

THE SAMPSON INDEPENDENT

Economic freedom can fuel faster growth

John Hood

May 10, 2019

North Carolina's economy is doing well. With a headline unemployment rate of 4 percent and a healthy 2.8 percent jump in inflation-adjusted median household income last year, North Carolinians are better off economically than they have been in many years.

Our state does not have the top-performing economy in the country, however. Does that mean North Carolina's rightward turn on economic policy was a mistake?

No. State economies prosper or falter primarily for reasons that have little to do with politics. They reflect changes in market conditions, technology, consumer preferences, trade patterns, and demographics. And although the Information Age has broadened our horizons, linking households and businesses alike to others around the world, we still live and work within metropolitan areas that exhibit distinct patterns, and are more closely tied to nearby metros and states than to faraway ones.

All of which is to say that, economically, North Carolina acts more like South Carolina than like South Dakota. Policy variables matter, especially in the long run. Market structure and proximity matter more.

Over the past five years, for example, the 10 states with the biggest gains in gross domestic product (GDP) were Washington, Oregon, California, Utah, Colorado, Florida, Idaho, Georgia, Arizona, and Nevada. What do these states have in common?

Not politics. Five voted for Hillary Clinton. Five voted for Donald Trump. During most of the period, most had either Republican governors or legislatures or both. But California, Washington, and Oregon are deep blue.

With regard to public policy, while seven of the 10 states rank relatively high in economic freedom according to ratings by the Frasier Institute and the Cato Institute, those same three blue states do not.

I'll cut to the chase — the common denominator is geography. Broadly speaking, America's population is shifting westward and southward. Investment and job creation are, too. From 2013 to 2018, the regions with the fastest GDP growth were the Far West (3.7 percent), Rocky Mountains (3.1 percent), Southwest (2.5 percent), and Southeast (2.1 percent). And in that latter case, there was a significant difference between the fast-growing states on the South Atlantic coast, including North Carolina, and slower-growing states on the Gulf or inland.

Across a range of statistics and time periods, the fastest-growing economies in the Southeast are Florida and Georgia. North Carolina is typically third or fourth, sometimes fifth — higher than the regional average, to be sure, but not as high as Florida and Georgia.

Since 2013, North Carolina lawmakers have enacted a series of major tax cuts and regulatory reforms. Understandably, progressives dislike these decisions. They think our state would be better off, economically and otherwise, if the legislature had kept taxes and regulations higher and spent more taxpayer dollars on education, health care, and other programs.

They can't hold up Florida or Georgia as examples of their preferred policy mix, however, because these top-performing states don't exhibit it. Florida has no personal income tax. Georgia's overall tax burden is lower than North Carolina's, although the structure of our tax system has become more pro-growth than theirs in recent years.

Where Georgia really shows us up is regulation. Although North Carolina has made significant progress in this area, it's still easier to create and operate businesses in Georgia than in our state. Overall, Florida ranks 1st and Georgia ranks 7th in economic freedom, according to both the Frasier and Cato methodologies. North Carolina is in the teens or worse, depending on the measure.

Most academic studies find that, everything else being equal, economic freedom is better for growth than the high-tax, high-expenditure, high-regulation model progressives advocate. California is an outlier, not an exemplar. Its location, resources, capital stock, and importance to the burgeoning trade of the Pacific Rim are so valuable that even foolish policy choices haven't run its economy aground — yet.

North Carolina should aspire to top the Southeast in economic performance. We should also aspire to be first in freedom in the Southeast. The two goals aren't just consistent. They're related.