

Economic Freedom in Michigan and the United States

By Michael D. LaFaive and Dean Stansel | September 2022

Determinants of economic and other measures of well-being have been debated for hundreds of years. Adam Smith — the grandfather of modern economics — wrote his magnum opus, “An Inquiry into the Nature and Causes of the Wealth of Nations” on the subject.

Scholars around the world have weighed in ever since, with many studies showing positive associations between economic liberty and outcomes that many people value, such as growth in employment and income. We have just released a report that ranks all 383 Metropolitan Statistical Areas in the country by objective measures of economic freedom. Michigan MSAs perform poorly on them.

To measure economic freedom in MSAs, Stansel built an index of three major policy areas — taxation, government spending and labor market regulation. Each area contains subcategories with relevant data, such as income and payroll taxes, expenditures by government and government employment.

Each subcategory is objectively assigned a score between the lowest and highest rankings. The scores

for each category are then summed up and averaged for an overall score. Michigan’s freedom score across all three categories was only 6.24 out of 10. The national average was 8% higher, at 6.75.

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There is a sliver of good news to report. One of Michigan’s 14 MSAs — Midland at 6.76 — outperformed the national average, barely, though it was still in the bottom half, at 193

out of 383. The state’s worst performer was Bay City, which is ranked 346th. The chart below ranks each MSA in Michigan by its overall freedom score and where it falls among MSAs across the nation.

We examined most closely the impact of labor market regulations. The national average for all categories was higher than it is for Michigan, but the discrepancy was widest in labor policy: The U.S. average was 22% above the Michigan average. This was far worse than the other two areas, where the national average for government spending was 4% higher than Michigan’s average, and the national average for taxation was 1% lower.

The measurement for labor market regulation results from measuring the minimum wage burden,

government's share of total employment and union density across MSAs. State minimum wage burdens are measured by taking full-time minimum wage income as a percentage of per capita personal income in each MSA. In other words, it measures the extent to which the minimum wage is binding in the local labor market.

The national analysis breaks the MSAs into quartiles: the most-free 25%, second most free, third most free and least free. We found that MSAs in the highest quartile of labor market freedom scores had unemployment rates about 25% lower than those in the lowest quartile. They also had almost 10 times faster population growth and nearly three times higher employment growth from 2017 to 2019 than those in the lowest quartile.

A look at Michigan's MSAs reveals some interesting findings, starting with employment. The average unemployment rate of Michigan's 14 MSAs exceeded the national average. Only four had rates below the U.S. average. Only three Michigan MSAs had employment growth above the national average from 2017 to 2019. Six of the MSAs lost jobs during that period.

Only the Grand Rapids MSA saw population growth exceed the national average from 2017 to 2019. Only four MSAs saw any growth at all. This is disconcerting; population growth can reflect how attractive an area is to people interested in a better quality of life, including economic opportunity. The Census Bureau reported this year that Michigan is once again losing population.

It is important to note that correlation is not causation. But previous research papers that control

for factors other than the ones we have mentioned, such as income and geographic distances, have come to a similar conclusion. The methodology used here was born of the Canada-based Fraser Institute's annual "Economic Freedom of North America" index and its international counterpart, "Economic Freedom of the World."

Hundreds of papers have used those indices to examine this same issue, and they virtually all come to that same conclusion: Greater economic freedom is associated with better economic outcomes. Those outcomes include not only things like higher GDP or greater gains in income, but also higher population growth, life satisfaction, environmental cleanliness and life expectancy.

The results of our study, and the overwhelming evidence from previous work, suggest again that the path to prosperity is paved with a light regulatory touch, low taxes and restrained government spending.

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Dean Stansel, Ph.D., is an economist at the Bridwell Institute for Economic Freedom.



Michael D. LaFaive is the senior director of the Morey Fiscal Policy Initiative for the Mackinac Center for Public Policy.