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The Citizen Legislature: How Reasonable Limits on State Legislative Salaries, Staff and Session Lengths Keep Liberty Alive

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EXECUTIVE SUMMARY

In the last two decades, the Arizona Legislature has sent three measures to the ballot to raise legislative salaries. Only one, Proposition 302 in 1998 passed. Arizona voters have been wise. Although Arizona lawmakers are paid only \$24,000 per year, often share staff, and have not had a pay raise since 1998, the state's inadvertent frugality in this respect has helped protect freedom.

An analysis of indicators of economic and personal freedom in the 50 states reveals that states with “citizen legislatures”—part-time legislators, low salaries, short sessions, and small legislative staffs—enjoy more economic and individual liberty. New Hampshire, which enjoyed the top overall freedom ranking, also enjoyed the status of having the most minimalistic state legislature. By contrast, five out of the ten least freedom-friendly states—New York, New Jersey, California, Massachusetts and Illinois—all shared the dubious honor of supporting state legislatures that are among the top ten most lavish in terms of salary, staff, and session length.

Our findings confirm that citizen legislators—as opposed to career legislators—avoid legislating in areas that are normally private domains and prevent government from expanding unsustainably. Consequently, voters should continue to resist efforts to increase legislators' salaries, staff, and the length of time the legislature is in session.

Arizona, in particular, would also benefit from a reduction in the size of its legislative staff given the state actually has one of the larger contingents in the country. Further, the state could consider reducing the duration of legislative sessions, perhaps even moving to a biennial session as in Texas, Nevada, Montana, and North Dakota. Simple reforms could produce big results. If Arizona adopted New Hampshire's citizen legislature model, Arizona's fiscal freedom ranking, which measures tax and spending policies, could jump from 15th most free in the nation to fourth.

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Introduction

American states enjoy substantial autonomy to set their own policies in areas ranging from taxation to property rights to civil and criminal law. As a result, states often differ substantially in their public policies.¹ For instance, states with more liberal voting populations tend to have more liberal policies.² But differences in public policy can also result from institutions such as direct democracy³ and gubernatorial term limits.⁴

Another institution with potential relevance is the citizen legislature, rather than a professionalized one. “Professionalized legislature,” as described in political science literature, is not meant to suggest a high degree of legislative competency; it is merely a technical term used in the social sciences to describe legislatures like the U.S. Congress, which have full-time legislators with generous pay, long legislative sessions that meet every year, and large legislative staffs.⁵ In this article, we will refer to “professionalism” as “careerism,” as the word professionalism can be a loaded term and connote competency and efficiency, whereas it really means that legislators and their staff view their occupations as capital and labor-intensive, long-term occupations. By contrast, the New Hampshire state legislature is an example of the citizen legislature: legislators are part-time and virtually unpaid, legislative sessions are short, and the legislative staff is small.

Our research shows affirmatively that states with citizen legislatures have higher degrees of individual freedom and smaller governments than do states with career legislatures.

In this paper, we consider whether states with citizen legislatures have smaller government and more individual freedom than states with career legislatures. We conducted empirical tests on all 50 states using various measures of government size and individual freedom. Those tests show affirmatively that states with citizen legislatures have higher degrees of individual freedom and smaller governments than do states with career legislatures.

Methodology

To determine whether and how much legislature type affects economic and individual freedom, we tested dependent variables including the 2009 Ruger-Sorens Index (RSI) of total personal and economic freedom,⁶ the Economic Freedom of North America (EFNA) scores from the Fraser Institute,⁷ and state and local tax collections as a percentage of state income. These variables cover more than 100 policies, from gun control, homeschooling regulations, and smoking bans, to taxes, spending, eminent domain, liability systems, government spending, government employment, unionization, and labor regulation.⁸

The main independent variable was legislative careerism, a composite measure of salaries, session lengths, and staff sizes developed by University of Missouri political scientist Peverill Squire.⁹ In principle, legislative careerism goes from 0 (no salary, zero staff, no session) to 1 (everything equivalent to the U.S. House). In practice, scores range in 2003 from 0.027 (New Hampshire) to 0.626 (California). This variable reflects the extent to which a legislature is composed of a political class enjoying high salaries, large staffs, and long, frequent sessions in which to write laws. We expect this variable to have a negative effect on freedom and a positive effect on tax burdens, reflecting the fact that states with citizen legislatures are freer and enjoy lower taxes.

However, Neil Malhotra of the University of Pennsylvania argues that career legislatures do not cause more government spending but are actually a *response* to government spending - social spending specifically.¹⁰ Therefore, we have used an estimation technique to adjust for reverse causality when assessing the effect of state legislative careerism on government spending.

This regression analysis allows us to determine whether and how closely legislature type affects the freedom of a state's citizens. A comprehensive discussion of our statistical methodology and variables is available in the appendix.

Results

We were able to conclude from our analysis that legislative careerism reduces freedom. Specifically, we find that legislative careerism reduces total freedom as measured by the 2009 Ruger-Sorens Index (RSI) and all three components of freedom in that study, including the mid-level aggregate, economic freedom (see description of this index in the Appendix). Legislative careerism also reduces economic freedom as measured by Economic Freedom of North America (EFNA) scores and increases the tax burden (see description of this index in the Appendix). We can be at least 95 percent confident of the harmful effect of legislative careerism only on economic freedom (RSI and EFNA) and fiscal freedom (RSI); however, we are less confident about the harmful effects on regulation and personal freedom. Nevertheless, we are confident that the inverse relationships between legislative careerism and freedom that we find are *causal*. The reason is that we find the same relationship between legislative careerism and freedom even when we adjust for the possibility that decreases in freedom cause increases in legislative careerism.¹¹ For example, when we look at the 2000-2005 change in EFNA and 2000-2008 change in tax burden, increased legislative careerism in 1996 consistently causes worsening of economic freedom and growth in the tax burden, and these results are statistically significant. This shows that increased legislative careerism causes decreased freedom because it is not plausible that increasing taxes from 2000 to 2008 caused legislators to increase their resources and pay in 1996.

The analysis shows that legislative careerism reduces freedom. Legislative careerism also reduces economic freedom as measured by Economic Freedom of North America scores and increases the tax burden.

Figure 1: State Rankings in Legislative Careerism Compared to State Rankings on the Ruger-Sorens Index

Legislative Careerism (from worst to best) ¹²	Fiscal Freedom (from best to worst) ¹³
1. California	1. New Hampshire
2. New York	2. South Dakota
3. Wisconsin	3. Tennessee
4. Massachusetts	4. Texas
5. Michigan	5. Colorado
6. Pennsylvania	6. Missouri
7. Ohio	7. North Dakota
8. Illinois	8. Montana
9. New Jersey	9. Georgia
10. Arizona	10. Idaho
11. Alaska	11. Oklahoma
12. Hawaii	12. Alabama
13. Florida	13. Nevada
14. Colorado	14. Virginia
15. Texas	15. Arizona
16. North Carolina	16. Maryland
17. Washington	17. Wyoming
18. Maryland	18. Illinois
19. Connecticut	19. Iowa
20. Oklahoma	20. Utah
21. Missouri	21. North Carolina
22. Iowa	22. Mississippi
23. Minnesota	23. Massachusetts
24. Nebraska	24. Indiana
25. Oregon	25. Florida
26. Delaware	26. Connecticut
27. Kentucky	27. Oregon
28. Vermont	28. Kansas
29. Idaho	29. Louisiana
30. Nevada	30. Delaware
31. Rhode Island	31. Michigan
32. Virginia	32. Pennsylvania
33. Louisiana	33. Arkansas

Legislative Careerism (from worst to best) ¹²	Fiscal Freedom (from best to worst) ¹³
34. Kansas	34. South Carolina
35. West Virginia	35. Minnesota
36. South Carolina	36. Kentucky
37. Georgia	37. Washington
38. Tennessee	38. Nebraska
39. New Mexico	39. West Virginia
40. Mississippi	40. Ohio
41. Arkansas	41. Rhode Island
42. Indiana	42. Wisconsin
43. Maine	43. New Jersey
44. Montana	44. California
45. Alabama	45. New Mexico
46. Utah	46. Hawaii
47. South Dakota	47. Vermont
48. Wyoming	48. Maine
49. North Dakota	49. Alaska
50. New Hampshire	50. New York

Theory and Literature

Legislative careerism consists of three factors: salary, session length, and staff size. The first of these affects legislators' preferences, while the latter two affect the means at the disposal of legislators for satisfying their preferences. When legislative salary is high, politics will tend to attract more candidates, and legislators might try harder to win re-election. Legislators are more likely to see politics as their full-time profession (legislative careerism).

This situation could be harmful to freedom for two reasons. First, those who pursue politics as a career may have less experience in the private market and have less understanding of what it takes to create value in the marketplace. Citizen legislators, on the other hand, are often retired, homemakers, or workers otherwise gainfully employed. Researchers Scott Meinke of Bucknell University and Edward Hasecke of Wittenberg University show that, outside the South, term limits are associated with lower Democratic Party seat shares in state houses.¹⁴ The reason is presumably that Democratic candidates are more willing to pursue politics as a profession than are Republican candidates. There is some evidence that Republican-leaning states have smaller government than Democratic-leaning states have.¹⁵

Legislative careerism may be harmful to freedom for two reasons. First, those who pursue politics as a career may have less experience in the private market and have less understanding of what it takes to create value in the marketplace. Second, politicians seeking to be elected for the first time or to return to office are more likely to think of themselves as delegates of their constituents than trustees.

The second reason that legislative careerism may be harmful for freedom is that politicians seeking to be elected for the first time or to return to office are more likely to think of themselves as delegates of their constituents than trustees. A delegate simply votes the preferences of the majority of the constituency, while a trustee is willing to make hard decisions in the *interests* of the constituency as a whole, even if those decisions go against the current opinion of the majority. The delegate model encourages tyranny of the majority (e.g., smoking bans, which are more prevalent in states with careerist legislatures)¹⁶ and parochial concerns with district interest groups at the expense of the general interest of the state (e.g., pork-barrel spending). On the other hand, in districts with a broad-based, pro-liberty political culture, representatives with a trustee orientation could buck their constituency in favor of more statist policies that they perceive as being in the general interest, as we saw in the U.S. Congress during the health care vote in the spring of 2010.

The harmful effect of legislative careerism on freedom is substantial. A large increase in legislative careerism would be expected to dramatically reduce Arizona's ranking in fiscal freedom (RSI), dropping Arizona's ranking from 15th in the country to a virtual tie for 43rd with New Jersey.

Longer sessions and larger staffs give legislators more tools to accomplish their objectives. This is not all bad. Legislatures with more resources should find it easier to monitor and sanction the bureaucracy, keeping them in line with the letter and spirit of the laws that the legislature has passed. However, Neal Woods of the University of South Carolina and Michael Baranowski of Northern Kentucky University argue that greater resources may on balance harm legislative oversight by enhancing legislators' careerism.¹⁷

Indeed, the harmful effects of more legislative resources are evident. In general, with longer sessions and more staff, laws become longer and more complex; regulations become more detailed and difficult to follow. A career legislature sees fit to legislate on matters that others would leave alone. Legislators may be more likely to fund visible monuments to their accomplishments, such as sports stadiums and passenger railroads. California is the archetype of a career legislature and evinces all of these problems. A survey of 651 chief executive officers rated California as the worst state for business.¹⁸ In the midst of a budget crisis, the California legislature took up a bill to declare the naturally occurring rock serpentine an asbestos-containing and carcinogenic substance, which would have exposed landowners to legal liability.¹⁹ Based on these observations, we employed a statistical methodology to determine whether citizens interested in freedom and low taxes should press for more citizen-controlled and less careerist legislatures. Reducing legislators' salaries and staffs and the length of time that the legislature is in session will serve these goals.

Spotlight on Arizona

The harmful effect of legislative careerism on freedom is substantial. As shown in Figure 1, Arizona is 10th in the nation in legislative careerism and 15th in the nation in fiscal freedom (RSI). Arizona's ranking in the top ten of legislative

careerist states is largely due to the fact that its legislative session is fairly long at over 100 days (regular sessions, unless extended, end on the Saturday of the week in which the 100th calendar day of the session falls).²⁰ If Arizona fell victim to further increasing its ranking among legislative careerist states, e.g., through an increase in salary, staff, and length of session time from Arizona's level (10th) to California's (1st), our statistical model shows that Arizona's ranking in fiscal freedom (RSI) would be dramatically reduced, dropping Arizona's ranking from 15th in the country to a virtual tie for 43rd with New Jersey. Of course, such a large change is unrealistic. But even small changes in legislative careerism show a significant impact on Arizona's fiscal freedom ranking. A smaller increase in careerism, to about the level of Michigan (5th), would still drop Arizona to 22nd in rankings of fiscal freedom, just ahead of Massachusetts. Looking at changes in tax burden, our best estimate of the effect of adopting Michigan's level of careerism is that Arizona's state and local tax burden would rise an additional 0.2 percent of personal income between 2000 and 2008, from 9.4 percent to 10.2 percent. By contrast, if Arizona were to adopt New Hampshire's level of careerism, the lowest in the country (50th), its tax burden would increase about 0.4 percentage points less, and its fiscal freedom ranking would go from 15th to fourth.

The question is how to move Arizona closer to the citizen legislature model enjoyed by New Hampshire. One fruitful reform would be to keep the legislature in session only every other year. Montana, Nevada, North Dakota, and Texas are other states with biennial sessions. Should such a bold change prove impossible, reducing the length of the annual session is not unprecedented and would be worth pursuing. For example, in 1988, Colorado successfully reduced the duration of its legislative sessions.²¹ Tightening the rules for extending sessions or calling special sessions would prove beneficial as an additional limitation or as intermediate move in the right direction – especially given the tendency of sessions to run longer than the chamber's own specified rules.

Arizona also has a relatively large legislative staff. In 2009, Arizona was 13th in the number of permanent legislative staff, a number that increased by more than 60% over the previous 20 years.²² We therefore recommend reducing overall staff numbers. Surely Arizona, with more than 600 permanent and session staffers (excluding state library staff), can live with the same legislative staffing levels as slightly less populous neighboring state Colorado (345) or a state with a similar population such as Indiana (375).²³

Practical Implications for Arizona

Although the majority of Arizonans rejected ballot measures in 2006 and 2008 that would have increased the salaries of legislators, many Arizonans still clamor for changes that will move the state further away from the citizen legislature model. For example, in January 2011, Yuma residents gathered for an Arizona

Arizona is 10th highest in the country in the summary legislative careerism measure, indicating that there is room for reform. One fruitful reform would be to keep the legislature in session only every other year. Tightening the rules for extending sessions or calling special sessions would prove beneficial as an additional limitation or as intermediate move in the right direction – especially given the tendency of sessions to run longer than the chamber's own specified rules.

Town Hall meeting approved a recommendation calling for an increase in salaries for state legislators, elimination of term limits, and increasing term lengths.²⁴ An earlier Town Hall event at the Grand Canyon led to a similar statement in favor of “significantly” increasing salaries, ending term limits, and increasing term lengths and session lengths.²⁵ Our findings show that Arizonans should strongly resist such efforts. Indeed, they would be well-served to pare back the duration of legislative sessions and the size of legislative staff if they want to maintain or expand the level of freedom Arizonans enjoy. As Senate Majority Whip Steve Pierce of Prescott recently noted, “The longer we’re in session, the worse it is for the State of Arizona.”²⁶ The cause of liberty in Arizona will be best aided not by increasing the careerism of the legislature but by adhering more closely to the citizen-legislature model that has served so many states, past and present, so well.

APPENDIX

Data and Methods

Hypothesis 1: State legislative careerism (higher salaries, larger staffs, longer sessions) reduces liberty and increases government.

Hypothesis 2: State legislative careerism (higher salaries, larger staffs, longer sessions) is a response to reductions in liberty and increases in government.

We investigated whether citizen legislatures consistently affect individual freedom in the American states using instrumental-variables and ordinary least-squares (OLS) regression on the 50 states to test the foregoing hypotheses. Our dependent variables are indicators of freedom: the 2009 Ruger-Sorens Index (RSI) of total personal and economic freedom,²⁷ the Economic Freedom of North America (EFNA) scores from the Fraser Institute,²⁸ and state and local tax collections, excluding motor fuel and severance taxes, as a percentage of state income. The RSI is coded as of January 1, 2007, for each state; the EFNA scores are for 2005 for each state (we look at the state-level scores only, omitting the state impact of federal policies, over which state legislatures have no control); and state and local taxes are for fiscal year 2008. We examine the RSI in levels, EFNA in levels and changes from 2000 to 2005, and tax burden in levels and changes from 2000 to 2008.

The RSI comprises indices of economic and personal freedom, while economic freedom can be further decomposed into fiscal and regulatory policies, all of which we tested. It covers more than 100 policies, from gun control, homeschooling regulations, and smoking bans, to taxes, spending, eminent domain, liability systems, labor regulations, and more. The EFNA project, meanwhile, consists of 10 variables measuring various aspects of taxes, spending, government employment, unionization, and labor regulation.²⁹ More details are available later in this appendix.

The main independent variable is “legislative careerism,” a composite measure of salaries, session lengths, and staff sizes from Squire (2007). In principle, legislative careerism goes from 0 (no salary, zero staff, no session) to 1 (everything equivalent to the U.S. House). In practice, scores range in 2003 from 0.033 (New Hampshire) to 0.675 (California). This variable reflects the extent to which a legislature is composed of a political class enjoying high salaries, large staffs, and long, frequent sessions in which to write laws. We expect this variable to have a negative effect on freedom and a positive effect on tax burdens, reflecting the fact that states with citizen legislatures are freer and enjoy lower taxes.

Because legislative careerism may also be an effect of government spending, rather than a cause, we also have to choose instruments for careerism that will

purge the endogenous component of the variable (i.e., the part of the variable that is due to government spending's possible effects on it). The instruments we choose are logged population, legislative careerism in 1979, and a dummy variable for whether a state has biennial rather than annual sessions. These are valid instruments because they are exogenous to government spending and predict legislative careerism in 2003 well (details in the tables below). However, for the changes in EFNA and tax burden regressions, we simply use OLS and measure legislative careerism as of 1996, since it is not possible for changes in policies from 2000 on to affect legislative careerism in 1996.

There have been few prior studies of the effect of state legislative careerism on government spending. Owings and Borck (2000) find that career legislatures correlate with higher government spending per capita over the 1964-1994 period, controlling for per capita income, population, federal grants, and other factors. However, Malhotra (2008) argues that career legislatures do not cause more government spending but are actually a *response* to government spending—social spending specifically. Therefore, we have used an estimation technique to adjust for reverse causality when assessing the effect of state legislative careerism on government spending.

In the levels regressions, we use an array of ideological, economic, and institutional control variables. For citizen ideology, we first create a variable for “citizen liberalism-conservatism,” which is derived from a principal components analysis (PCA) of three variables: the Berry, Ringquist, Fording, and Hanson (2004) indicator of citizen opinion ideology,³⁰ the Berry et al. indicator of legislator opinion ideology, and the arithmetic mean of vote shares for left-of-center (Democratic, Green, Nader, minor socialist) presidential candidates in 1996, 2000, and 2004. (We exclude 2008 from the levels regressions, since policy is coded before then.) The PCA technique reduces the common variance among these three variables to a single variable, which will be more reliable than any one of the original variables. This resulting citizen liberalism-conservatism variable gives higher scores for more left-of-center states. We include the raw variable and its square to test for nonlinearity.

Our next indicator of citizen ideology is a variable intended to measure citizen libertarianism. This variable is the arithmetic mean of vote shares for Libertarian presidential candidates in 1996, 2000, and 2004. Next, we include a variable for the percentage of employees covered by collective bargaining contracts in 2006 (“unionization rate”). Unions are a powerful interest group, and the stronger they are in a state, the less free the state will be. However, we exclude unionization rate from the EFNA regressions, because it is part of the EFNA scores. In the personal freedom regression, we also include urbanization rate. Urbanized states tend to have greater fear of crime and are more likely to limit personal freedoms in areas such as firearms and victimless crimes.

We include the tax revenues earned from mineral severance taxes in the 2005-2006 fiscal year, as a percentage of state personal income, in the models that include fiscal variables, because states dependent on these taxes, Alaska most obviously, have higher government spending. For the same reason, we include 2005-2006 federal grants to state and local governments as a percentage of personal income. It is worth noting that the RSI already adjusts government spending and employment for grants received. Thus, any effect in the RSI regressions would indicate that federal grants affect taxes or regulations independently of spending. Next, we include the log of population density in 2006 because less-dense states have to spend more on transportation infrastructure.

Finally, we also include the natural log of the number of popular initiatives voted on in 1990-2000. We include this variable in part because we want to be sure that whatever effects we may find for legislative careerism actually reflect the independent role of legislative careerism and not some other factor specific to initiative states. We use the natural log because the variable is highly skewed, and consistent with latest practice³¹ we eschew a “dummy” (0-1) variable because more frequent initiatives reflect an easier initiative process. (Illinois is an example of a state that had no initiatives at all from 1990 to 2000, because the process there is difficult.) Another reason to include an initiative variable is that much of the literature holds that the initiative reduces taxes and spending by making it easier to impose tax and spending limits on legislatures.³²

Table 1: Regression Models of Legislative Careerism's Effect on Freedom

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7
<i>Dep. Var.:</i>	RSI (Total)	RSI (Economic)	RSI (Regulatory)	RSI (Fiscal)	RSI (Personal)	EFNA	Tax Burden
<i>Equation:</i>	IV	IV	OLS	IV	OLS	IV	IV
Variable	Coef. (Std. Err.)						
Leg. careerism	-0.53 (0.32)	-0.56 (0.29)*	-0.08 (0.11)	-0.65 (0.24)**	-0.10 (0.14)	-2.8 (0.9)**	2.9 (1.8)
Log (Initiatives)	0.014 (0.020)	0.020 (0.022)	-0.013 (0.009)	0.037 (0.014)*	0.014 (0.010)	0.01 (0.06)	-0.17 (0.11)
Liberalism	-0.027 (0.021)	-0.039 (0.019)*	-0.046 (0.008)**	-0.004 (0.015)	-0.006 (0.010)	-0.18 (0.06)**	0.1 (0.1)
Citizen Liberalism	-0.018 (0.008)*	-0.018 (0.008)*	-0.005 (0.004)	-0.013 (0.006)*	-0.002 (0.005)	-0.06 (0.03)*	0.11 (0.05)*
Libertarianism	0.19 (0.16)	0.08 (0.15)	0.10 (0.08)	-0.03 (0.12)	0.19 (0.09)*	0.4 (0.5)	-0.2 (0.9)
Unionization	-0.023 (0.006)**	-0.019 (0.005)**		-0.015 (0.004)**			0.09 (0.03)**
Severance revenue	0.024 (0.036)	0.025 (0.034)		0.038 (0.027)			-0.19 (0.20)
Log(pop density)	-0.037 (0.031)	0.015 (0.028)		0.036 (0.023)		0.12 (0.09)	0.06 (0.17)
Federal grants	-0.033 (0.020)	-0.033 (0.019)	-0.013 (0.007)	-0.021 (0.015)	0.007 (0.010)	-0.18 (0.06)**	0.15 (0.12)
Urbanization					-0.25 (0.12)		
Constant	0.65 (0.23)**	0.42 (0.21)	0.06 (0.06)	0.24 (0.17)	0.07 (0.11)	7.7 (0.7)**	7.4 (1.3)**
Adjusted R ²	69.5%	64.6%	46.4%	57.2%	28.0%	48.4%	52.6%
R ² (first stage)	83.2%	83.2%	N/A	83.2%	N/A	81.1%	83.2%
F test, residuals (P)	0.64 (0.593)	0.85 (0.476)	N/A	0.00 (1.0)	N/A	0.04 (0.99)	0.27 (0.845)

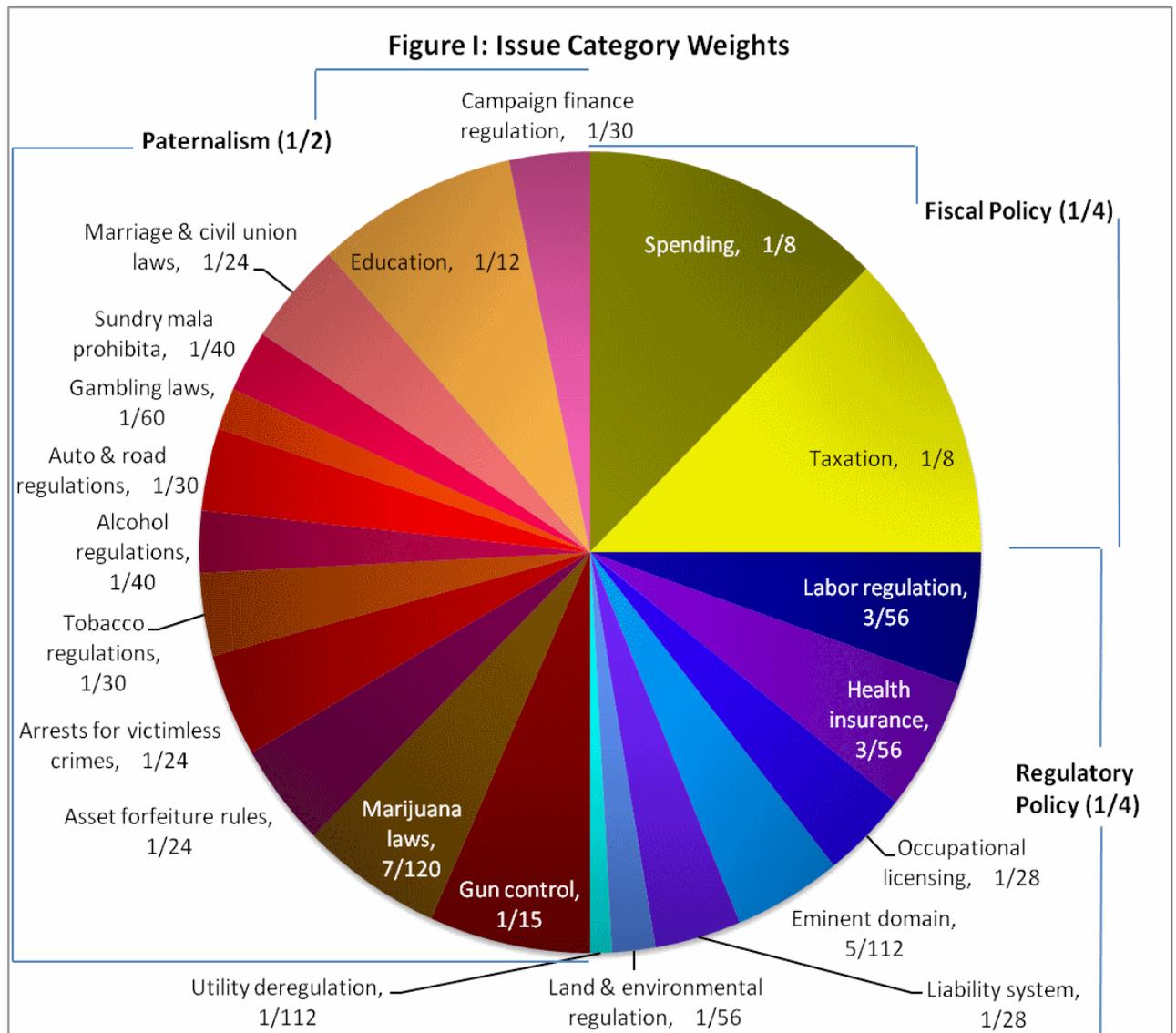
Notes: *p<0.05 **p<0.01, one-tailed tests on legislative careerism. Last row contains F test of null hypothesis that instruments for legislative careerism are correlated with residuals from the main equation, p-value from this test in parentheses. Penultimate row contains R-squared from the first-stage (instrumenting) equation. These numbers show that the instruments satisfy both validity requirements: predictive strength and exogeneity.

Table 2: Determinants of Change in Freedom

	Model 8	Model 9
<i>Dep. Var.:</i>	Δ EFNA	Δ Tax Burden
<i>Equation:</i>	OLS	OLS
Variable	Coef. (Std. Err.)	Coef. (Std. Err.)
Leg. careerism, 1996	-1.0 (0.2)**	2.3 (0.8)**
Log (Initiatives)	0.003 (0.02)	-0.10 (0.06)
Δ Democratic vote	0.008 (0.006)	0.013 (0.020)
Δ Libertarian vote	0.21 (0.13)	0.05 (0.4)
Δ Unionization		0.006 (0.02)
Δ Severance	-0.06 (0.10)	0.62 (0.30)*
Δ Grants	-0.05 (0.04)	0.16 (0.12)
EFNA, 2000	-0.12 (0.04)**	
Tax burden, 2000		-0.13 (0.09)
Constant	0.93 (0.33)**	1.2 (0.9)
Adjusted R ²	33.4%	19.1%

Construction of the Ruger-Sorens Index

The Ruger-Sorens Index of Personal and Economic Freedom, published by the Mercatus Center at George Mason University, is a comprehensive study of the American states in terms of their public policies affecting individual freedoms in the fiscal, regulatory, and personal spheres. It is the only study of its kind to examine both economic and social policy and improves on prior attempts to measure economic freedom in the states. The following figure shows how the overall index and the three subindices (fiscal, regulatory, personal) were generated from the policy categories. Each policy category in turn is constructed from individual variables, too numerous to list here (Ruger and Sorens, 2009). The entire study is available at <http://mercatus.org/publication/freedom-50-states-index-personal-and-economic-freedom>; a second edition will be published in 2011.



Construction of Economic Freedom of North America

The *Economic Freedom of North America* (EFNA) study, published by the Fraser Institute, examines economic liberty in the U.S. states and Canadian provinces. Although it is not as comprehensive even in its coverage of economic policies as the Ruger-Sorens Index, EFNA remains one of the most important comparative studies of economic freedom in the U.S. states. EFNA consists of three components: size of government, takings and discriminatory taxation, and labor market freedom. Size of government is the arithmetic mean of scores on government consumption, transfers and subsidies, and social security payments as a percentage of gross domestic product (GDP), where each variable has been rescaled from 0 to 1. In the same way, the takings component consists of total tax revenue/GDP, top marginal income tax rate and threshold, indirect tax revenue/GDP, and sales taxes/GDP. Labor market freedom consists of minimum wage, government employment, and union density.

ENDNOTES

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