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Economic freedom drives state (and metro) job growth.

By: Scott Beyer – May 28, 2013

To listen to President Obama and the media, you would think America's most pressing issues are gun control and immigration. But the issue that has plagued Obama from the start is job creation. Though unemployment has ticked down to 7.5 percent, the job numbers remain bleak when accounting for those underemployed or outside the workforce. Yet some areas of America are thriving, offering Obama a primer—if he wants it—for how to proceed.

Consider the recent Bureau of Labor Statistics data on 2012 job growth for America's 51 largest metropolitan regions. The data include a list of the top ten, which were mostly above 3 percent job growth, and the bottom ten, which were mostly below 1 percent. Previously stagnant San Francisco made a surprise entry among the leaders, but for the most part, the list reflected longtime trends—with Houston, Dallas, and Austin remaining near the top, and even San Antonio, which didn't crack the top ten, growing jobs at a respectable 2.27 percent rate. The fast-growing South saw three cities—Charlotte, Raleigh, and Nashville—make the top ten, while Salt Lake City represented the resource-rich Intermountain West. Oklahoma City, which led in 2011, still ranked in the upper third for 2012. Meanwhile, the bottom ten featured typical Rust Belt offenders such as St. Louis, Milwaukee, and Buffalo. Despite only documenting metro areas, the data underlay the continued shift in job growth from some regions to others. Another study shows why the shift has occurred.

"Freedom in the 50 States," a new report from the Mercatus Center, suggests that this shift is a result not only of policy, but also of broader governing philosophies that affect regional prosperity. Its most instructive section is its economic-freedom index, determined by fiscal and regulatory policy. The index places a premium on tax levels, but also factors in government spending, tort laws, permits and licensing, labor rights, and health-care choice. The less onerous the regulations, taxes, and barriers to doing business in given states, the higher their ranking.

While the study's scope was unique, its findings were consistent with similar ones from recent decades. "Economic freedom" was clustered, unsurprisingly, in states throughout the middle and southern parts of the country. The Dakotas, for example, ranked first and second, followed by Tennessee, Idaho, and Oklahoma. At the bottom were coastal states like California, New Jersey, New York, and those in New England. Faring slightly better were politically progressive Midwestern states like Wisconsin, Illinois, and Minnesota. It's not coincidental,wrote Mercatus scholar Veronique de Rugy, that the study's official map mirrored the ones documenting American economic growth overall, since "economic freedom tends to be a fairly good indicator of prosperity." Her colleague Jason Sorens echoed that judgment, writingthat taxes and regulations have made life unaffordable for many Americans—and driven them from states like California, which lost 1.5 million residents last decade, to places like Texas, which gained 2 million.

This migration, Sorens argues, generally correlates with increased job creation and may explain why the Dakotas also have the first- and fourth-lowest unemployment rates, while New Jersey, Rhode Island, California, and Illinois continue to see jobless rates at or above 9 percent. These factors affect metro areas, too, since the major ones increasingly determine state performance, anyway. A Cato Institute study analyzing tax burdens for America's 100 largest metros reported that the ten lowest-taxed regions saw triple the population increases of the ten highest-taxed from 1980 to 2007. The connection between freedom and growth even explains differences for metros *within* the same state. Last year Memphis, with a business climate ranking last in Tennessee, had one-third the job growth of booming, pro-business Nashville. In another study calculating economic freedom in U.S. metros, economist Dean Stansel pointed to similar explanations for thegrowth of San Jose over Los Angeles and Tampa over Miami. Just as the Mercatus scholars did, Stansel found that "higher levels of local economic freedom are . . . correlated with positive economic outcomes such as higher per capita income and lower unemployment," while allocations from "the political process rather than the market process" hurt outcomes.

The merit of America's federalist system, evident in these studies, is that it produces results at both state and local levels that show how best to handle national problems. In the vital area of job creation, the results heavily favor areas that emphasize private-sector over public-sector activity. Americans themselves have long recognized this truth, and they have moved themselves accordingly. But they need someone in the White House who understands it, too.

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