

OPINION

Missouri's economic freedom moving in wrong direction

Missouri is the 16th most economically free state in the union according to the just released 2019 edition of the Economic Freedom of North America. The report is published by Fraser Institute, an independent, nonpartisan Canadian public policy think tank. New Hampshire ranked as the most economically free state, with New York at the bottom of the list.

The Fraser Institute's economic freedom measure is a barometer of restrictions on individual economic decision-making imposed by state and local governments. More restrictions interfere with personal choices, such as what or how much to produce, and they reduce economic freedom.

A co-author of the report, Fred McMahon at the Fraser Institute, puts it this way: "When governments allow markets to decide what's produced, how it is produced and how much is produced, citizens enjoy much greater levels of economic freedom."

Missouri's current ranking uses data from 2017, the most recent year of available comparable numbers. The ranking places it behind neighboring states Kansas and Nebraska, but ahead of Arkansas, Illinois and Iowa.

A significant body of research finds that states, and countries, with higher levels of economic freedom tend to experience faster economic growth, greater entrepreneurial activity and more prosperity. How is it, then, that Missouri's economy is and has been for many years one of the slowest-growing economies in the nation?

To answer this question, we need to consider two possible explanations.

First, is Missouri's overall ranking telling the complete story?

The ranking comprises three measures. One measures various aspects of state government spending as a percentage of income. Another assesses the burden of state taxes, such as income, payroll, property and sales taxes. The third component considers how free a state's labor markets are: States with high union density, a high ratio of government to total employment in the state, and higher minimum wage (relative to per capita income) are states with less economic freedom in its labor markets. Individuals in such states are less free to make employment decisions.

In the 2019 report, Missouri actually fares quite well in the first two areas. In terms of government spending and taxation, Missouri maintains its No. 16 ranking,

➤ **Restrictions like the state's minimum wage, occupational licensing and state tax incentive laws put Missouri workers at a disadvantage.**



GUEST COLUMN

R.W. Hafer

When it comes to labor market freedom, however, Missouri slips quite a few notches, coming in at No. 24.

In an analysis of Missouri's labor market conducted for Lindenwood University's Hammond Institute, Dean Stansel, a co-author of the Fraser report, found the level of freedom in Missouri's labor market trails most neighboring states. Burdensome restrictions like the state's minimum wage, occupational licensing and state tax laws

that negatively affect incentives to work put Missouri workers at a comparative disadvantage and tend to slow economic growth.

The other possible explanation is to note that economic freedom in Missouri has eroded over time. The state's overall ranking was as high as No. 11, most recently in 2013. Not only has our overall ranking dropped, but it also declined for every component, most notably in the area of labor market freedom.

Deteriorating economic freedom coincides with Missouri's economic growth lagging the national average. Gross domestic product adjusted for inflation (real GDP) in Missouri increased at an annual rate of less than 1% over the past 20 years, much slower than the 2.3% rate for the United States. A recent study finds that Missouri's ability to create jobs over this period also lags the nation, and most of its neighbors.

Economic freedom in Missouri is moving in the wrong direction. Given the link between positive economic outcomes and economic policies that promote market outcomes, we must not be complacent. More work needs to be done to keep the economic freedoms we have and to eliminate government restrictions that hinder economic prosperity.

No. 24

Missouri's 2019 ranking of labor market freedom

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