The implications, we believe, are apparent. Americans have exacted a kind of revenge on Brandeis's laboratories of democracy (see chapter 1). Instead of cheering the increasingly regulatory environment of some parts of the country, they have instead flocked to the less regulated and more economically free areas. At the most basic level, this means that we can confidently say that, on the whole, Americans prefer more economic freedom and are unwilling to fight city hall or their state legislature forever to get it. Instead, they are abandoning the states where economic policy hampers their freedom for states that more fully protect and advance it.

The more profound and potentially far-reaching implication of this observation is that this movement of people is beginning to shape not only local demographics, but also political realities. As states shift in their relative population, they also shift in their apportionment in Congress. States that in the past could command attention on the national political scene now find themselves with too few electoral votes to matter. As national economic policy is decided, the influence of the more regulated states will, as a function of migration, begin to decline.

As states shift in their relative population, they also shift in their apportionment in Congress.

The message to legislatures is clear: if you want to keep the best and the brightest, if you want to grow and develop and see your state's economy flourish, adopt policies that expand and protect your citizens' freedom and rid yourselves of regulations and roadblocks to prosperity.

These policies would: lower tax rates, or eliminate taxes altogether, on personal income, corporate income, estate, and capital gains; establish state-expenditure limits to rein in taxes and debt and the need for more government workers and bureaucratic agencies; drop occupational licensing, mandatory workers' compensation, and restrictions on parental choice of schools; restrict the transfer of private property to private developers through eminent domain; adopt a right-to-work law, and repeal prevailing-wage laws and minimum-wage requirements; adopt tort reforms that end lawsuit abuse; and stop welfare payments for people capable of working.

The message to citizens is equally clear: if you are dissatisfied with your economic opportunities, if you have grown tired of having your economic freedom curtailed at every turn, look around and consider moving. The enterprising states in this country have started a bidding war for your talents and they want to attract you by doing more to protect your freedom and bolster your prosperity.

Chapter 4. An Application of the U.S. Economic Freedom Index

HOW YOUR CITY CAN BENEFIT FROM GREATER ECONOMIC FREEDOM

BRENT M. EASTWOOD, PH.D.

Cities are engaged in a sharp-elbowed fight to attract businesses, capital, and people. Over the years, city and state officials have adopted a wide range of economic policies to compete: some tried and true, and some fads and untested or in need of critical re-examination.

Originally, my research as part of my Ph.D. dissertation set out to measure the effects of federal defense spending benefit growth on economic growth in U.S. cities.[39] But in the process, I discovered that my research also revealed a lot about the relevancy of new economic theories such as the "Creative Class" from Richard Florida[40] and "Social Capital" from Robert D. Putnam.[41] And, as reported below, it also showed the importance of the core underlying policy structure of states—their levels of "economic freedom."

My research used PRI's *U.S. Economic Freedom Index* to test the relationship between economic freedom and urban economic growth in U.S. cities from 2000 through 2004. I explained urban economic growth using the *Index* as the main explanatory variable.

I created two separate econometric models that used two different dependent variables for economic development: change in total personal income growth and change in total employment growth. The sample consisted of 272 cities in the 48 contiguous U.S. states taken from the Metropolitan Statistical Areas (MSAs) originally selected from Richard Florida.[42] The models controlled for several factors including population, region, economics, labor, politics, and geography.

MODEL 1: TOTAL PERSONAL INCOME GROWTH

Percent Change in Total Personal Income Growth = ß$_0$ + ß$_1$ Economic Freedom$_1$ + ß$_2$ Creative Class$_2$ + ß$_3$ Social Capital$_3$ + % ß$_4$ Defense Benefit Growth$_4$ + ß$_5$ Population$_5$ + ß$_6$ Regional Factors$_6$ + ß$_7$ Economic$_7$ + ß$_8$ Labor$_8$ + ß$_9$ Political$_9$ + ß$_{10}$ Location$_{10}$ + ß$_{11}$ Military$_{11}$ + £$_i$

MODEL 2: TOTAL EMPLOYMENT GROWTH

Percent Change in Total Employment Growth = ß$_0$ + ß$_1$ Economic Freedom$_1$ + ß$_2$ Creative Class$_2$ + ß$_3$ Social Capital$_3$ + % ß$_4$ Defense Benefit Growth$_4$ + ß$_5$ Population$_5$ + ß$_6$ Regional Factors$_6$ + ß$_7$ Economic$_7$ + ß$_8$ Labor$_8$ + ß$_9$ Political$_9$ + ß$_{10}$ Location$_{10}$ + ß$_{11}$ Military$_{11}$ + £$_i$

THE DEPENDENT VARIABLES

According to the U.S. Department of Commerce, Bureau of Economic Analysis, total personal income (TPI) is the income that is received by all persons from all sources. The TPI of an area is the income that is received by, or on behalf of, all the individuals who live in the area. The specific measurement for this variable is the percentage of TPI growth for each city from 2000 through 2004. TPI is the standard measure of income used by current regional development economists. Data were gathered from the Bureau of Economic Analysis.

According to the Bureau of Economic Analysis, total employment for states and local areas consists of "estimates of the number of jobs (full-time plus part-time) by place of work. Full-time and part-time jobs are counted as equal weight. Employees, sole proprietors, and active partners are included, but unpaid family workers and volunteers are not included."[43] The specific measurement for this variable is the percentage of total employment growth in each city from 2000 through 2004. Data were taken from the Bureau of Economic Analysis.

These dependent variables are standard measures of economic development and growth used by economists who study regional areas. Many social scientists, however, use the local unemployment rate or per-capita income to measure economic growth and prosperity. The downside of using the unemployment rate, according to some regional economists, is that it does not explain the growth of rapidly growing locations due to transitional and seasonal employment in those areas. Using the unemployment rate as a measure of economic growth gives some

These dependent variables are standard measures of economic development and growth used by economists who study regional areas.

regions a false appearance of prosperity. An area might have low and stable unemployment, but there might be few new jobs created and less economic opportunity in those communities; therefore, total employment growth is seen as a better measure of economic growth.

Per-capita income is seen as problematic by some regional economists because there is regional variation in the cost of living among different areas of the country. For example, southern states have lower per-capita income because these states have a lower cost of living. TPI is thus seen as a better measure of economic growth because it is a more equal measure from region to region.

THE MAIN EXPLANATORY VARIABLE: ECONOMIC FREEDOM

The *U.S. Economic Freedom Index* was developed by PRI, and defined economic freedom as "the right of individuals to pursue their interests through voluntary exchange of private property under a rule of law, and this freedom forms the foundation of all market economies."[44] Given this definition, the role of state governments becomes to provide a stable rule of law that enables economic freedom to flourish.

The index ranges from 0 to 50 with states having the lowest scores ranked as the "most economically free" while states with scores approaching 50 are ranked as the "least economically free."

A negative relationship was expected between the *U.S. Economic Freedom Index* scores and economic growth. As the economic freedom scores go up (less economically free), total personal income growth and total employment growth go down. It should be noted, however, that the PRI *Index* is a state-level index, not a county or city-level index, so it does not completely "drill down" to economic policymaking at the local level. Nevertheless, it is important and useful to understand the relationship, if any, between state economic freedom and urban economic growth. The results were revealing.

It is important and useful to understand the relationship, if any, between state economic freedom and urban economic growth.

THE RESULTS AND DISCUSSION

The adjusted R^2 for Model 1 was .60, meaning the independent variables collectively explained 60 percent of the variation in total personal income growth. The adjusted R^2 for Model 2 was .48 with the independent variables collectively explaining 48 percent of the variation in total employment growth. The economic freedom ranking from PRI had the predicted negative sign with a –.03 coefficient for both models. These coefficients were highly statistically significant at the .01 level. Holding all other independent variables constant, this means that a one-point decrease in a state's economic freedom *Index* score (in other words a better ranking or more economic freedom) increases total personal income growth by 3/100th of a percentage point.

Likewise, a one-point decrease in a state's economic freedom *Index* score (more economic freedom) increases total employment growth by 3/100th of a percentage point. Though the effects are small, keep in mind these are percentage changes to *total* income and *total* employment, so the absolute impact, compounded over time, can be very large.

Mayors looking to jump-start their city's economy and attract jobs would be well served to pressure their state lawmakers to unshackle the state economy.

The results demonstrate the important relationship between greater state economic freedom and stronger economic growth in U.S. cities. It is no accident that 13 of *Forbes*' top 20 best big and small cities for business in 2008 are located in states ranking in the top half of the 2008 *Index*. Mayors looking to jump-start their city's economy and attract jobs would be well served to pressure their state lawmakers to unshackle the state economy.

Appendix A. The Indicators and Data Sources

The indicators are listed by sector below. The sources are identified at the end of this appendix. The indicators marked with an asterisk (*) are not used in data set 4, which was the basis for the final index (see appendix B for more details on the data sets).

THE FISCAL SECTOR

1.	Top Capital Gains Tax Rate on Individuals 2006	1
2.	Sales, Gross Receipts, and Excise Taxes as a Percent of Personal Income 2006	1
3.	Does State Levy Estate, Inheritance, and/or Gift Taxes beyond the Federal Pick-up Tax? 2006	1
4.	Unemployment Tax (Minimum State Tax Rate Applied to State Wage Base as Share of State Average Annual Pay) 2006	1
5.	Health Care Cost Index 2004	1
6.	Electricity Utility Costs (Index of State's Average Revenue per Kilowatt-hour for Electricity Utilities) 2006	1
7.	Tax Freedom Day 2007: The Day When the Average Individual Stops Working to Pay Taxes	2
8.	State and Local Tax Revenue Per Capita 2005*	3
9.	Per-Capita State Tax Revenue 2005*	3
10.	State and Local Taxes as a Percent of Personal Income 2005	3
11.	Individual Income Tax Per Capita 2005*	6
12.	Per-Capita State and Local Government Property Tax Revenue 2005*	7
13.	Average State Tax ($) per Acre of Agricultural Real Estate 2006	9
14.	Property Taxes Per Capita 2006*	6
15.	Property Taxes as a Percentage of Personal Income 2006	6
16.	Tax Burden ($) on High Income Family 2006	6
17.	Highest Personal Income Tax Rate (%) 2006*	6
18.	Lowest Individual Income Tax Rate (%) 2007	4
19.	Highest Individual Income Tax Rate (%) 2007	4
20.	Lowest Corporate Income Tax Rate (%) 2007	4
21.	Highest Corporate Income Tax Rate (%) 2007	4
22.	Per-Capita State and Local Government Sales Tax Revenue 2005*	7
23.	Per-Capita State Government General Sales and Gross Receipts Tax Revenue 2006*	8
24.	Per-Capita State Government Insurance Premium Tax Revenue 2006*	8
25.	State General Sales and Gross Receipts Tax Rate (%) as of 01/2002	10 (2002, vol. 34, 287)
26.	Per-Capita State Government Public Utilities Sales Tax Revenue 2006	8
27.	Per-Capita State Government Motor Fuels Sales Tax Revenue 2006*	8
28.	State Excise Gas Tax Rate (cents per gallon) as of 01/2008	10
29.	State Excise Diesel Tax Rate (cents per gallon) as of 01/2008	10
30.	Per-Capita State Government Tobacco Products Tax Revenue 2006*	8
31.	State Excise Tax per Pack of Cigarettes (cents) 2006	3

32.	State Distilled Spirits Excise Tax Rate (dollars per gallon) as of 01/2003	10 (2003, vol. 35, 348)
33.	Per-Capita State Government Alcoholic Beverage Sales Tax Revenue 2006*	8
34.	Per-Capita State Government Motor Vehicle and Operators License Tax Revenue 2006	8
35.	Per-Capita State Government Total License Taxes 2006	8
36.	Per-Capita State Government Corporation License Tax Revenue 2006	8
37.	Per-Capita State Government Hunting and Fishing License Tax Revenue 2006	8
38.	Per-Capita State Government Corporation Net Income Tax Revenue 2006*	8
39.	Per-Capita State Government Occupancy and Business Tax Revenue 2006	8
40.	Per-Capita State Government Death and Gift Tax Revenue 2006	8
41.	Per-Capita State Government Severance Tax Revenue 2006	8
42.	Local Expenditures as Percent of Total State and Local Expenditures 2005	7
43.	Local Revenue as Percent of State and Local Revenue 2005*	7
44.	Difference between Per-Capita State and Local Revenue and State and Local Expenditure 2005	7
45.	Per-Capita State and Local Government Debt Outstanding 2005	7
46.	Standard & Poor's State Bond Ratings 2005	11
47.	Does State Have Tax Exemptions for Fertilizer, Seed, and Feed?	5
48.	Does State Have Tax Exemptions for Insecticides and Pesticides?	5
49.	Does State Have Tax Exemptions for Grocery Food?	5
50.	Does State Have Tax Exemptions for Meals?	5
51.	Does State Have Tax Exemptions for Custom Software?	5

THE REGULATORY SECTOR

52.	Licensing Requirements for the Following Non-Health Professions: 2000	10 (2001, vol. 33, 378)
A.	CPA	
B.	Architect	
C.	Auctioneer	
D.	Barber	
E.	Cosmetologist	
F.	Embalmer	
G.	Prof Engineer	
H.	Funeral Director	
I.	Insurance Agent	
J.	Insurance Broker	
K.	Landscape Architect	
L.	Polygraph Examiner	
M.	Real Estate Agent	
N.	Real Estate Broker	
O.	Surveyor	
53.	Licensing Requirements for the Following Health Professions: 2000	10 (2001, vol. 33, 379)
A.	Acupuncturist	
B.	Chiropractor	
C.	Prof Counselor	
D.	Alcoholism Counselor	
E.	Drug Counselor	
F.	Pastoral Counselor	
G.	Substance Abuse Counselor	

H. Dentist
I. Dental Assistant
J. Dental Hygienist
K. Denturist
L. Dietician
M. Emergency Medical Technician
N. Hearing Aid Dealer and Fitter
O. Homeopath
P. Massage Therapist
Q. Licensed Practical Nurse
R. Nurse Midwife
S. Nurse Practitioner
T. Registered Nurse
U. Nursing Home Admin
V. Occupational Therapist
W. Occupational Therapy Assistant
X. Optician
Y. Optometrist
Z. Osteopath
AA. Pharmacist
BB. Physical Therapist
CC. Physical Therapist Assistant
DD. Physician
EE. Physician Assistant
FF. Podiatrist
GG. Psychologist
HH. Radiological Technologist
II. Radiation Therapist
JJ. Respiratory Therapist
KK. Sanitarian
LL. Social Worker
MM. Speech Pathologist
NN. Marriage and Family Therapist
OO. Veterinarian
PP. Veterinary Tech
54. Continuing Education Requirements for Selected Professions: 1999 10 (2001, vol. 33, 385)
A. Architect
B. CPA
C. Dentist
D. Prof Engineer
E. Lawyer
F. Nurse
G. Nursing Home Admin
H. Optometry
I. Pharmacy
J. Physical Therapist
K. Physician
L. Psychology
M. Real Estate
N. Social Work

O.	Vet Medicine	
55.	Percent Land Owned by Federal Government 2006	6
56.	"Buy American" Laws Affecting Public Procurement as of 1997	10 (2001, vol. 33, 358)
57.	Preference to Small Business Affecting Public Procurement as of 1997	10
58.	Preference to Recycled Plastic Affecting Public Procurement as of 1997	10
59.	Preference to Recycled Paper Affecting Public Procurement as of 1997	10
60.	Preference Other Products with Recycled Content Affecting Public Procurement as of 1997	10
61.	Preference to Other Products or Businesses Affecting Public Procurement as of 1997	10
62.	Purchases of Recycled Products Required by Law as of 1997	10
63.	Does State Purchase Recycled Oil (1997)?	10 (2001, vol. 33, 359)
64.	Does State Purchase Alternative Fuel (1997)?	10 (2001, vol. 33, 359)
65.	Does State Purchase Alternative Fuel Vehicles (1997)?	10 (2001, vol. 33, 359)
66.	Does State Purchase Soybean Ink (1997)?	10 (2001, vol. 33, 359)
67.	Does State Restrict Purchases of Foam Cups and Plates (1997)?	10 (2001, vol. 33, 359)
68.	Does State Restrict Purchases of CFC Products (1997)?	10 (2001, vol. 33, 359)
69.	States with Right To Work Laws as of 01/06	14
70.	States with Minimum Wage Laws as of 06/06	14
71.	States with Prevailing Wage Laws as of 06/06	14
72.	Charter School Legislation Rankings 2006	12
73.	Is Public-School Choice Permitted?	12
74.	Private-Sector Funding of Scholarship Programs in Some Major Cities as of August 2006	12
75.	Index of State Entry and Rate Regulation of Trucking Industry	15
76.	Semi Trailer Lengths Permitted on Interstate and Designated Highways 1994	15
77.	Compulsory Workers' Compensation Legislation	13
78.	Workers' Compensation Waivers Permitted	13
79.	Must Employer Provide Insurance through a State Fund?	13
80.	May Employer Provide Insurance through a Private Carrier?	13
81.	Is Self Insurance by Individual Employers Permitted?	13
82.	Is Self Insurance by a Group of Employers Permitted	13
83.	Are Numerical Exemptions Allowed and, if so, What Is the Maximum Number of Employees for Exemption?	13
84.	Workers' Compensation Premium Rate (per $100 of payroll)	16
85.	Full-Time-Equivalent Employees of State Public Utilities Commissions 2002	10 (2002, vol. 34, 410)
86.	Corporate Constituency Statutes (Board May Consider Non-Share Holder Constituencies)	17
87.	Property Rights Legislation 2003	18
88.	Strictness of State Gun Laws—Index	19
89.	Does State Prohibit "Assault Weapons?"*	19
90.	State Waiting Period (Days)—Purchase of Hand Guns*	19
91.	State Waiting Period (Days)—Purchase of Long Guns*	19
92.	Does State Require License or Permit to Purchase Hand Guns?*	19
93.	Does State Require License or Permit to Purchase Long Guns?*	19
94.	Firearm Registration*	19
95.	Does State Require Record of Gun Sale to be Reported to State or Local Government?*	19
96.	Is Open Gun-Carrying Prohibited?*	19
97.	Firearm Right Constitutional Provision*	19
98.	Enacted Legislation Effective Date for Seat Belt Use Laws	20

99.	Does State have Primary Enforcement for Seat Belt Use Laws?	20
100.	Minimum License Age—Learners	21
101.	Minimum License Age—Full	21
102.	FTE Employees of Insurance Regulation Organization 2006	22
103.	State Legislation about Environmental Health	23
A.	Indoor Air Quality	
B.	Pesticides	
C.	Mercury	
D.	Lead	
E.	Children's Environmental Health	
F.	Asbestos	
G.	Toxics	
H.	Tracking and Surveillance	
104.	Percent of Students in Private Schools (K–12th Grade), 2006	6

THE JUDICIAL SECTOR

105.	Number of Resident Active Attorneys 2006	24
106.	Attorney General Salary 2006*	10 (2008, vol. 40)
107.	Compensation of Judges—General Trial Courts 2006	10 (2008, vol. 40)
108.	Compensation of Judges—Courts of Last Resort 2006	10 (2008, vol. 40)
109.	Terms of Judges—General Trial Courts 2001	10 (2008, vol. 40)
110.	Term of Judges—State Courts of Last Resort 2001	10 (2008, vol. 40)
111.	Selection of Judges (Appointed or Elected)—Supreme Courts 2002	10 (2008, vol. 40)
112.	Selection of Judges (Appointed or Elected)—Lowest Level Courts 2002*	10 (2003, vol. 40)
113.	Does State Have Illinois Brick Repealer Statutes?	26
114.	Is There Some Reform of Punitive Damage Awards as of 2007?	27
115.	Is There Some Joint and Several Liability Reform as of 2007?	27
116.	Is There Some Reform of Pre-Judgment Interest as of 2007?	27
117.	Is There Some Reform of Collateral Source Rule as of 2007?	27
118.	Is There Some Reform of Non-Economic Damage Awards as of 2007	27
119.	Is There Some Product Liability Reform as of 2007?	27
120.	Is There Some Class Action Reform as of 2008?	27
121.	Is There Some Reform of Attorney Retention Sunshine as of 2008?	27
122.	Is There Some Appeal Bond Reform as of 2008?	27
123.	Is There Some Jury Service Reform as of 2008?	27
124.	Is State in Medical Liability Crisis as of 2008?	28
125.	Mandatory Minimum Levels of Professional Liability Insurance	28
126.	Laws about Caps on Damages	28

THE GOVERNMENT-SIZE SECTOR

127.	State and Local Total Expenditures as a Percent of GSP 2004	11
128.	State and Local Total Revenue as a Percent of GSP 2004	11
129.	Rate of State and Local Government FTE Employees as of 03/2001 (per 10,000)	10 (2003, vol. 35, 460)
130.	Rate of FTE Local Government Employees as Percent of Rate of FTE State and Local Government Employees 2006	6
131.	Legislators per Million People 2006*	6
132.	Total Number of Government Units 2002	32
133.	Ratio of Local to State Total Education Employees 2006*	6

THE WELFARE-SPENDING SECTOR

134. Per-Capita State and Local Welfare Spending 2006*	6
135. Percent of Population Receiving Food Stamps 2006	6
136. TANF Recipients as Percent of Population 2006	6
137. Percent of Population Receiving Public Aid 2006	29
138. Medicare Benefit Payments per Enrollee 2006	30
139. Per-Capita Medicaid Spending 2006	6
140. Average Monthly Food Stamp Benefit per Recipient 2007	31
141. Monthly TANF Benefit for Family of Three as of June 2001	10 (2002, vol. 34, 451)
142. Average Monthly Benefit per Participant for Women, Infants, and Children (WIC) Special Nutrition Program 2007	31
143. Commodity Costs of National School Lunch Program per Participant 2006	31

THE DATA SOURCES

1. Keating, J. (2006), *Small Business Survival Index 2006: Ranking the Policy Environment for Entrepreneurship Across the Nation* (Washington, D.C.: Small Business Survival Committee)
2. Tax Foundation, http://www.taxfoundation.org/research/show/22328.html
3. Federation of Tax Administrators, http://www.taxadmin.org
4. Tax Policy Center, http://www.taxpolicycenter.org
5. *2008 State Tax Handbook* (Chicago: CCH Incorporated)
6. *CQ's State Fact Finder 2006* (Washington, D.C.: Congressional Quarterly Incorporated)
7. *State and Local Government Finances by Level of Government and by State: 2004–2005*, U.S. Census Bureau/ Government/Finance, http://www.census.gov/govs/estimate/
8. *State Government Tax Collections: 2002*, U.S. Census Bureau/ Government/ Tax Collections, http://www.census.gov/govs/statetax/
9. *Agricultural Resources and Environmental Indicators 2006*, Economic Research Service, U.S. Department of Agriculture, http://www.ers.usda.gov/publications/arei/
10. *The Book of the States* (Lexington, KY: Council of State Governments)
11. *The Statistical Abstract of the United States* (2002), http://www.census.gov/
12. Center for Education Reform, http://www.edreform.com/Ed
13. State Workers' Compensation Laws, Employment Standards Administration, U.S. Department of Labor, http://www.dol.gov/esa/regs/statutes/owcp/stwclaw/stwclaw.htm
14. United States Department of Labor, http://www.dol.gov/esa/programs/whd/state/righttowork.htm, http://www.dol.gov/esa/minwage/america.htm, and http://www.dol.gov/esa/programs/whd/state/dollar.htm
15. Teke, Best, Mintrom (1995), *Deregulating Freight Transportation* (Washington, D.C.: American Enterprise Institute)
16. Oregon Workers' Compensation Division, Oregon Department of Consumer and Business Services, http://egov.oregon.gov/DCBS/docs/2007_rates/multistate_chart.pdf
17. Wallman, S. M. H. (1991), "The Proper Interpretation of Corporate Constituency Statutes and Formulation of Director Duties," *Stetson Law Review* 21: 1, pp. 163–196
18. Defenders of Property Rights, http:// www. defendersproprights.org
19. Henderson, H. (2000), *Gun Control* (Facts On File, Inc.)
20. *The Fact Book 2006*, Insurance Information Institute, New York
21. *The Online Study Guide for Student Drivers*, http://golocalnet.net
22. *Insurance Department Resources Report 2001*, National Association of Insurance Commissioners, https://external-apps.naic.org/insPubs/orderDetail.jsp
23. The Environmental Health Legislation Database, National Conference of State Legislators/ Policy Issues/Environmental Protection, http://www.ncsl.org/programs/ESNR/ehdatabases.htm

24. Market Research Department, American Bar Association, http://www.abanet.org/marketresearch/re source.html
25. *Injuries in Auto Accidents: An Analysis of Auto Insurance Claims*, June 1999, Online Library, American Institute for CPCU and Insurance Institute of America, https://www.aicpcu.org/www/pdb_pkg.login
26. *Bunker's Glass Co. v. Pilkington PLC*, Arizona Supreme Court No. CV-02-0140-PR, Arizona Supreme Court No. CV-02-0175-PR, http://web.lexisnexis.com/universe/document?_m=accddfdd8dc413c3dc31e75e6cc150dc&_docnum=1&wchp=dGLbVlb- zSkVb&_md5=2a1c12c75fec23a00a07dc4ba5765601
27. *Tort Reform Record: June 2007*, American Tort Reform Association, http://www.atra.org
28. State Advocacy Resource Center, American Medical Association, http://www.amaassn.org/ama/pub/category/7470.html
29. O'Leary Morgan, K., Morgan S., Uhlig M.A., eds. (2002), *State Rankings 2002* (Lawrence, KS: Morgan Quinto Press)
30. Centers for Medicare and Medicaid Services, http://cms.hhs.gov/statistics/enrollment/st01all.asp http://www.cms.hhs.gov/statistics/feeforservice/BenefitPayments01.pdf
31. Food, Nutrition, and Consumer Services, U.S. Department of Agriculture,
http://www.fns.usda.gov/pd/18fsavgben.htm
http://www.fns.usda.gov/pd/25wifyavgfd$.htm
http://www.fns.usda.gov/pd/01slfypart.htm
http://www.fns.usda.gov/pd/07slcomm$.htm
32. *Government Organization—2002 Census of Governments*, U.S. Census Bureau,
http://www.census.gov/prod/2003pubs/gc021x1.pdf
Migration Data: http://www.census.gov/prod/2006pubs/p25-1135.pdf

Appendix B. The Data Sets

Appendix B describes the data sets and methods used to parse and reduce redundancy. The parsing techniques start with data set 1, and then follow with four others labeled 2 through 5 below.

DATA SET 1 ("THE FULL HOUSE")

Contains all 143 economic freedom indicators. Occupational licensing, education-requirement indicators for each profession, and state legislation about environmental health are treated as separate indicators rather than compiled into three indicators. This gives a total of 219 indicators.

DATA SET 2

Contains 127 economic freedom indicators. Selected indicators from data set 1 were eliminated because of redundancy. Also, occupational licensing and education-requirement indicators for each profession are averaged into three indicators instead of considered separately.
The indicators not included are: 1–6, 8, 14, 17, 22, 89–97, 133, 135, and 136.
The occupational licensing and education indicators (52a–o, 53a–pp, and 54a–o) are averaged into 52avg, 53avg, and 54avg. In addition to pairing down the number of indicators, the indicators are sorted into five sectors: fiscal, regulatory, judicial, government size, and welfare spending. The fiscal sector contains 41 indicators: 7, 9–13, 15, 16, 18–21, and 23–51. The regulatory sector contains 50 indicators: 52avg, 53avg, 54avg, 55–88, and 98–104. The judicial sector contains 22 indicators: 105–126. The government-size sector contains six indicators: 127–132. The welfare spending sector contains eight indicators: 134 and 137–143.

DATA SET 3

Data set 3 is divided into the same sectors as data set 2. There are fewer indicators used, however, in data set 3 (47 indicators). Some of the indicators are averages of groups of indicators that are closely related.
The new indicators for the fiscal sector are created as follows: Indinc is an indicator that deals with personal income taxes. It is the average of indicators 11, 18, and 19. Saltax is an indicator of sales taxes. It is the average of indicators 22 and 25. Exctax is an indicator of excise taxes. It is the average of indicators 28–33. Lictax deals with license taxes. It is the average of indicators 34–37, and 39. Corp is concerned with corporate taxes. It is the average of indicators 20, 21, and 38. Debt captures state debt. It is the average of indicators 44 and 45. TaxeAvg is about tax exemptions. It is the average of indicators 47–51. Along with these new indicators, indicators 7, 9, 12, 16, 40, and 41 form the fiscal sector. So the fiscal sector has a total of 13 indicators, but it actually uses 32 indicators.

The new indicators for the regulatory sector are created as follows:

Purlaw is an indicator that captures purchasing regulations for state and local government agencies. It is an average of indicators 56–68. Lableg is an indicator of labor legislation. It is constructed by averaging indicators 78–84 to get the variable wcleg. Then the average of indicators 69, 70, 71, 77, and wcleg is taken to get lableg. Schleg is an indicator of public-school regulation. It is constructed by averaging indicators 72–74 and 104. SBreg is concerned with state seat belt laws. It is an average of indicators 98 and 99. MAreg deals with state provisions about the minimum age for driver's licenses. It is the average of indicators 100 and 101. EnviLeg is the average of indicators about state legislation on environmental health, i.e., indicators from 103a to 103h. Along with the new indicators, the old indicators 52avg, 53avg, 54avg, 55, 85–88, and 102 are used in the regulatory sector. So the regulatory sector is constructed with 15 indicators, but actually uses 42 indicators.

The judicial sector uses five new indicators: AvgJS captures judges' compensation. It is the average of indicators 107 and 108. AvgJT is the average of indicators about judges' terms, i.e., indicators 109 and 110. AvgJSE deals with judges' selection method. It is the average of indicators 111 and 112. Tort captures efforts to reform the tort law in the states. It is the average of indicators 114–123. MLRAvg copes with medical-liability reform indicators. It is the average of indicators 124–126. These five new indicators and indicators 105, 106, and 113 are averaged to construct the score for the judicial sector. So the judicial sector is constructed with eight indicators, but actually uses 22. Two new indicators are formed for the government-size sector: Govrep captures the amount of representation citizens in each state have in their state government. It is the average of indicators 131 and 132. Govemp captures the size of the government workforce. It is the average of indicators 129 and 130. The score for the government-size sector is determined by averaging govrep, govemp, and indicator 127. Five indicators are used in all to produce three final indicators. No new indicators were constructed for the welfare-spending sector. It is constructed the same as in data set 2, by averaging indicators 134 and 137–143, yielding eight indicators.

DATA SET 4

Data set 4 is much the same as data set 2 with one important difference. Where there were suitable alternative indicators, indicators of the magnitude of tax and general revenues were replaced. This was a response to the assertion made throughout the literature that tax rates and government expenditures are better measurements of the loss of economic freedom than are revenues. Using data set 1 as a reference, the indicators not included are as follows: 8, 9, 11, 12, 14, 17, 22–24, 27, 30, 33, 38, 43, 89–97, 131, 133, and 134.

The fiscal sector was constructed with 35 indicators: 1–7, 10, 13, 15, 16, 18–21, 25, 26, 28, 29, 31, 32, 34–37, 39–42, 44–46, 51, and two new indicators about tax exemptions: AgriAvg (average of indicators 47 and 48, dealing with tax exemptions for agricultural products) and FoodAvg (average of 49 and 50, dealing with tax exemptions for food).

The regulatory sector is the same as in data set 2, with 50 indicators.

The judicial sector uses three new indicators. They are AvgJS (average of indicators 106 and 108), AvgJT (average of 109 and 110), and AvgJSE (average of 111 and 112). Besides these three new indicators, the old indicators 105, 106, 113–126 are included, so there are 19 indicators in judicial sector.

The government-size sector uses the same six indicators as in data set 2.

The welfare-spending sector uses the same eight indicators as in data set 2.

DATA SET 5

Data set 5 is much the same as data set 3, with the same types of modifications found in data set 4.

The new indicators are all the same as in data set 3 except for the following: Indtax is the average of indicators 18 and 19. Saletax replaces indicator 22 with indicator 2. Utiltax, which captures utility taxes, is the average of indicators 6 and 26. Exctax is the average of indicators 28, 29, 31, and 32. Corp is the average of indicators 20 and 21. Dgtax, which captures death and gift taxes, is the average of indicators 3 and 40. All of the new indicators are combined with indicators 1, 4, 5, 7, 10, 13, 15, 16, 41, and 45 to calculate the fiscal-sector score. All the other sectors, and new indicators within the sectors, are the same as in data set 3.

Appendix C. Responses to Critics and Criticism

LAWRENCE J. MCQUILLAN, PH.D.

The following statements and replies are in response to criticism of the 2004 *U.S. Economic Freedom Index*. Though all criticism is valuable, if for no other reason than to discover how passages can be re-worded differently to prevent future misunderstandings, I singled out the statements below for comment because these are substantive in nature and generally misrepresent or misunderstand the methodology of our study. The source of each statement, paraphrased from the original publication, is given in the notes.

The *U.S. Economic Freedom Index* measures and ranks which states are the best places, and the worst places, to conduct business in America.[45]

False. Businesses locate based on many factors including land and housing costs, transportation and school systems, labor and energy costs, weather, proximity to distribution networks, and government rules and regs, what we call "economic freedom." We measured only economic freedom, not the "business climate" generally, which is beyond the scope of our study. This explains why our results diverge from other indexes that measure concepts such as business climate or competitiveness. Apples must be compared to apples.

The weight that a business (or an individual) places on any given factor can vary tremendously. Economic freedom might be important and determinant for one business, but not for another. Thanks to the *U.S. Economic Freedom Index*, however, researchers now have a yardstick by which to measure economic freedom across states and assess its impact on business and personal decisions.

The variables are weighted by principal components' analysis.[49]

False. This statement reflects a lack of understanding of our methodology. The sector scores were weighted by principal components' analysis, not the individual indicators themselves.

Weighting the variables by principal components' analysis increases the weight of individual variables based not on their relationship to economic freedom but rather on differences in variation.[50]

False. Again, this statement reflects a true lack of understanding of our methodology. The sector scores were weighted, not the individual indicators themselves.

As stated in the study: "Principal components' analysis extracted from our data the true sources of variation [among the states] by more heavily weighting those sectors that varied most, that is, those sectors where the states differed most. The analysis gave greater weight to sectors that had more useful information relative to sectors with less useful information. By giving greater weight to sectors with more variability, finer distinctions were clearly drawn since states differ most in those sectors."

The underlying indicators were chosen based on their relationship to economic freedom, as discussed above.

The correlation is low between the state rankings in the *U.S. Economic Freedom Index* and the state rankings in *Economic Freedom of North America* because the *U.S. Economic Freedom Index* does not actually measure economic freedom.[51]

False. The correlation is low because the *U.S. Economic Freedom Index* is a comprehensive and accurate measure of economic freedom while the other index is not.

The tax indicators are a mixture of rates and revenues. Since revenues are equal to the rates times the bases, a high amount of revenue per capita can reflect high rates (in which case it is double counting with the rate measure) or strong tax bases.[52]

By including rates and revenues, the average ranking of the two indicators provides a fuller picture as to whether it is the rates or the tax bases that are driving the revenue per-capita amounts. It is precisely because they are entangled that it is important to include both because it provides a clearer picture.

The index authors applaud right-to-work laws, which in fact prevent unions from making dues payments or check-offs the subject of collective bargaining. It seems that some rights to freely negotiate contracts are to be protected, others to be outlawed.[53]

Unionization in the United States exists in its present form only because of federal and state laws that allow unions to intimidate, obstruct, and sue employers and replacement workers. American unions do not exist because of freely negotiated contracts.

Additionally, unions' ability to force employers to include clauses in their union contracts that require all employees to either join the union or pay union dues as a condition of employment violates principles of economic freedom. Furthermore, forced union dues are often used to support political causes—causes that many union members oppose. From the perspective of employees, collective bargaining clearly violates their freedom to contract.

Workers should be free both to join unions and to refrain from joining unions. Unions do not respect the rights of minority employees who do not want to join, support, or be represented by unions since they do not allow them to opt out. There is no respect of freedom of contract between union bosses and the employees they allege to represent. Right-to-work laws increase economic freedom for employers and employees by reestablishing arms-length contracting in the workplace.

The index ranks states as "freer" if they require mandatory minimum liability insurance for physicians and have caps on damage awards, despite the fact that these are regulations that interfere with free markets.[54]

False. These statutes pertain to civil tort law, which comes into play precisely when there is no contractual relationship between the parties. These statutes define the "rule of law" that operates when someone is injured or damaged. Fundamentally, tort law is "extra-market" meaning it is outside the market realm and acts as an impartial referee to resolve disputes arising from market interaction. When tort law is efficient, it ensures full compensation to truly injured people thereby encouraging exchange and greater economic activity. These two tort reforms are best thought of as part of the rule of law that ideally allows economic freedom to flourish. These laws are the restraints and restrictions we place on our own freedoms ultimately to achieve a safer and more prosperous civil society.

About the Pacific Research Institute

The Pacific Research Institute (PRI) champions freedom, opportunity, and personal responsibility by advancing free-market policy solutions. It provides practical solutions for the policy issues that impact the daily lives of all Americans, and demonstrates why the free market is more effective than the government at providing the important results we all seek: good schools, quality health care, a clean environment, and a robust economy.

Founded in 1979 and based in San Francisco, PRI is a non-profit, non-partisan organization supported by private contributions. Its activities include publications, public events, media commentary, community leadership, legislative testimony, and academic outreach.

EDUCATION STUDIES

PRI works to restore to all parents the basic right to choose the best educational opportunities for their children. Through research and grassroots outreach, PRI promotes parental choice in education, high academic standards, teacher quality, charter schools, and school-finance reform.

BUSINESS AND ECONOMIC STUDIES

PRI shows how the entrepreneurial spirit—the engine of economic growth and opportunity—is stifled by onerous taxes, regulations, and lawsuits. It advances policy reforms that promote a robust economy, consumer choice, and innovation.

HEALTH CARE STUDIES

PRI proposes market-based reforms that would improve affordability, access, quality, and consumer choice. PRI also demonstrates why a single-payer, Canadian model would be detrimental to the health care of all Americans.

TECHNOLOGY STUDIES

PRI advances policies to defend individual liberty, foster high-tech growth and innovation, and limit regulation.

ENVIRONMENTAL STUDIES

PRI reveals the dramatic and long-term trend towards a cleaner, healthier environment. It also examines and promotes the essential ingredients for abundant resources and environmental quality: property rights, markets, local action, and private initiative.

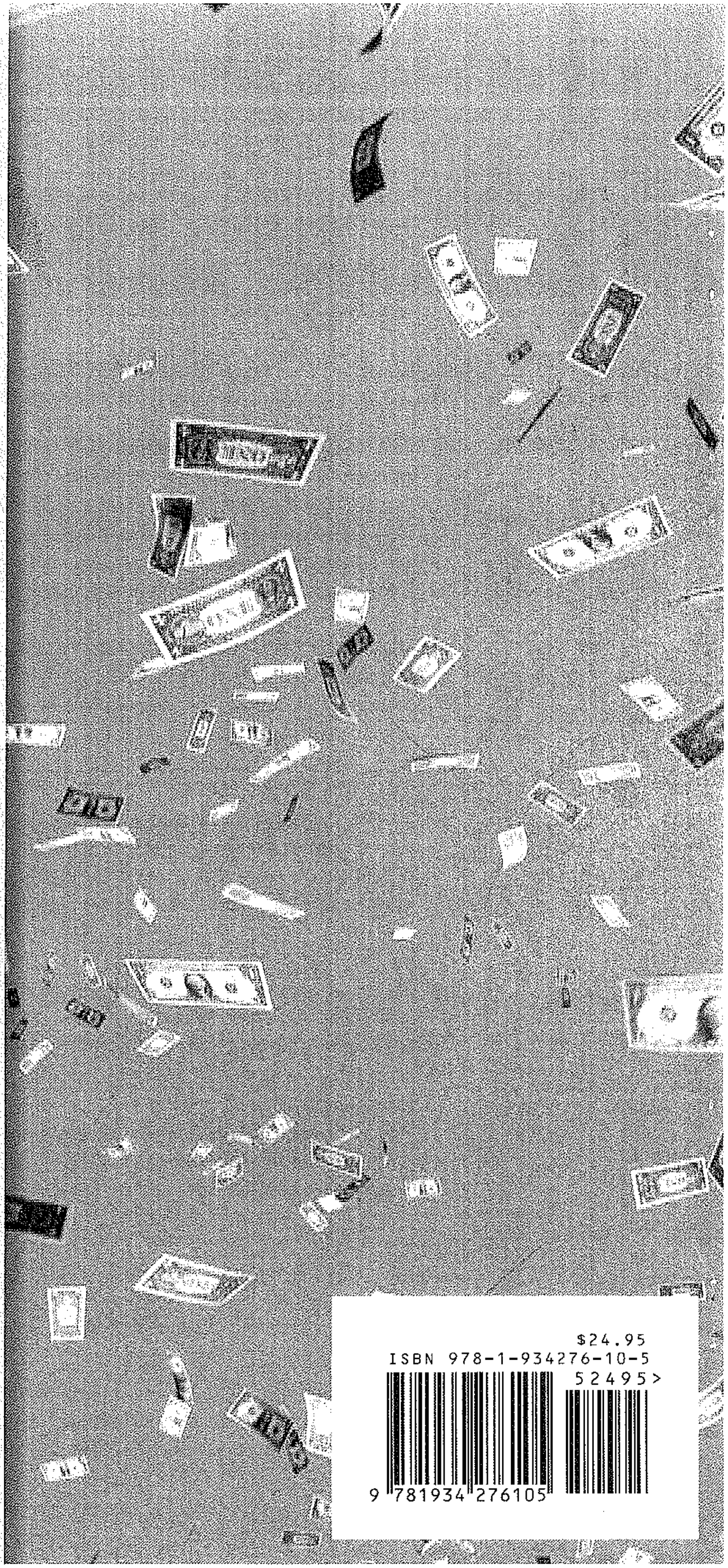
PRAISE FOR THE U.S. ECONOMIC FREEDOM INDEX: 2008 REPORT

The Pacific Research Institute's *U.S. Economic Freedom Index* confirms what economic theory predicts—states with greater economic freedom—lower tax rates, less government regulation, and limits on frivolous lawsuits—have better economic performance. The *Index* is a vital tool for lawmakers, business leaders, and all those who care about individual liberty and free markets.

Lawrence B. Lindsey
President and CEO of the Lindsey Group and former Director of the National Economic Council for President George W. Bush

PRI's latest analysis confirms that states that cut their marginal tax rates, enact right-to-work legislation, and limit frivolous jury awards see an influx of capital, people, and businesses.... The lesson is clear: policymakers and investors need to pay closer attention to the predictive power of a region's level of economic freedom.

Arthur B. Laffer, Ph.D.
Founder and Chairman, Laffer Associates and Member of President Ronald Reagan's Economic Policy Advisory Board



$24.95
ISBN 978-1-934276-10-5
52495>
9 781934 276105