocates actually help? Dag et al (1998) use a technique called event study in Finance. They found no significant negative effect on the stock price of an offending company due to an unfavorable announcement by the Amnesty International. Their 1996 result that the participants in the stock market mostly ignore human rights issues is consistent with our result given in subsection 3.2 above.

A more recent study, Elliott and Freeman (2004) considers the hot button issue of labor standards in developing countries. Activists do pressure multinational corporations to improve wages and working conditions in their overseas operations. Some fear that the negative publicity from the existence of sweatshops leads to a large loss of sales and profits for the multinational, with job losses to the sweatshop workers, who end up being worse off in the end. Elliott and Freeman empirically evaluate and *reject* the claim that anti-sweatshop media campaigns actually make things worse for the poor. Hence human rights activists can claim limited success in convincing multinationals that 'doing good' for employees actually helps their own bottom line.

The important question for pro-business advocates is not whether human rights activism actually helps the victims, but whether businesses can profitably expand. Recall that minimum wages was an item where I expect disagreement indicated by the code NC. In the present context of multinationals, it is essentially the same issue involving the *level* of wages in poor countries. Again, human rights activists on the left are likely to disagree with supporters of entrepreneurs on the right side of the political spectrum. We have noted that since there is clear uncertainty about the appropriate minimum wage *level*, a centrist position would encourage the two sides to compromise on a reasonable level and perhaps divert their attention to other issues. The same holds for the level of wages paid by multinationals in poor countries. If a compromise can be reached, the two groups can together defeat corruption, all backward monopolistic and vested interests and criminal elements. Our correlations suggest that the two sides have much in common, and it is a matter of common sense that joint action from the center of political spectrum will be more effective.

#### **4. Summary and Final Remarks.**

In this paper we begin with a description of the history behind the human rights movement and how it is a power struggle by the oppressed, rather than a matter of left wing compassion. We discuss social entrepreneurship, which too can mean a power

struggle against monopolists or against unfair or feudalistic business practices, especially in developing countries. Their right wing libertarian struggle is often against excess government regulations and wasteful taxes. We explain reasons why a cooperative nexus between the advocacy groups for human rights and entrepreneurship is both feasible and desirable. My list of five areas of agreement includes: competitive arrangements, good infrastructure (physical and human capital), desirability of migration, and enforcement of all rights including property rights.

I also list the following three reasons why the two groups wage separate power struggles instead of joining forces: (i) left / right ideology, (ii) idiosyncratic differences in attitudes and habits, and (iii) role of multinational corporations. The ideological labels are a distraction. Since inventors, entrepreneurs, managers and advocates for human rights, all have distinct personality traits; such differences are natural for humans and should be overcome. Willingness to take risk is a common trait among entrepreneurs, which is also shared by criminals. The challenge is to create an entrepreneur-friendly environment, which will divert the risk-taking impulse into socially desirable tax-paying wealth creation. Finally, the left should try to shame and improve the multinationals, rather than oppose all globalization. I indicate that multinationals often create niche opportunities to local entrepreneurs. A fruitful role for local human rights activists is to help members of victim communities identify and exploit the niche business opportunities by doing the detective work. If this succeeds, it will create wealth, dignity and local countervailing power against the rights abusers.

The statistically testable hypothesis proposed in this paper is that joint advocacy will not be at cross-purposes. We claim that both groups have many common enemies including backwardness, vested interests and corruption. Hence both need to recognize that their power struggle is often against the same enemy. The purpose of the Conference on Entrepreneurship and Human Rights in New York, for which this paper is written, is to enhance a better understanding between the two advocacy groups so that they will see that the areas of disagreement can be overcome.

We use some sophisticated data sources to measure seven variables, which can approximately quantify the aims of the two advocacy groups. There is a sense in which this paper is a sequel to Vinod (1999, 2003). Using a similar international cross sectional data we find that the correlation coefficients among many pairs of entrepreneurship and human rights variables are statistically significant. We consider specific items where the goals may not coincide, and argue that it may be better not to insist on such goals at the cost of alienating the other group. For example, Appendix 2 lists ten factors and 50 components where entrepreneurs might prefer 'less rather than more,' because it gives them economic freedom. I identify 40 of the 50 components where the two groups are potential allies. I also indicate potential disagreements by assigning the code NC to ten items. Even though some items marked NC will always remain controversial, we hope that two groups would see the greater advantage from cooperation.

The evidence in Table 1 suggests that the interest rate penalty imposed by capital markets on a country is not much related to the human rights record of that country. Hence Farber's (2002) alleged signals about expropriations and judicial independence might be too subtle to influence the fast-moving capital markets focused on the short-term gains. Despite the differences in preferred tools, the significant correlations between left leaning variables (CivilLibs and PoliRights) and right wing variables

(EcFree and TEA2004) in Table 1 show that countries adhering to the left wing ideals are also adhering to apparently right wing ideals. Hence there should be no left / right conflict in our context.

In politics it is said that “strange bedfellows” can sometimes win by joining forces. We have demonstrated that the two advocacy groups are indeed mostly compatible. The significant correlations with centrist desirable actions variables confirm that the two sides are completely natural allies against some common enemies including bad governance, bigotry, lawlessness, corruption and superfluous cost burdens. Hence their cooperation is likely to become a potent force for a worldwide progressive change.

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## **Appendix 1**

### **History of Conference on Entrepreneurship and Human Rights**

Mr. John Hollowitz, the Vice President of Academic Affairs (VPAA) at Fordham University wanted to foster cooperation between different Jesuit institutions of higher education by using interdisciplinary issues, such as human rights. Accordingly, Dr. Nina Tassi, Associate VPAA assembled a group of ten Fordham faculty to visit Puebla, Mexico, in June 2003 to learn more about the local socio-economic and cultural conditions including human rights problems. We contacted some undocumented workers living in the Bronx neighborhood of Fordham before and after our Mexico trip.

The human rights problem in Mexico focuses on injustices faced by indigenous people, darker-skinned people and isolated people in remote areas of Mexico, in addition to the problems of undocumented immigrants in the US. We visited homes of all these groups, had discussions with human rights activists and were touched by the stories of inhuman and unfair treatment. We also visited schools where the focus was on learning English to migrate to the US and discussed with school officials the kinds of training needed to qualify the students for better paying jobs. More generally, enhancing human rights of all such groups around the world is a worthy goal for public policy and private action.

As an economist, I was inspired by discussions with Mexican entrepreneurs. For example, an undocumented Mexican immigrant to the US learned some skills by working in an Italian pizzeria, started his own pizzeria, which now employs about a dozen people. The pizzeria owner had not only overcome his (human rights) problems arising from undocumented status, but also helped others by creating wealth locally in Mexico. Such examples make it clear that enhancing entrepreneurship is also a worthy goal for public policy.

Since the issues and solutions go well beyond Mexico and USA, we decided to broaden our focus to a worldwide pursuit of two worthy goals: enhancing entrepreneurship and human rights. The idea behind the New York Conference on Entrepreneurship and Human Rights was to bring the two groups of advocates and researchers together to seek a common ground.

## **Appendix 2**

### **Attaching incompatibility code to Economic Freedom Data**

Miles et al (2004) provide the following list from Heritage Foundation and Wall Street Journal index for Economic Freedom. For each item, a low score is considered an indication that a country is economically free. The Code NC (not compatible or no cooperation) is attached to factors where human rights advocates are not likely to agree (in my opinion) with the desirability of a low score.

Factor #1: Trade Policy

- a) Weighted average tariff rate
- b) Non-tariff barriers
- c) Corruption in the customs service

Factor #2: Fiscal Burden of Government

- a) Individual Income Tax Grading Scale (NC)

- b) Top marginal income tax rate (NC)
- c) Top marginal corporate tax rate (NC)
- d) Year-to-year change in government expenditures as a percent of GDP

Factor #3: Government Intervention in the Economy

- a) Government consumption as a percentage of economy
- b) Government ownership of businesses and industries
- c) Share of government revenues from state-owned enterprises and government ownership of property
- d) Economic output produced by the government

Factor #4: Monetary Policy

Average inflation rate from 1993 to 2002

Factor #5: Capital Flows and Foreign Investment

- a) Foreign investment code
- b) Restrictions on foreign ownership of business
- c) Restrictions on industries and companies open to foreign investors
- d) Restrictions and performance requirements on foreign companies
- e) Foreign ownership of land (NC)
- f) Equal treatment under the law for both foreign and domestic companies
- g) Restrictions on repatriation of earnings
- h) Restrictions on capital transactions
- i) Availability of local financing for foreign companies

Factor #6: Banking and Finance

- a) Government ownership of financial institutions
- b) Restrictions on the ability of foreign banks to open branches and subsidiaries
- c) Government influence over the allocation of credit (NC)
- d) Government regulations (NC)
- e) Freedom to offer all types of financial services, securities, and insurance policies

Factor #7: Wages and Prices

- a) Minimum wage laws (NC)
- b) Freedom to set prices privately without government influence
- c) Government price controls
- d) Extent to which government price controls are used
- e) Government subsidies to businesses that affect prices

Factor #8: Property Rights

- a) Freedom from government influence over the judicial system
- b) Commercial code defining contracts
- c) Sanctioning of foreign arbitration of contract disputes
- d) Government expropriation of property
- e) Corruption within the judiciary
- f) Delays in receiving judicial decisions

g) Legally granted and protected private property

Factor #9: Regulation

- a) Licensing requirements to operate a business
- b) Ease of obtaining a business license
- c) Corruption within the bureaucracy
- d) Labor regulations, such as established workweeks, paid vacations, and parental leave, as well as selected labor regulations (NC)
- e) Environmental, consumer safety, and worker health regulations (NC)
- f) Regulations that impose a burden on business (NC)

Factor #10: Informal Market

- a) Smuggling
- b) Piracy of intellectual property in the informal market
- c) Agricultural production supplied on the informal market (NC)
- d) Manufacturing supplied on the informal market
- e) Services supplied on the informal market
- f) Transportation supplied on the informal market
- g) Labor supplied on the informal market

ADDITIONAL Factors recommended by me for inclusion in future versions of Economic Freedom. We do not if and when the Wall Street Journal and the Heritage Foundation will accept them. The “less is better” dictum does apply to the following.

Factor #11: Infrastructure

- a) Cost of transporting goods and people
- b) Cost of primary education
- c) Cost of secondary education
- c) Cost of college education
- c) Cost of electricity per unit

If these five items are added, where none of the items have the NC code, the proportion of items on which both pro-entrepreneur groups and pro-human-rights groups can agree (i.e., the ones without the NC code) expands to 45 out of 55.

Table 1: Table of Correlation Coefficients, P-values, and Number of Observations

Political Orientation:	Center			Left		Right	
	GGI	CPI2004	ExtraCoK	CivilLibs	PoliRights	TEA2004	EcFree
<b>GGI</b>	1						
Nobs	78						
<b>CPI2004</b>	0.94	1					
P-value	0.0000						
Nobs	78	78					
<b>ExtraCoK</b>	-0.79	-0.85	1				
P-value	0.0000	0.0000					
Nobs	31	31	31				
<b>CivilLibs</b>	-0.8	-0.66	0.35	1			
P-value	0.0000	0.000	0.0611				
Nobs	77	77	30	77			
<b>PoliRight</b>	-0.71	-0.56	0.3	0.94	1		
P-value	0.0000	0.0000	0.106	0.0000			
Nobs	77	77	30	77	77		
<b>TEA2004</b>	-0.69	-0.54	0.6	0.58	0.54	1	
P-value	0.0000	0.0018	0.0192	0.0007	0.002		
Nobs	31	31	15	30	30	31	
<b>EcFree</b>	-0.88	-0.85	0.73	0.74	0.67	0.45	1
P-value	0.0000	0.0000	0.0000	0.0000	0.0000	0.0109	
Nobs	78	78	31	77	77	31	78

GGI=good governance index, TEA=entrepreneurial activity, CoK=cost of capital.