

Washington Ranks Near the Bottom in National Economic Freedom Index

99-15

by Brian Amsbary

Washington's state and local governments do more to impinge on its citizens' economic choices than do a vast majority of the states in the nation. That is the conclusion of a recently released study that analyzed economic freedom across the fifty states.

The study, "Economic Freedom in America's Fifty States: A 1999 Analysis," was conducted by John Byars, Robert McCormick, and Bruce Yandle, three Clemson University economists working with the State Policy Network, of which the Washington Institute is a member.

The study's authors define economic freedom as "the right of individuals to pursue their own interests through voluntary exchange under a rule of law." That is, the less one is burdened by government taxation and regulation, the more choices one has and the freer one is economically. Working from this definition, the authors compiled 145 economic indicators for every state in the nation. The indicators were grouped into five sectors, which in turn were combined to form the final Economic Freedom Index. The five sectors are:

- The *fiscal* sector is composed mainly of various state and local taxes – income, sales, property, and so on. It constitutes 27 percent of the overall index score.
- The *regulatory* sector analyzes state regulatory legislation and data on

mandatory participation programs (e.g., schools). It constitutes 25 percent of the overall score.

- The *judicial sector* considers the litigiousness of a state's judicial system as well as the level of tort reform undertaken by a state. It constitutes 4 percent of the overall score.
- The *government size* sector evaluates the size of government within a state. It constitutes 14 percent of the overall score.
- The *welfare sector* is composed of data on a state's spending on welfare programs. It constitutes 30 percent of the overall score.

The higher the ranking in this study, the less freedom a state's citizen enjoy in the economy. Idaho ranks first as preserving the most free state economy, while New York falls last at number 50, the least economically free state in the nation.

Washington scores poorly in economic freedom across the board. Overall, Washington places 40th compared to other states, mired in the same group as notoriously restrictive states like Illinois and New York.

Among the various individual sectors, Washington places no higher than 34th in any of them: 38th in the fiscal sector, 45th in the regulatory sector, 34th

in the judicial sector, 45th in the government size sector, and 34th in the welfare sector.

Especially burdensome to Washington residents are the state's high sales tax and restrictive labor laws. Indeed, Washington has the highest state and local sales tax revenue per capita in the nation.

Washington's high minimum wage rate, its prevailing wage law, and its lack of a right to work law also conspire to hinder business opportunity and the creation of new jobs. In 1996 the state unemployment rate, 20% higher than the national average, making it the 6th highest in the nation in idled workers.

According to the study, the Pacific Coast tends to be restrictive in general. Alaska placed 38th overall, Hawaii 39th, Oregon 41st, and California 44th. These rankings stand in sharp contrast to neighboring Idaho, which rated as the freest state economy in the nation.

One might ask, "How is any of this important?" The authors respond by demonstrating how freer state economies produce greater population in-migration, greater growth in per capita personal income, and greater value-added in manufacturing. For example, residents in 44th-ranked California experienced a 0.1% decrease in per capita personal income from 1990 to 1996, while citizens in 3rd-ranked Utah enjoyed a 12.34% rise.

Washington tended to fare better than its fellow bottom-dwellers in many of these indicators. Indeed, Washington enjoyed a net domestic migration of 310,100 between 1990 and 1996, and a 6.79 percent rise in per capita income during the same period — comparable to

the 7.33% rise experienced in Idaho, the freest state in the nation.

Nevertheless, Washington's relatively high unemployment rate — 6th highest in the nation in 1996 — suggests that our economy is not as rosy as it may seem, and that there is still plenty of room for improvement.

Additional information from the report underscores Washington's heavy tax burden compared with other states. Washington ranks at or near the bottom in each of the following categories:

Tax Freedom Day, 1995 (the final day taxpayers are forced to work in order to pay federal, state and local taxes): May 11th, Washington ranks 48th.

State and local government tax revenue per capita, 1994: \$2,598; rank 41th.

State and local government sales tax revenue per capita, 1994: \$1,239; rank 50th, the highest in the nation.

State and local government expenditures for public welfare programs; 1994: \$675, rank 33rd.

State and local government employees per 10,000 population, 1995: 521; rank 33rd.

Ratio of local to state education employees: 2.36; rank 44th.

The entire report, "Economic Freedom in America's 50 States," is available online at: <http://sixmile.clemson.edu/freedom/index.htm>.

Washington Policy Center is a non-profit, 501(c)(3) research and education organization.

Selected State Index Rankings

Idaho
Virginia
Utah
Wyoming
South Dakota

Alaska
Hawaii
Washington
Oregon

California

46. Connecticut
Massachusetts
New Jersey
Rhode Island
New York

Sector Rankings

Fiscal
Georgia
Washington
50. Connecticut

Regulatory
South Dakota
Washington
50. Oregon

Judicial
Colorado
34. Washington
50. Pennsylvania

Government Size
New Hampshire
45. Washington
50. New York

Welfare Spending
Idaho
34. Washington
50. New York