

POLITICAL ECONOMY

IN THE CAROLINAS

ECONOMIC AND PERSONAL FREEDOM IN THE CAROLINAS

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This note examines the state of economic and personal freedom in North and South Carolina and assesses the reasons for change over time and the consequences of those changes for economic growth and migration. Freedom is conceptualized as the absence of coercive interference, and the index measures the extent to which state and local public policies allow freedom in this sense. Previous research has found that Americans tend to move to states with higher levels of economic and personal freedom. The note concludes with policy implications for the Carolinas and the United States.

I. INTRODUCTION

What is the state of freedom in the Carolinas, and what have been the causes and consequences of changes in freedom over time? This note addresses these two questions with evidence from the Cato Institute's *Freedom in the 50 States* study (Ruger and Sorens 2018).

Indices of economic and personal freedom have been widely used in social science research and in fact are more common than they might at first seem. The economic-freedom indices produced by the Cato and Fraser Institutes (Gwartney et al. 2019) and the Heritage Foundation (Miller, Kim, and Roberts 2020) have found wide use in cross-national economic research, but indices of press freedom (Reporters without Borders 2019), civil liberties (Freedom

House 2020), human rights (Cingranelli, Filippov, and Mark 2018), and human freedom (Vásquez and Porcnik 2019) have become important to quantitative research in political science, communication, and sociology as well.

At the US-state level, differences in economic and social policies are less significant than they are across countries. Nevertheless, state policy differences still drive important differences in economic and social outcomes. This conclusion is supported by the way in which Ruger and Sorens (2018) construct their index and by the research findings on the sequelae of freedom at the state level.

II. MEASURING FREEDOM AT THE STATE LEVEL

The Ruger and Sorens (2018) index of state-level freedom is based on an a priori conceptualization of freedom rather than an exploratory statistical analysis of which types of public policies tend to co-occur. (The latter would be an index of state policy ideology, not necessarily freedom [Caughey and Warshaw 2016; Sorens, Muedini, and Ruger 2008].) The index defines freedom as the ability of individuals to order “their lives, liberties, and property as they see fit, so long as they do not infringe on the rights of others” (4). Like other indices, this one does not measure private infringements on liberty, but merely the extent to which government intervenes in economic and personal affairs.

The index measures the “victim cost” of governmental infringements on freedom in dollar terms in order to construct a weighted average of more than 230 state policies. Some variables receive special bonuses if they touch on an explicitly protected right in

state or federal constitutions. The policies are organized into three dimensions—personal, fiscal, and regulatory—with the last two constituting economic freedom. The data are available annually from 2000 to 2016 (year-end).

The authors find that freedom has tended to increase over time, especially since 2010, when policies that have been taken over by the federal government are excluded. But when policies that have been taken over by the federal government, most notably health-insurance regulation, are included, freedom has fallen significantly because of growing regulation.

The report also investigates the causes and consequences of freedom. States scoring high in economic freedom are not necessarily also strong on personal freedoms. In fact, conservative states tend to do better on economic freedom than liberal states, but liberal states tend to do slightly better on personal freedom than conservative states. To investigate causality, the authors look at how four-year changes in Republican voting in presidential elections correlate with subsequent changes in freedom. It turns out that growing Republican partisanship, as seen in states such as West Virginia, does correlate with subsequent growth in freedom, but the effect is small in the short run.

The authors also construct an index of freedom from cronyism that incorporates entry and price regulations. It turns out that this component of the freedom index correlates not with partisanship but positively with number of legislators per lobbyist and negatively with corruption perceptions. Of course, causality cannot necessarily be inferred from these correlations: it could be

that more lobbying stimulates cronyism or that cronyism provokes lobbying.

Freedom also appears to have desirable consequences for growth and migration. Americans tend to vote with their feet for freedom by moving from less free to freer states, even after controlling for other factors such as climate and amenities as a vacation destination. The results are particularly strong when states are compared with their neighbors. Being freer than neighboring states confers an especially large benefit in net in-migration. The results hold up within both the pre–Great Recession period and the post–Great Recession period, although there is some evidence that people have been looking less for personal freedom and more for economic freedom since the Great Recession than they were during the 2000s.

As for growth, personal freedom has no effect (as expected) but economic freedom has a positive effect both before and after the Great Recession. But while regulatory policy was more important (compared to fiscal policy) for growth before the recession, fiscal policy has become more important since.

III. SIZING UP THE CAROLINAS

The standard version of the index excludes abortion policy altogether. On that version of the index, South Carolina is twenty-ninth in freedom nationally in 2016, but with an above-average score of 0.032, and North Carolina is eighteenth with a score of 0.138. On economic freedom, the two states are quite close, with scores of 0.027 (twenty-third) for North Carolina and 0.018 (twenty-fifth) for South Carolina, although South Carolina is well ahead on regulatory policy (0.014/ninth versus -0.034 /twenty-first) and North

Carolina is better on fiscal policy (0.060/twenty-fifth versus 0.004/thirty-sixth). It is on personal freedom that North Carolina surges ahead, scoring 0.111 and ranking seventeenth nationally against 0.014 and forty-first nationally for South Carolina.

Still, the difference in personal freedom is hardly enormous. The study’s statistical models of migration predict that this difference is associated with an increase in the net domestic-migration rate of between 0.4 and 1.5 percentage points of initial state population over the next seven to nine years. In other words, our best guess is that if South Carolina had North Carolina’s level of personal freedom, it would increase migration from other states over the next few years by about a percentage point of its current population.

The study also provides alternative indices that include abortion policies: a prolife index that counts state restrictions on abortion as pro freedom, a moderate-prochoice index that counts state subsidies for abortion and regulations on early-term (but not late-term) abortions as anti freedom, and a strong-prochoice index that counts all regulations on abortion as anti freedom. Because the weights of abortion policies are so large under a prolife interpretation of abortion policy, the standard overall-freedom index changes noticeably when converted to a prolife overall-freedom index. On that interpretation, North Carolina is eighteenth nationally on freedom (score of 0.23) and South Carolina is twenty-fifth (0.13). In the moderate-prochoice freedom index, North Carolina is seventeenth and South Carolina is twenty-ninth. In the strong-prochoice freedom index, North Carolina is eighteenth and South Carolina is

twenty-ninth.

Turning our attention to the freedom-from-cronyism index, North Carolina is the thirty-seventh-least cronyist and South Carolina is thirty-eighth. Thus, these two states tend to have more price and entry regulations than most other states.

A couple questions suggest themselves for citizens and officials in the Carolinas. Why does South Carolina do so poorly on fiscal policy and personal freedom but so well on regulatory policy? Why do both states do poorly on freedom from cronyism?

On fiscal policy, North Carolina's advantages have largely to do with government consumption, employment, and debt. While North Carolina has slightly higher state plus local taxes than South Carolina, government consumption and investment is just 11.3 percent of personal income in North Carolina, compared to 12.8 percent in South Carolina, public employment is 13.3 percent of private employment in the northern neighbor compared to 14.1 percent in the southern, and, most strikingly, public debt as a share of personal income is nearly twice as high in South Carolina: 24.3 percent versus 12.9 percent.

On regulatory policy, South Carolina tends to be slightly better than North Carolina on many policies, but its core advantages lie in land-use and energy freedom and court systems. South Carolina has banned private-to-private eminent domain transfers in its constitution, but North Carolina has undertaken only token eminent domain reform. North Carolina has a renewable portfolio standard (mandatory renewable-energy purchases for power companies, a policy that drives up rates), while South

Carolina does not. South Carolina also tends to have less restrictive local zoning than North Carolina, although both states score well on this measure by national standards.

On court systems, North Carolina tends to get slightly better marks in business surveys, but South Carolina has done more in a policy sense, having an appointment process for the state supreme court instead of partisan elections and having abolished joint and several liability.

However, both states do not do so well on regulatory policies that feed into the freedom-from-cronyism index. South Carolina has a general sales-below-cost law that is intended to keep retail prices high. North Carolina has such a law for gasoline purchases. Both states regulate property- and casualty-insurance rates strictly (North more than South Carolina). Both require certificates of need for new medical facilities. Both try to ban "price gouging," and both are subpar on occupational freedom: neither allows nurse practitioners to run an independent practice, and both have relatively high numbers of licensed occupations.

On personal freedom, both states are relatively free on guns, about average on alcohol, below average on cannabis, and well below average on gambling. Both states are more liberal than average on tobacco policies: smoking bans aren't comprehensive, and cigarette taxes are not as high as in most other states. But where North Carolina outclasses South Carolina is on incarceration and arrests and on educational freedom. Crime-adjusted incarceration rates are only average in North Carolina, but they are above average in South Carolina. Drug arrests as a percentage of monthly self-reported drug users are

well below average in North Carolina but well above average in South Carolina. For a conservative state, South Carolina has done surprisingly little to advance school choice. North Carolina has a broad voucher program, while South Carolina has only a narrow tax credit program. South Carolina's home school regulations are also substantially stricter than North Carolina's.

IV. CONCLUSIONS AND IMPLICATIONS

If citizens and officials are interested in creating a more favorable environment for freedom in the Carolinas, the route forward is clear. Both states could do a substantial amount to lift price and entry restrictions. South Carolina could do quite a bit more to restrain government debt, reform criminal justice, and promote school choice. North Carolina could move to a nominate-and-confirm model for the state supreme court, trim state-level taxes, and reform eminent domain.

North and South Carolina have grown significantly over the last two decades, a fact that reflects not only their mild winter climates but a policy climate that is relatively favorable to job growth, including high levels of labor-market and land-use freedom and average tax burdens. Still, both states could do much better. North Carolina's annualized real personal-income growth between 2008 and 2015 was just 1.2 percent, below the national average. South Carolina's was 2.3 percent, among the best in the country, but it is also starting from a lower base than North Carolina. Florida, the number one state on freedom in the study, provides a possible model for the Carolinas across a range of

policies, though it has its own problem areas. Florida had the fourth-highest income-growth rate in the South over the entire 2000–2015 period (only the energy-rich states of Texas and Oklahoma and the home of Walmart, Arkansas, were higher).

The study also has implications for how we think about the division of powers between the federal government and the states. Over the 2000–2016 period, various policies have been federalized: the autonomy of states has declined. Some of these policies were federalized by court decision, such as same-sex marriage, sodomy laws, and gun bans. In every case in which a policy previously residing with state governments was federalized by judicial decision, the net effect was pro freedom.

However, all these profreedom court rulings were swamped by a single, major federalization of state economic policy: the Patient Protection and Affordable Care Act (PPACA). The PPACA replaced the diversity of state-level health-insurance regulations with a single, federal standard that essentially adopted the least-free health-insurance regime then extant in any state, that of Massachusetts. As a result, measured freedom declined substantially.

The twenty-first-century record therefore encourages us to infer that reducing state autonomy through act of Congress tends to reduce freedom, while reducing state autonomy through judicial review tends to increase freedom. Partisans of freedom therefore benefit from an engaged judicial branch that sharply monitors congressional encroachments on the constitutional sovereignty of states while also vindicating constitutionally protected rights against

governments at all levels.

In general, status quo US federalism privileges progressive policies and disadvantages conservatives. Constitutional constraints on the economic policy powers of the federal government have been shredded, and federal grants and regulations on the federal government's own contractors often limit the effective autonomy of state governments. Meanwhile, the federal courts strike down the moralistic legislation of conservative states. The upshot of all this is a mixed bag for freedom, but probably more negative than positive. Still, centralization has not proceeded so far that states cannot reap the rewards of policies that respect individual liberty.

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