



## Economic Freedom in Michigan and Beyond

By Dean Stansel and Michael LaFaive

### Summary

The Economic Freedom of North America index measures the size of government, taxation and labor markets. Michigan has moved up eight places, to 37th, since 2009.

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America's Founding Fathers left this nation more than a Declaration of Independence and Constitution. They left a framework for prosperity that helped make the United States the richest on earth. Indeed, Americans have grown richer despite government's countless confiscations of revenue and property, unnecessary and frustrating regulations and often bureaucratic and expensive growth.

As research in the field of economic development has matured, so too have conclusions about what are necessary or sufficient conditions for a nation, state or province to prosper economically. Here in North America there have been a number of attempts to identify and measure such conditions in the states. The one that has been around the longest is the Economic Freedom of North America (EFNA) index, which recently released its 10th edition. The index is published annually by the Fraser Institute, a Canada-based research institute.

The EFNA compiles data on the size of government, taxation and labor markets. Within those areas there are 10 subcomponents. For instance, under size of government the index compiles data on government expenditures as a percentage of Gross Domestic Product and transfers and subsidies as a percentage of GDP, just to name two examples.

The authors ranked each variable on a scale of one to 10 and tallied up the score in each area. A score of 10 represented the most economic liberty, and zero the least. How has Michigan fared recently and over time? Through 2012 (the most recent year of available data), Michigan ranked 37th among its sister states. While that position is nothing to brag about, it is up dramatically — eight places — since bottoming out through 2009.

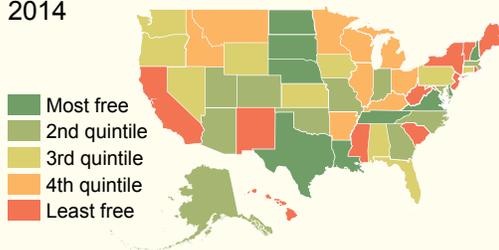
It should be noted, too, that the most recent 2012 dataset does not include any impact of the state's right-to-work law, which took effect in 2013. The index itself does not include a right-to-work variable. Instead, it measures things such as union density.

The most economically free states in the union, according to the EFNA, are Texas, South Dakota, North Dakota, Virginia and New Hampshire. The least free were Maine, Vermont, Mississippi, New York and Rhode Island. The 25 percent of states considered most free by the authors enjoyed economic output per capita of some \$55,000, compared to \$48,200 for the bottom 25 percent.

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### Economic Freedom of North America

2014



Michigan ranks 37th among the states in the newest Economic Freedom of North America index.

In the top 10 most-free states, employment has grown by about 3.5 percent over the last five years, whereas it has essentially remained unchanged in the bottom 10. Over that same period, the economy has grown by more than 8 percent in the freest states compared to only 2 percent in the least free. That disparity between states is unlikely to be a coincidence and it is no small thing.

The Fraser Institute has looked at questions of economic freedom and well-being for three decades around the world, not just in North America. They have found a positive correlation between economic liberty and income, growth, longer lives, lower infant death rates, and even “development of democratic institutions, civil and political freedoms” and much more. Other independent scholars have as well.

Previous editions of the state-level index (EFNA) have been used in academic and other work — over 100 articles in peer-reviewed, scholarly journals to date — and on everything from education to tax-related policy work. Scholars tend to consistently find links between economic liberty and various positive outcomes such as higher economic growth and well-being.

The authors only wish they had space in this essay to present the full depth and breadth of the evidence to the reader on the importance of economic liberty. Maybe it is not necessary. Thomas Jefferson got it right without decades of university and other scholarship behind him in his first inaugural address:

... [F]ellow-citizens — a wise and frugal Government, which shall restrain men from injuring one another, shall leave them otherwise free to regulate their own pursuits of industry and improvement, and shall not take from the mouth of labor the bread it has earned. This is the sum of good government.

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