

Determining Economic Freedom: Democracy, Political Competition, and the Wealth Preservation Struggle

Jody W. Lipford
Presbyterian College

Bruce Yandle*
Mercatus Center at George Mason University and Clemson
University

Abstract

The beneficial effects of economic freedom on living standards and social outcomes are many and well-documented. We examine factors that explain economic freedom. First, we use the fifty US states as our unit of analysis to evaluate how economic freedom is determined in a competitive political system, where resources are mobile across borders. Second, we employ a multiequation model that includes the effects of economic freedom on income, employment, and income distribution. This model yields many interesting results, including support for the hypothesis that stakeholders, with wealth put at risk by government policies, are crucial players in the political process that determines economic freedom.

JEL Codes: D63, H75, R11

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I. Introduction

The benefits of economic freedom are well-known and widely documented. In general, economic freedom has been shown to be associated with higher living standards, more rapid economic growth, longer life expectancy, and improved environmental quality (Clark and Lee 2006; Clark and Pearson 2007; Hanke and Walters 1997; Campbell and Rogers 2007). Not surprisingly, economic freedom is positively correlated with net migration, as people—both foreign and

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domestic—seek out economic opportunity (Ashby 2007; Watkins and Yandle 2009; Cebula and Clark 2011).¹

Although less attention has been paid to the determinants of economic freedom, the relevant research indicates multiple factors are at play. Some researchers, such as Spindler and Vanssay (2002) and La Porta et al. (1999), trace the origins of economic freedom to the constitutional level, where political constraints and common law traditions result in market-oriented policies that enhance wealth creation. Other researchers take the constitutional framework as given and examine the interworkings and responsiveness of the political system. Crampton (2002), for example, finds that voters who want more economic freedom are rewarded with it.

Probing deeper into the determinants of wealth-enhancing governments, Knack (2002) finds that social capital and social trust contribute to better government management across the US states, while Bjornskov (2010) finds complementary results using international data.

Yet, just as social cohesion enhances the institutions and policies that promote good government and economic freedom, factors that rend the social fabric undermine them. La Porta et al. (1999) focus on linguistic differences and find that ethnolinguistic fractionalization results in more government intervention, less efficient government, and lower levels of public goods provision, findings that square nicely with those of Easterly (2001). In addition, Heller (2009) finds that ethnic fractionalization impedes the economic reforms that would improve economic freedom. However, Knack's (2002) evidence on race in the United States seems at odds with these findings in that greater heterogeneity is associated with better quality government.

Knack (2002) and Heller (2009) also explore the role of income inequality and find that greater income inequality is associated with lower quality government in the US states and with weaker institutions across countries, respectively.

When researchers examine government expenditures instead of institutions, the evidence takes an interesting twist. La Porta et al. (1999) find that ethnolinguistic fractionalization is associated with smaller government, and Lindqvist and Ostling (2010) find similar results for strong democracies that are politically fractured.

¹ Berggren (2003) and De Haan, Lundstrom, and Sturm (2006) provide broad and useful surveys of the literature on economic freedom.

In this paper, we extend the analysis of economic freedom, following a simple but heretofore unexplored line of reasoning: in competitive, democratic, political settings, where citizens influence political outcomes through voting and interest groups, and where the cost of resource migration among competing states is low, those citizens who gain wealth (income) from economic freedom and pay to finance government will use their political influence to see that the level of economic freedom is high. In particular, we find that US states with relatively high levels of employment and broad-based tax systems have higher levels of economic freedom.

Our paper proceeds as follows. The next section develops the theory underlying our empirical model. We then briefly discuss the Fraser Institute's measure of economic freedom for subnational governments before presenting and discussing empirical results. We offer comments on the policy implications of our analysis and some closing thoughts in the conclusion.

II. Theory

Our theory of the determinants of economic freedom applies to a federal system of independent states operating with separate elected governments and separate constitutions. The states form a republic with a common language and a homogeneous set of federally guaranteed rights and privileges. We are modeling the case of the United States. But our model could apply to France, Germany, or any other republic made up of separately governed states, departments, or lands where all citizens speak a common language, operate under a common legal system, and can exit and enter different states at low cost.

Citizens located in any independent state can seek to influence political outcomes by making legislative appeals. Where voice is relatively ineffective, citizens can exercise the exit option (Hirschmann 1970). Any citizens—private or corporate—can exit their current state domicile and enter another state at low cost. Just the threat of exit exerts a disciplining effect on elected officials who seek to sustain wealth-creating enterprises in their home states. As Tiebout (1956) has taught us, the ability to vote with feet across a federal system generates a competitive equilibrium where states are more responsive to citizens' desires than would be the case for a collection of independent states where exit costs are high.

Our theoretical analysis focuses on political action in a particular state and begins with a legislative commons, the political space

provided by a constitution for legislator interaction in providing public goods, regulation, and redistribution to citizens and special interest groups. The theory of the legislative commons, well established in the literature, emphasizes a lack of constraints that ration entry and action across legislative members who seek to serve their constituencies and, when successful in doing so, keep their jobs (Alesina et al. 1999; Brubaker 1997; Buchanan and Wagner 1977). While there may be a balanced budget constraint, any given state can still borrow and spend. Legislators, when stymied, can produce bundles of regulation to accomplish goals if fiscal constraints become binding.

Across the collection of states that form the nation, not all voters and interest groups are equal in the eyes of legislators, governors, and political party leaders. As Bueno de Mesquita and Smith (2011) point out, people who gain and hold political power worry less about the “interchangeables,” the unorganized, rank and file voters, but worry a lot about the “influentials,” who can sway public opinion. They never stop worrying about the “essentials,” the members of the winning coalition that are critical to gaining office in the first place and then critical to preserving political power. In dictatorships, the ratio of essentials to interchangeables can be quite small, but not in democracies. In other words, the competitively elected politician in a given state democracy must satisfy essentials, which may be a large number, but must also serve and satisfy the broad electorate. When essentials cease to be satisfied, they can threaten to exit and relocate to another state. In making this calculation, the essentials and influentials face an understandable trade-off; they may not be so essential in another state setting. In other words, those considering the exit option face an opportunity cost when taking action.

In our model, legislators in a particular state working the commons are motivated to make good on specific promises that were made to the essentials while also producing enough benefits to keep the interchangeables at rest. In the process, essentials are highly informed about what is going on and whether promises are kept. This is not necessarily so for the community of interchangeable voters; some are rationally ignorant, while others go beyond being rationally ignorant. They, as Caplan (2007) has explained, become irrational when expressing political preferences on economic policy. The expressive ones take popularly acceptable anti-market positions that have little bearing on special interest struggles that determine outcomes (Brennan and Lomasky 1993). Meanwhile, another part of

the interchangeable community simply remains rationally ignorant and nonexpressive. But, of course, there is no such thing as a free grant, regulation, or transfer. As John C. Calhoun (1848) put it, there are taxpayers and tax spenders. Any benefit provided to the essentials will be paid for partly by them, since they are taxpayers and participants in the commonwealth, but paid for primarily by each taxpayer in the larger interchangeable community.

But the interchangeables want government action also. They seek improvements in infrastructure, public safety, elimination of pollution, and a long list of additional government actions that enhance property rights, encourage employment, and generally improve the quality of life. And, they, too, may seek targeted wealth transfers, if the cost to them is relatively low and their numbers yield political influence. In other words, the rationally ignorant are not ignorant all the time, especially when it pays to be aware. They, also, can exercise the exit option.

In their analysis of the political marketplace, McCormick and Tollison (1983) develop a supply and demand analysis that attains equilibrium where, at the margin, the taxpayer cost of avoiding the loss of another dollar transferred to tax consumers (spenders) is just equal to the cost taxpayers will bear when the dollar is taken. But just as all citizens are not equal in the eyes of politicians who struggle to keep their jobs, not all transfers or regulatory actions are equal in the eyes of those who will bear the associated burden. There is differential resistance when legislators seek to make transfers. Those with wealth at risk want to protect the rents they are earning. Those without wealth or rents are eager to get them. In the midst of this political struggle, we must remember that the commons is competitive. There are many legislators working to satisfy essentials, while minimizing resistance from the interchangeables, along with party leaders and the governors who execute laws that are passed.

As we visualize America's political landscape, we observe fifty states and as many active legislative commons where politicians have struggled to satisfy competing interest groups. The demographic characteristics, economies, and social characteristics vary across the states and affect the demand for political actions or for resistance to actions. In all cases, past actions taken define current measures of economic freedom. Economic freedom indexes for the states reflect a Tiebout equilibrium in a crazy quilt of political outcomes that in turn reflect the preferences of the interchangeables, influentials, and essentials who each can exercise voice and exit options.

III. The Data, Model, and Empirical Tests

To examine the interplay of the economic, political, demographic, and social characteristics that determine different degrees of economic freedom, we employ a simultaneous equations model of economic freedom across the fifty US states. Our purpose, in effect, is to acknowledge rent seeking, rational ignorance, irrational behavior, and redistribution in all political bodies, but to recognize also that these wealth-retarding policies differ from one state to another and to examine the determinants of these differences. Before turning to the model and empirical tests, we examine the components of the Fraser Institute's Index of Economic Freedom of North America. The source for this variable and the sources for all variables subsequently discussed are provided in an appendix to the paper.

A. The Index of Economic Freedom of North America

In its eighth edition, the *Economic Freedom of North America 2012* provides a measure of economic freedom for the US states and Canadian provinces (and, more recently, the thirty-two states of Mexico), comparable to the better-known Economic Freedom of the World Index.² Like the world index, the index for the US states and Canadian provinces uses submeasures of factors that affect economic freedom and then averages them, using equal weights. In recognition of the effects that national governments have on subnational governments, the institute provides one measure that incorporates these effects; this measure is referred to as the “all-government” index. To allow focus on policies and institutions implemented and controlled at the state or provincial level, the institute provides a second measure, independent of the national government, referred to as the “subnational” index. Because this study focuses on state-specific characteristics that determine economic freedom, we use the subnational index.

Economically free economies are those “with minimal government interference, relying upon personal choice and markets to answer basic economic questions such as what is to be produced, how it is to be produced, how much is produced, and for whom production is intended” (Bueno et al. 2012, p. 4). To quantify this concept, the institute examines three broad subcomponents: size of government, takings and discriminatory taxation, and regulation.

² See Bueno et al. (2012) for complete details.

The size of government component considers three measures: government consumption spending as a share of the economy, transfers and subsidies as a share of the economy, and social security payments as a share of the economy. The takings and discriminatory taxation component contains four subcomponents, each related to taxes. Total tax revenue, indirect tax revenue, and sales tax revenue, each as a share of the economy, along with the top marginal income tax rate and the income threshold at which it applies, comprise this component. The final broad component, regulation, focuses on labor markets. Its submeasures are minimum wages, government employment as a share of total employment, and union density. For each measure, higher values of a state's economic freedom rating mean more economic freedom and less government interference in market processes.

B. The Empirical Model

To model economic freedom across the fifty US states, we took four cross-sectional observations at approximately ten year intervals, 1981, 1990, 2000, and 2010, to yield 200 observations. While our primary focus is on the determinants of economic freedom, we recognize that economic freedom has important effects on other economic outcomes, and use a simultaneous-equations methodology to model it appropriately. In abbreviated form, we estimate the following equations:

$$\begin{aligned} efs_{i,t} &= f(\text{pcincome}_{i,t}, X_{i,t}) \\ \text{pcincome}_{i,t} &= f(efs_{i,t}, X_{i,t}), \\ \text{employment-population ratio}_{i,t} &= f(efs_{i,t}, X_{i,t}), \end{aligned}$$

and

$$\text{Gini coefficient}_{i,t} = f(efs_{i,t}, X_{i,t}),$$

where i and t represent the i th state in the t th year; efs designates the economic freedom score; $pcincome$ designates per capita income; the *employment-population ratio* is the share of the civilian, noninstitutional population aged 16 and above that is employed; the *Gini coefficient* is as normally understood; and X represents vectors of control variables. We estimate the system of equations with three-stage least squares regression.

The full model, with control variables, is shown below:

$$\begin{aligned}
 efs_{i,t} &= f(\text{pcincome}_{i,p}, \text{employment-population ratio}_{i,p}, \text{sales tax ratio}_{i,p}, \text{gini}_{i,t}, \\
 &\text{density}_{i,p}, \text{pctwhite}_{i,p}, \text{age}_{i,p}, \text{constant}), \\
 \text{pcincome}_{i,t} &= f(efs_{i,p}, \text{bs degree}_{i,p}, \text{density}_{i,p}, \text{employment-population ratio}_{i,t}, \\
 &\text{year1990}_{i,p}, \text{year 2000}_{i,p}, \text{year 2010}_{i,p}, \text{constant}), \\
 \text{employment-population ratio}_{i,t} &= f(efs_{i,p}, \text{bs degree}_{i,p}, \text{pct. population aged } \geq 65_{i,t}, \\
 &\text{year1990}_{i,p}, \text{year 2000}_{i,p}, \text{year 2010}_{i,p}, \text{constant}), \\
 &\text{and,} \\
 \text{Gini coefficient} &= f(efs_{i,p}, \text{bs degree}_{i,p}, \text{employment-population ratio}_{i,p}, \text{pcincome}_{i,p}, \\
 &\text{pcincome squared}_{i,p}, \text{pcincome growth}_{i,p}, \text{constant}).
 \end{aligned}$$

We offer brief explanations of the endogenous and exogenous variables, noting that we are making “all else being equal” comments. Turning first to the equation for economic freedom, we hypothesize that as average state per capita income rises, citizens demand more from government and value freedom less at the margin so that, given the relative wealth of all US states, the sign will likely be negative. The citizens with the most to gain from economic freedom and the opportunities it brings, along with low-cost exit capability, are likely those earning income. We note that the employed are also likely voters with political influence. For these reasons, we include the employment-to-population ratio for each state and expect its sign to be positive. To test the political effect of the distribution of the tax liability, we include the ratio of taxes on sales, gross receipts, and vehicle licenses to total state and local government taxes. We posit that in states where this ratio is high so that the distribution of tax liability is more even (less progressive), lower-income voters pay a higher share of government costs. As a result, they see themselves as having a stake and favor policies that promote economic freedom and limit transfers.

To test the effects of income distribution, we include the Gini coefficient for each state. We acknowledge the work of Knack (2002) and Heller (2009), in which greater income inequality (a larger Gini coefficient) is associated with poorer government management and weaker institutions. If less accountable government translates into a loss of freedom, then a larger Gini coefficient would correlate with lower economic freedom. We also recognize the groundbreaking work of Peltzman (1980), in which greater equality of income (a smaller Gini coefficient) results in more transfer payments and lower economic freedom. Peltzman argues that where incomes vary by small amounts across the distribution, politicians must offer larger

transfers in order to obtain support from one group versus another, and his empirical work supports the argument.

Population density should increase the demand for government to deal with externality effects generated by crowding, and so should result in a more regulatory state and a lower economic freedom rating. To test the effects of population homogeneity, we include the share of population that is white. If Knack's (2002) findings are robust, a homogeneous state will have poorly managed government that may reduce economic freedom. On the other hand, if the international evidence is relevant to the US states, racial fragmentation should reduce economic freedom. Last, we include the age of each state. Olson (1982) has theorized that aging states likely develop more rent-seeking interest groups that undermine economic freedom.

In the second equation, estimating per capita income by state (2010 dollars), we include economic freedom and, in accordance with the results of other research, expect it to be positively correlated with per capita income. Economists have long established that higher incomes are associated with more education, so we include the share of state population with a bachelor's degree or higher and expect a positive sign. In addition, urban and metropolitan areas offer more complementary inputs to labor and so raise its marginal productivity. To account for this effect, we include population density for each state and anticipate a positive sign. High employment should also raise per capita income, so we include the employment-population ratio. To account for real economic growth across time independent of factors included in the equation, we include dummy variables for each decade of observation: 1990, 2000, and 2010. Again, we expect positive signs.

The third equation estimates the employment-population ratio. Using international data, Feldmann (2006; 2007) finds that a large government sector increases unemployment, particularly among women, youth, and unskilled labor, while increased economic freedom decreases unemployment, particularly among these demographic groups. Following this line of research and believing that economic freedom increases opportunity and the returns to work, we predict a positive association between economic freedom and the employment-population ratio. We include the education variable in the model, arguing that educated persons are more likely to be employed. And, we hold constant the share of retirement-age

population (65 and older). We add the year dummy variables to capture trends in the employment-population ratio.

Last, we examine the effects of economic freedom on income distribution. Many components of economic freedom, such as marginal tax rates, taxes and subsidies, and minimum wages, may affect income inequality. Since higher economic freedom reduces these redistributive effects, economic freedom may result in greater income inequality. On the other hand, by expanding economic opportunity for all, economic freedom may reduce income inequality. The empirical evidence, like the theoretical arguments, is mixed. Scully (2002) finds that economic freedom reduces income inequality. Carter (2006), however, questions this finding, presenting evidence that economic freedom increases income inequality. Our test, unlike theirs, uses Gini coefficients calculated across US states, circumventing the problem of comparable measures of income inequality across countries acknowledged by Scully. We also include the education and employment variables, arguing that more education and employment will equalize economic outcomes. To test for the effects of income, we include per capita income and its squared value. We also include per capita income growth to test for a trade-off between economic growth and income equality.

Table 1 provides descriptive statistics for all variables used in the empirical tests.

Table 1. Descriptive Statistics

Variable	Mean	Std. Dev.	Minimum	Maximum
Economic Freedom of the States rating	6.74	0.75	4.70	8.53
Per capita income (2010 dollars)	31,297	7,973	16,640	55,315
Employment-population ratio	62.3	4.7	49.0	72.6
Sales tax to total tax ratio	38.5	12.7	6.5	67.1
Gini coefficient	0.431	0.028	0.371	0.502
Population density	175	243	0.7	1,195
Percent white population	81.3	12.7	24.3	99.2
Age	156	48.7	22	223
Share of population age ≥ 25 with BS degree or higher	21.7	5.8	9.7	38.2
Percent of population age ≥ 65	12.3	2.1	3.0	18.0
Per capita income growth	22.7	10.4	-3.1	46.6

C. Results

Our three-stage least squares estimates are reported in table 2.³ We note that chi-square tests of joint significance are statistically significant for all estimates.

Table 2. Multiequation 3SLS Estimates for Economic Freedom in the US States
Estimate 1: Economic Freedom of the States

Variable	Coefficient	Z-score
Per capita income	0.000015	1.29
Employment-population ratio	0.085023	5.43***
Sales tax to total tax ratio	0.020888	4.29***
Gini coefficient	-7.646896	-1.76*
Population density	-0.001062	-4.38***
Percent white population	-0.012413	-2.69***
Age of state	0.005479	3.85***
Constant	3.825174	2.01**

Chi-square = 64.62; N = 200

Estimate 2: Per Capita Income

Variable	Coefficient	Z-score
Economic Freedom of the States	1,920.31	3.00***
Share of population with ≥ BS degree	-18.45	-0.17
Population density	11.99	9.69***
Employment-population ratio	1,135.47	8.78***
Year 1990	197.81	0.28
Year 2000	5,531.87	6.62***
Year 2010	16,863.34	12.23***
Constant	-59,684.41	-8.03***

Chi-square = 1067.40; N = 200

³ We use STATA software for all estimates reported in this paper.

Estimate 3: Employment-Population Ratio

Variable	Coefficient	Z-score
Economic Freedom of the States	1.759	2.76***
Share of population with \geq BS degree	0.506	8.22***
Percent population age \geq 65	-0.032	-0.28
Year 1990	1.783	2.45**
Year 2000	0.908	1.02
Year 2010	-5.911	-5.89***
Constant	40.616	7.83***

Chi-square = 191.18; N = 200

Estimate 4: Gini Coefficient

Variable	Coefficient	Z-score
Economic Freedom of the States	0.0188958	3.37***
Share of population with \geq BS degree	-0.0026930	-3.32***
Employment-population ratio	-0.0027768	-4.10***
Per capita income	0.0000187	6.56***
Per capita income squared	-2.17×E-10	-5.49***
Per capita income growth	0.0000304	0.12
Constant	0.1755988	3.23***

Chi-square = 80.27; N = 200

Note: Significance: ***, **, and * denote 1%, 5%, and 10%, respectively.

Examining the economic freedom estimate first, we find that per capita income is statistically unassociated with economic freedom, indicating that the valuation of and demand for economic freedom does not fall with rising incomes. The stakeholder variables, however, are highly significant and conform to expectations. A higher employment-to-population ratio raises economic freedom. A 1 percentage point increase in the share of state population employed increases economic freedom by 0.085. In addition, as the ratio of sales taxes to total taxes rises, economic freedom rises too, with a 10 percentage point increase associated with an increase in economic freedom of 0.2 points. When the distribution of the tax liability is more even, so that more citizens, even lower-income citizens, have a stake in paying for government services and programs, citizens choose wealth-enhancing policies over high tax rates, transfers and

subsidies, and regulation.⁴ The negative sign on the Gini coefficient, though significant at only the 10 percent level, is consistent with prior research on the US states by Knack (2002), in that greater income inequality reduces government quality and, in our estimates, economic freedom. In accordance with our expectations, population density increases the demand for government to deal with crowding problems at a statistically significant level, as an increase in population density of 100 persons per square mile reduces economic freedom by approximately 0.1. Examining racial homogeneity, we find significant results, again with precedence in the work of Knack (2002). Knack finds that heterogeneity leads to better government quality, while we find that racial homogeneity reduces economic freedom. The age variable is inconsistent with Olson's expectations, but is perfectly consistent with older southern states that resist higher minimum wages and commonly have right-to-work laws on their legislative books.

Turning to the estimate of per capita income, we find support, consistent with a wealth of other literature, that economic freedom matters, and it matters quite a lot. The coefficient on economic freedom is highly significant and indicates that a single point increase in the index of economic freedom raises a state's per capita income by more than \$1,900. Surprisingly, the education variable is statistically insignificant. We note, however, that education is highly correlated with the year dummy variables, reflecting rising educational attainment over time. The effect of population density is strong and significant, with the addition of 100 persons per square mile raising per capita state income by approximately \$1,200. Similarly, the employment-population ratio is highly significant and indicates that an additional percentage point of state population employed raises per capita income by over \$1,100. The effects of real economic growth apart from these factors are evident over the decades, as shown by the year dummy variables.

Consistent with the findings of Feldmann (2006; 2007), we find that economic freedom increases employment at a statistically significant level. A 1 percentage point increase in the economic freedom rating raises the employment-population ratio by over 1.75 percentage points. Education is highly significant, too, with a 1

⁴ We note that the economic freedom index includes sales taxes as a share of state economy as a subcomponent. Because higher taxes reduce economic freedom in the index, this variable should be biased toward a negative sign. The positive sign and significance of this variable point to the robustness of this finding.

percentage point increase in the share of state population with a bachelor's degree or higher raising the employment-population ratio by 0.5. So, while education does not show up as a direct influence on income in the second estimate, it does raise the employment-population ratio that, in turn, is strongly associated with income, as is also shown in the second estimate. Of the remaining variables, the significance of the year 2010 dummy variable is of particular interest. In that year, the employment-population ratio is over 5.9 percentage points lower than in 1981, a finding broadly consistent with the decline in employment in the aftermath of the 2007–09 recession.

Finally, economic freedom also significantly affects income inequality. Our findings, consistent with those of Carter (2006), support the hypothesis that economic freedom increases income inequality, with a 1 percentage point increase in the economic freedom rating raising the Gini coefficient by almost 0.02. Higher employment and education prove to be the great equalizers, as evidenced by the negative and significant coefficients on the employment-population ratio and the share of state population with a bachelor's degree or higher. A 10 percentage point increase in both of these ratios reduces the Gini coefficient by over 0.025. Last, we note that higher incomes raise income inequality, though at a decreasing rate, as shown by the signs and significance levels of per capita income and its squared value. Per these estimates, the Gini coefficient is maximized at a per capita income of \$43,088 and declines at higher values. We do not find a statistically significant trade-off between income growth and income equality as Scully (2002) does.

In general, these findings support the use of a multiequation model to determine factors that affect economic freedom. The evidence suggests that employment and the distribution of income affect economic freedom, and that economic freedom, in turn, affects income, employment, and the distribution of income. In addition, these findings are consistent with a hypothesis that while rent seeking, redistribution, and rational ignorance are endemic in democracies, in a competitive political environment, in which labor and capital can cross relatively seamless borders, those with a stake in wealth creation and political outcomes favor more economic freedom.

IV. Policy Implications and Concluding Thoughts

We have explored the causal factors that determine economic freedom. In simplest terms, why are some states relatively more economically free than others? To account for the factors that determine economic freedom and the effects of economic freedom on income, employment, and income inequality, we estimated a multiequation model using US state data. The use of a four-equation model is unique to the study of economic freedom and provides valuable insight into its determinants. Further, because we use US state data instead of country data, we examine a political dynamic in which political competition matters because resources can cross borders relatively freely. In this political-economic setting, we find a number of notable results. In particular, stakeholders matter. States with a high share of the population employed and with a tax system that requires payment from a large portion of the population are more likely to embrace institutions that generate wealth. While rent seeking, redistribution, and rational ignorance are pervasive in any political-economic system, our findings support the hypothesis that resource mobility constrains wealth retarding policies and, at the margin, promotes economic freedom.

Appendix: Data Sources

Age: Calculated from year of admission from *The Book of the States 2010*, Table 10.2, Historical Data on the States.

Economic Freedom of North America: *Economic Freedom of North America 2012*, Fraser Institute, Table 2.4, Overall Scores at state/provincial and local/municipal levels, 1981–2010.

Employment-population ratio: For 1980, *Statistical Abstract of the United States 1981*, Table 638, Characteristics of the Civilian Labor Force, by State. For 1990, *Statistical Abstract of the United States 1991*, Table 636, Characteristics of the Civilian Labor Force, by State. For 2000, *Statistical Abstract of the United States 2001*, Table 572, Characteristics of the Civilian Labor Force, by State. For 2010, *Statistical Abstract of the United States 2012*, Table 594, Characteristics of the Civilian Labor Force, by State.

Gini coefficient of household income: For 1980, 1990, and 2000, Censuses of Population, Household Income for 1979, 1989, and

1999, US Census Bureau, Statistics Branch, HHES Division. For 2010, Household Income for States: 2008 and 2009, American Community Survey Briefs, US Census Bureau, September 2010, available at www.census.gov/prod/2010pubs/acsbr09-2.pdf.

Per capita personal income: *Statistical Abstract of the United States 2012*, Table 681, Personal Income Per Capita in Current and Constant (2005) Dollars by State.

Percent white population: For 1980, *Statistical Abstract of the United States 1982–83*, Table 36, Resident Population by Race and Spanish Origin. For 1990, *Statistical Abstract of the United States 1992*, Table 26, Resident Population by Race and Hispanic Origin. For 2000, *Statistical Abstract of the United States 2001*, Table 24, Resident Population by Race and State. For 2010, *Statistical Abstract of the United States 2012*, Table 19, Resident Population by Race and State.

Population aged 65 and above: Data for 1981 are from the *Statistical Abstract of the United States 1982–83*, Table 33. Data for 1990 are from the *Statistical Abstract of the United States 1991*, Table 28. Data for 2000 are from the *Statistical Abstract of the United States 2002*, Table 21. Data for 2010 are from the *Statistical Abstract of the United States 2012*, Table 16.

Population density: *Statistical Abstract of the United States 2012*, Table 14, State Population—Rank, Percent Change, and Population Density.

Sales taxes as a share of total taxes: Data for 1980 and 1990 were provided by the Governments Division of the US Census Bureau upon request by the authors. The data are available at www2.census.gov/pub/outgoing/govs/special60/ in the government finances zip file. For 2000 and 2010 data, see the Census of Governments, State & Local Government Finance.

Share of population with a bachelor's degree or higher: For 1980, *Statistical Abstract of the United States 1982–83*, Table 227, Years of School Completed by State. For 1990, 2000, and 2010, *Statistical Abstract of the United States 2012*, Table 233, Educational Attainment by State.

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