

The Economic System for All of Us

Markets and Freedom Raise
Incomes for Whites, Hispanics,
Blacks and Asian-Americans

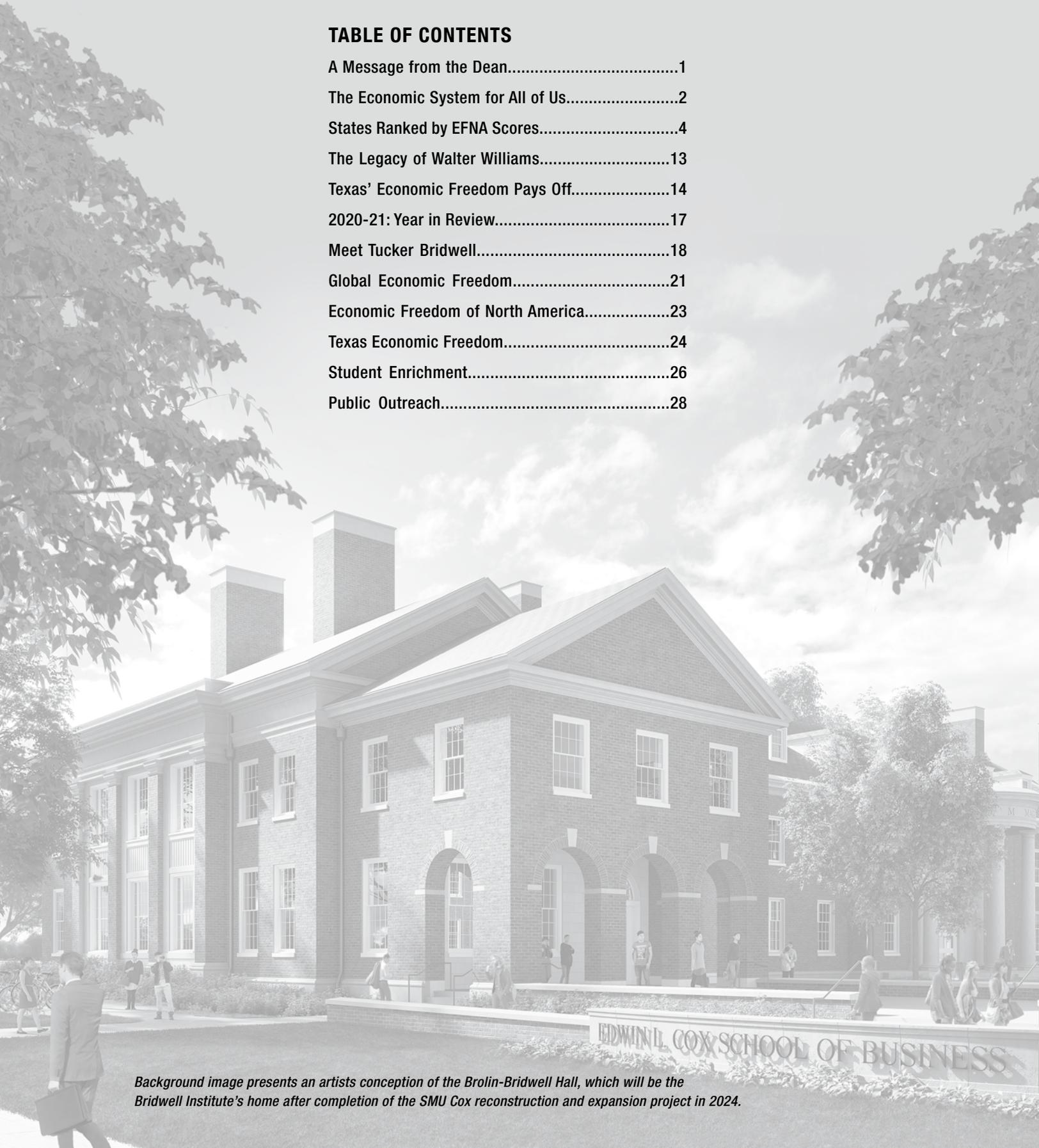
2020-21 Annual Report

Bridwell Institute for Economic Freedom

SMU Cox School of Business

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Background image presents an artists conception of the Brolin-Bridwell Hall, which will be the Bridwell Institute's home after completion of the SMU Cox reconstruction and expansion project in 2024.



Dean Myers

A Message from the Dean

In the four years I've been SMU Cox dean, engaged alumni and supporters, generous with both time and money, have been indispensable allies, making a tremendous impact on this school and our students.

Among them is Tucker Bridwell, who earned his bachelor's degree from SMU Cox in 1973 and MBA in 1974. He's served on the Cox Executive Board for 15 years, and he's currently its vice chairman. In 2019, Tucker took on the job of leading the Cox Campaign, the fund-raising drive for our most ambitious project – a \$120 million reconstruction and expansion of SMU Cox facilities to create the best learning environment for students.

Tucker and his wife Gina contributed to the cause, donating \$15 million last year. Half went to the Cox Campaign, and the rest transformed the 12-year-old O'Neil Center into the Bridwell Institute

for Economic Freedom. The new institute will build on its predecessor's commitment to scholarly research on free enterprise and economic systems.

For more on Tucker's interest in his namesake institute, see the interview on page 18.

This Annual Report – the Bridwell Institute's first – includes an essay that shows how measuring economic freedom adds to our understanding of American capitalism. "The Economic System for All of Us" examines links between economic freedom and race and ethnicity, a topic relevant to a nation growing more diverse.

In the essay, Bridwell Institute authors Mike Cox and Rick Alm present their new study, which finds that after-tax real income from work is highest in the states that allow markets a larger role in their economies.

In a group of 10 states with the

greatest economic freedom, including Texas, Hispanics with high school diplomas earn an average of 25 percent more than similar workers in the 10 states with the least economic freedom, including New York and California. The pattern holds for Whites, Hispanics, Blacks and Asian-Americans over five levels of education, 56 college majors and 70 occupations.

"Greater economic freedom provides a path to higher living standards for all U.S. racial and ethnic groups," Cox and Alm conclude.

We plan to start the building project in May 2022 and expect to move into the new SMU Cox complex in March 2024. I know Tucker will be there. I look forward to taking him over to the Bridwell Institute's new home and offering a thank you that won't begin to measure up to his contribution to SMU Cox.

Matthew B. Myers
Dean, Cox School of Business

The Economic System for All of Us

Markets and Freedom Raise Incomes for Whites, Hispanics, Blacks and Asian-Americans

By W. Michael Cox and Richard Alm

Historic changes in America's racial and ethnic composition are forging a more diverse country. According to the Census Bureau, non-Hispanic Whites accounted for more than 85 percent of the U.S. population in 1960. Over the next six decades, whites' numbers continued to grow but their population share shrank steadily, falling to 58 percent in the recently released 2020 census.

Over those 60 years, population growth among other demographic groups sped up due to higher birth rates and increasing immigration. Hispanics went from 3 percent to 19 percent of the population, Blacks from 10 percent to 12 percent and Asian-Americans from a half-percent to 6 percent. Demographers expect the shifts toward greater diversity to continue – so

past is prologue.

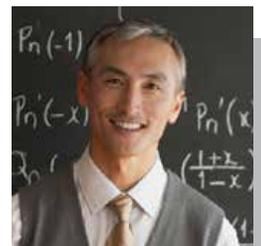
The economic ripples of this demographic transformation include critiques of American capitalism itself – in particular, the persistent inequality seen across racial and ethnic groups. The challenges touch on wealth and poverty, jobs and opportunity and the boundaries between the invisible hand of the market and the visible hand of government. While not new, these concerns take on greater urgency in a nation with growing numbers of non-whites clamoring for a fair shake.

Looking at income, wealth and other measures of economic well-being, Americans of European descent have fared best under the U.S. capitalist system. Americans with roots in Latin America,

Africa and Asia haven't done as well, although most are likely better off than they would have been had they or their ancestors stayed in their countries of origin.

That's because American capitalism stands out on the most fundamental aspect of an economic system's worth – delivering progress to most people in the form of higher living standards. The country's real per capita income quadrupled over the past 125 years, and nearly all of today's Americans can afford the necessities of life as well as the modern world's iconic products, including air-conditioning, cars, cell phones and color televisions.

Equality and progress are worthy ends facing an inherent tradeoff – greater equality usually means slower growth, and



faster income gains come at the expense of equality. The key to balancing equality and progress lies in whether the available work and other productive activities in an economy give most people a reasonable shot at higher incomes and living standards.

This essay explores that issue for contemporary American capitalism through a lens of race and ethnicity. We present the results of a new study that looks at states with greater or lesser economic freedom and measures average earnings for Whites, Hispanics, Blacks and Asian-Americans.

Are paychecks higher or lower in states that give greater weight to property rights and the private sector, where market prices and voluntary actions dictate most production and consumption decisions? Or do Americans fare better in states that impose heavy tax and regulatory burdens and expand the public sector's role in their economies?

Our data show that earnings for all four racial and ethnic groups are highest in Texas, Florida and other states with greater economic freedom. Earnings are lowest in New York, California and other states with lesser degrees of economic freedom.

The results hold from the less educated to the most educated and across a large share of occupations. The data are consistent in showing that greater economic freedom

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provides a path to higher living standards for all U.S. racial and ethnic groups.

Work and Living Standards

Keeping the massive, complex U.S. economy humming day after day takes the time, talents and toil of more than 150 million workers. They're a varied lot. The nation's workforce differs in age, sex, natural talents, education, occupations, interests, aspirations, family history and many other characteristics – plus race and ethnicity.

The real world offers no such thing as an average American worker. We had to build one – actually, dozens of them, representing workers in each state, broken down by race and ethnicity. We used these statistical avatars to explore the connections between economic freedom

and the average living standards of racial and ethnic groups in the United States.

The Census Bureau collects state-level data on average earnings by race and ethnicity. Our inquiry centers on market outcomes, so we excluded government employees and narrowed the focus to private-sector workers. Many young people are new to the labor force and many seniors are throttling back on work as retirement approaches, so we limited our sample to those in prime working years – ages 25 to 64.

We're primarily interested in how work contributes to well-being. Wages tell only part of the story; living standards also depend on what goods and services cost and how much workers pay in taxes. A dollar earned on the job buys more in states with lower average prices – with housing contributing the most to differences from one place to another. Workers have more money in their pockets to buy goods and services in states with lower tax burdens.

To focus squarely on well-being, we adjusted the Census Bureau's raw data for state-level differences in the cost of living and income taxes. The efforts yielded an extensive state-by-state database of real after-tax average incomes for Whites, Hispanics, Blacks and Asian-Americans.

In addition to earnings, the Census Bureau data provide information on factors known to correlate with wages,



including age, sex, years of education, college field of study and occupation. We examined the state-level earnings for men and women at five tiers of educational attainment – high school diplomas, bachelor’s degrees, master’s degrees, doctorates and professional degrees.

At each tier of schooling, racial and ethnic groups differ in what they choose to study. Because degrees don’t offer the same earnings payoff, we measured earnings for fields of study for those with bachelor’s degrees and above. Among those majors with sufficient data nationally – a minimum of 100,000 private-sector employees – we were able to calculate state-level average earnings for 53 fields of study.

From high school diplomas to doctorates, education leads to a wide

variety of jobs. To get a direct measure of pay differences, we calculated state-level average earnings for jobs with a minimum of 100,000 private-sector employees nationwide, ending up with enough data for a cross-section of 70 occupations.

Answering the question about race and ethnicity in American capitalism requires just one more thing – a measure of economic freedom. The concept has a long history, but until a quarter century ago it was largely subjective, one of those I-know-it-when-I-see-it things subject to argument and interpretation. That changed in the 1990s, when researchers began publishing data-driven rankings of economic freedom – first for countries and then within them, for states and metropolitan areas.

Our study used state-level rankings from the *Economic Freedom of North America*

(*EFNA*), compiled by Bridwell Institute economist Dean Stansel. It combines 10 data points on government spending, tax burdens and labor-market regulations to calculate an economic freedom score for each state. The state-based comparisons measure policy variations that impact economic freedom while minimizing potential biases from differences in national markets, institutions and cultures.

We averaged *EFNA* scores from 2015 to 2018 and ranked states from most-to-least economically free. We then divided the states into five groups, with Texas the largest of the 10 states with the greatest economic freedom. The 10 states with the least economic freedom included New York and California (*Box 1 below*).

We made separate average earnings calculations for men and women; however,

BOX 1

States Ranked by EFNA Scores

Highest	Second	Middle	Fourth	Lowest
New Hampshire 7.80	Indiana 6.92	Maryland 6.48	Arkansas 6.08	Rhode Island 5.31
Florida 7.79	North Carolina 6.83	Connecticut 6.42	Alabama 6.01	Kentucky 5.29
Texas 7.56	Missouri 6.79	Wisconsin 6.40	Michigan 5.99	Mississippi 5.25
Tennessee 7.54	Nebraska 6.76	Pennsylvania 6.36	Illinois 5.94	New Mexico 5.20
Virginia 7.46	Colorado 6.76	Louisiana 6.35	New Jersey 5.90	Oregon 5.19
South Dakota 7.37	Arizona 6.70	Wyoming 6.34	Maine 5.65	Vermont 5.07
Georgia 7.20	Massachusetts 6.68	Montana 6.24	Ohio 5.57	Alaska 4.92
Oklahoma 6.95	North Dakota 6.66	Washington 6.11	Delaware 5.47	California 4.84
Idaho 6.95	Utah 6.58	Iowa 6.11	Minnesota 5.45	West Virginia 4.53
Kansas 6.93	Nevada 6.55	South Carolina 6.08	Hawaii 5.35	New York 4.21
Weighted Averages 7.50	6.75	6.30	5.81	4.75



the two sexes' outcomes regarding the impact of economic freedom were similar. We shortened the presentation without losing explanatory power by combining men and women into one measure based on their shares of the overall U.S. workforce.

Economic Freedom Premiums

Over the years, economic studies have consistently found that education pays off – on average, U.S. workers' earnings rise with years of schooling. Our study shows this holds with just a few exceptions for the country's four largest racial and ethnic groups – in states that rank high in economic freedom as well as in states that rank low.

It's encouraging to confirm that education raises incomes, but we're interested in economic freedom and returns to education. Does greater economic freedom matter in how additional years of schooling pay off for Whites, Hispanics, Blacks and Asian-Americans? If so, by how much?

Whites' earnings by education. White workers with high school diplomas had real after-tax average earnings of \$40,725 a year in the 10 states with the highest economic freedom (*Exhibit 1 on Page 6, panel 1*). Among the least-free 10 states, comparable earnings for White high school graduates

were \$31,272 a year. The difference between the most-free and least-free states was \$9,453, or 30 percent.

We call this gap the economic freedom premium. It provides a rough measure of how much the average worker's living standards could improve by migrating across state lines, leaving places with low economic freedom for ones with high economic freedom. Money wages may be higher in some of the least free states, but higher living costs and taxes erode households' economic well-being.

Moving up the educational ladder, White workers' economic freedom premium grows steadily larger in dollar terms. For bachelor's degrees, the premium was \$22,405, or 35 percent (*panel 2*). Among those with master's degrees, it was \$26,899, or 34 percent (*panel 3*). Doctorates produced a premium of more than \$27,316, or 29 percent (*panel 4*). For lawyers, architects and others with professional degrees, the premium was the highest of all – nearly \$46,659, or 42 percent (*panel 5*).

To get a broader view of economic freedom and earnings, we calculated a weighted average – one number spanning all education levels. In the most economically free states, White workers earned \$72,018 a year, compared with around \$53,695 in

the least-free jurisdictions (*panel 6*). The economic freedom premium for all White workers was \$18,323, or 34 percent.

Hispanics' earnings by education. Finding greater economic freedom makes Whites better off should merit little more than a shrug. It's more interesting to see what happens as we repeat the analysis for the nation's other racial and ethnic groups.

In the 10 states with the highest economic freedom, Hispanics with only a high-school education had real after-tax average earnings of \$30,972 a year (*Exhibit 2 on Page 7, panel 1*). The figure for the 10 least-free states was \$24,864, producing an economic freedom premium of \$6,108, or 25 percent.

Premiums were \$14,164, or 33 percent, for Hispanics earning bachelor's degrees (*panel 2*), with a slight bump to \$15,813, or 29 percent, for those with master's degrees (*panel 3*). Hispanic PhDs in the most-free states earned a premium of \$38,483, or 45 percent, over those in the least-free states (*panel 4*). Economic freedom gains sagged a bit for professional degrees – but they were still highly positive at \$25,780, or 37 percent (*panel 5*).

After combining data for all educational levels, Hispanics had weighted-average earnings of \$50,542 for the most-free states and \$38,539 for the least-free group

EXHIBIT 1

Economic Freedom, Education and Earnings – Whites

White workers' average earnings are highest in the most economically free states and lowest in the least-free states. The pattern holds over all five education levels.

Vertical bars measure real after-tax earnings for Whites in five groups of 10 states (*left axis*), arranged from the highest to the lowest

in economic freedom. The Weighted Average presents a summary for Whites by combining the five educational levels.

The diamonds report economic freedom premiums, or how the earnings in each quintile compare to the far right column's earnings of the least-free group (*right axis*).

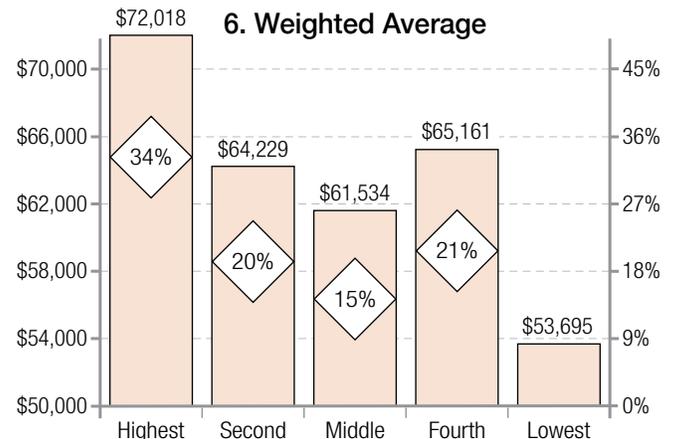
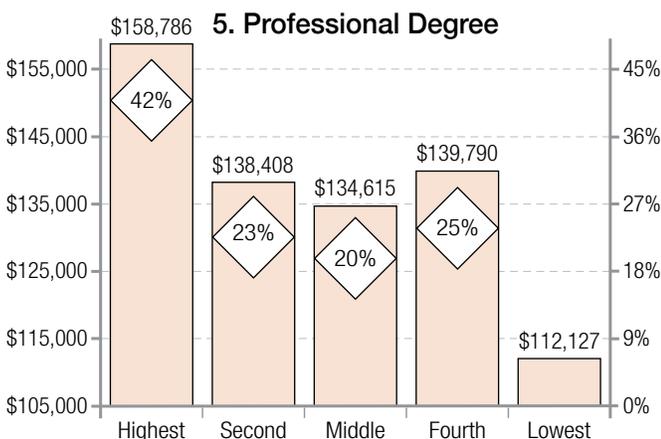
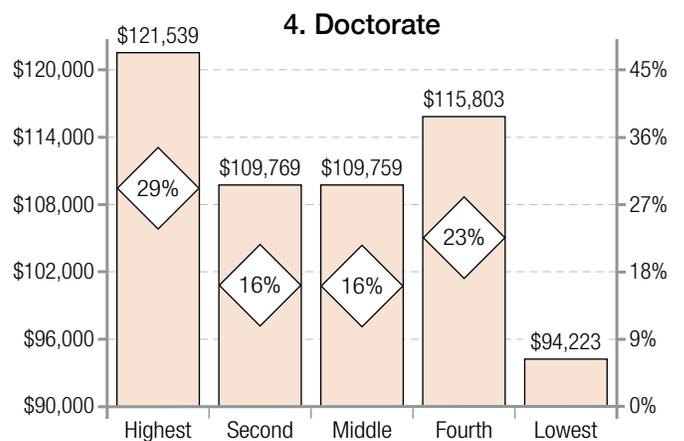
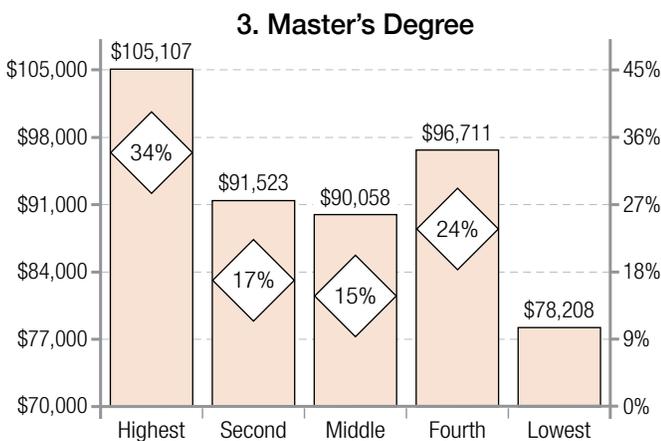
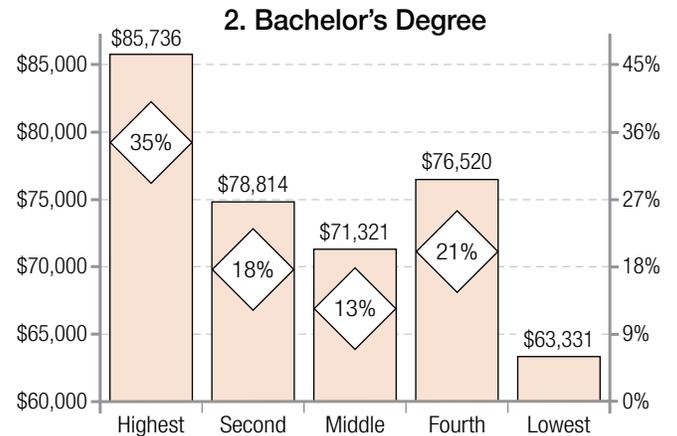
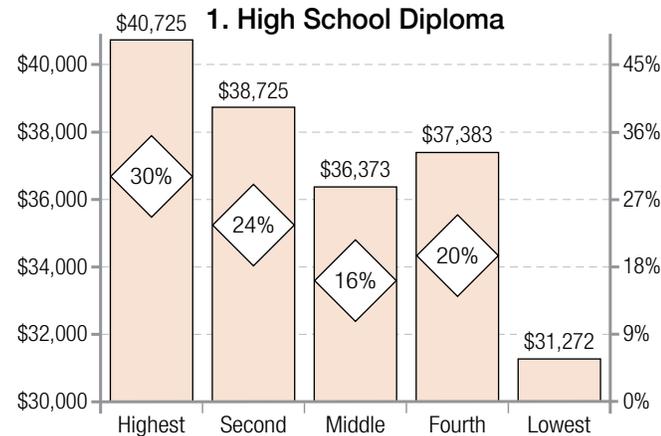


EXHIBIT 2

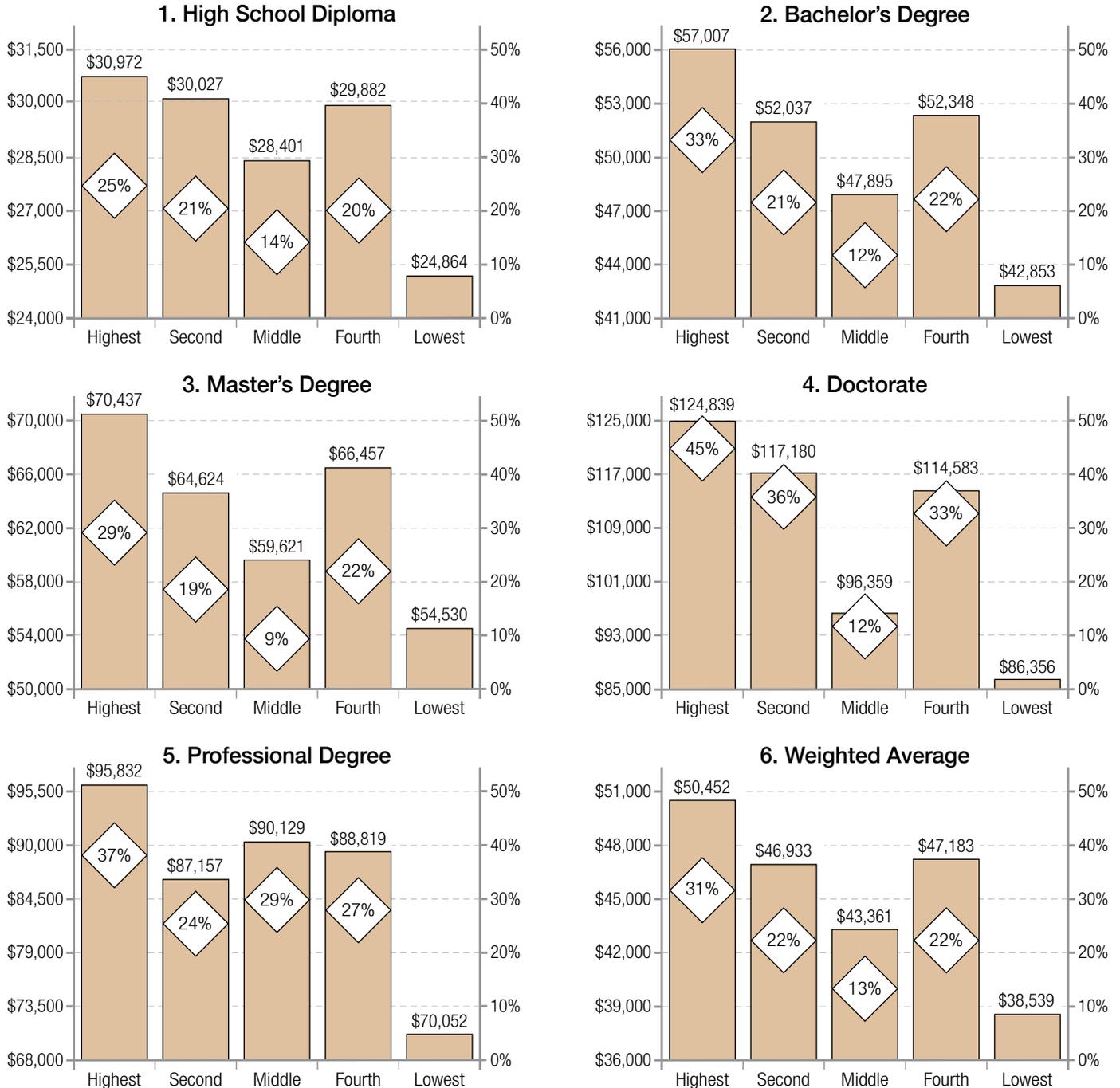
Economic Freedom, Education and Earnings – Hispanics

At all five education levels, Hispanics follow the pattern for Whites in Exhibit 1 – average earnings are highest in the most economically free states and lowest in the least-free states.

Vertical bars measure real after-tax earnings for Hispanics in five groups of 10 states (*left axis*), arranged from the highest to the lowest

in economic freedom. The Weighted Average presents a summary for Hispanics by combining the five educational levels.

The diamonds report economic freedom premiums, or how the earnings in each quintile compare to the far right column's earnings of the least-free group (*right axis*).



– an economic freedom premium of more than \$12,003, or 31 percent (*panel 6 on Page 10*).

Blacks’ earnings by education. For Black workers with high school educations, real after-tax average earnings were \$32,939 a year in the 10 states with the greatest economic freedom, compared with \$23,319 in the 10 least-free states (*Exhibit 3 on next page, panel 1*). The two data points yield an economic freedom premium of \$9,620, or 41 percent.

The freest states’ earnings were also highest for bachelor’s degrees at \$59,332, with a premium of 36 percent (*panel 2*), and master’s degrees at \$84,443, with a premium of 44 percent (*panel 3*).

The pattern changes at the two highest educational levels, with the 10 freest states slipping into second place, behind the states in the middle group. An average Black worker with a doctorate earned \$107,333 in the middle-freedom states – \$6,218 more than in the freest states (*panel 4*). For professional degrees, the gap was even larger – \$11,490 (*panel 5*).

Blacks’ earnings were lowest in the least-free 10 states, and economic freedom premiums for the 10 freest states were large, including 34 percent for doctorates

After combining data for all educational levels, Hispanics had weighted-average earnings of \$50,542 for the most-free states and \$38,539 for the least-free group.

and 33 percent for professionals. When educational levels are combined, Blacks had weighted-average earnings of \$53,401 in the most-free states and \$38,514 in the least-free group – an economic freedom premium of more than \$15,181, or 39 percent (*panel 6*).

Asian-Americans’ earnings by education. In the 10 states with the greatest economic freedom, Asian-Americans’ real after-tax average earnings were \$31,854 a year, an economic freedom premium of \$10,693, or 51 percent, over the earnings of \$21,161 in the 10 least-free states (*Exhibit 4 on Page 10, panel 1*).

The earnings gap between highest and lowest tiers of economic freedom rose to \$17,819, or 34 percent, for bachelor’s degrees (*panel 2*). Among workers with master’s degrees, it increased to \$19,203, or 65 percent (*panel 3*). The premium for Asian-Americans with doctorates came in slightly lower at \$19,035, or 26 percent (*panel 4*). The holders of professional degrees saw the largest gains from economic freedom – \$65,005, or 20 percent (*panel 5*).

Across all education levels, Asian-Americans’ average earnings were \$60,547 in the most-free 10 states and \$44,112 in the least-free 10 states – an economic freedom premium of \$16,435, or 37 percent (*panel 6*).

Fields of study. Census Bureau data on college majors provided another lens for viewing education and real after-tax earnings. The profile of workers’ fields of study differed in each state, but the overall results for a cross-section of 53 majors once again found strong correlations between greater economic freedom and higher living standards.

In the freest 10 states, Whites with bachelor’s degrees in the 53 majors earned an average of \$91,946, compared to \$68,473



EXHIBIT 3

Economic Freedom, Education and Earnings – Blacks

Like Whites and Hispanics, Blacks' average earnings at all five education levels are highest in the most economically free states and lowest in the least-free states.

Vertical bars measure real after-tax earnings for Blacks in five groups of 10 states (*left axis*), arranged from the highest to the lowest

in economic freedom. The Weighted Average presents a summary for Blacks by combining the five educational levels.

The diamonds report economic freedom premiums, or how the earnings in each quintile compare to the far right column's earnings of the least-free group (*right axis*).

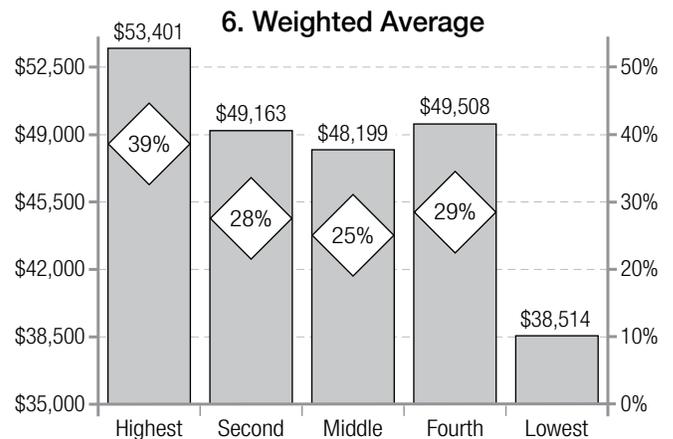
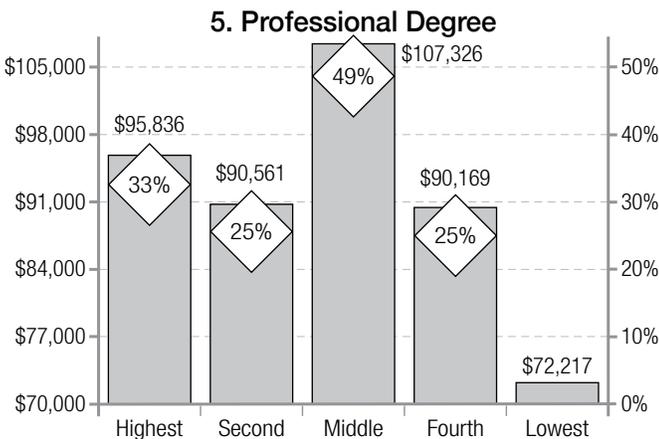
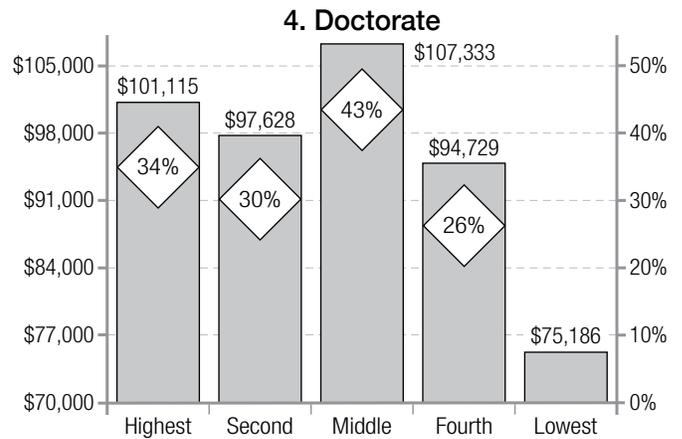
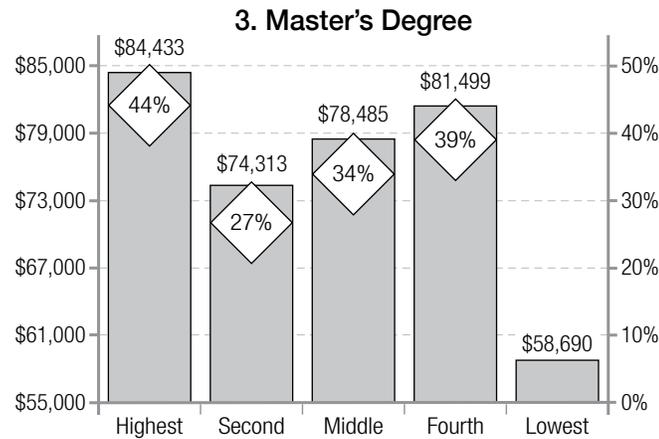
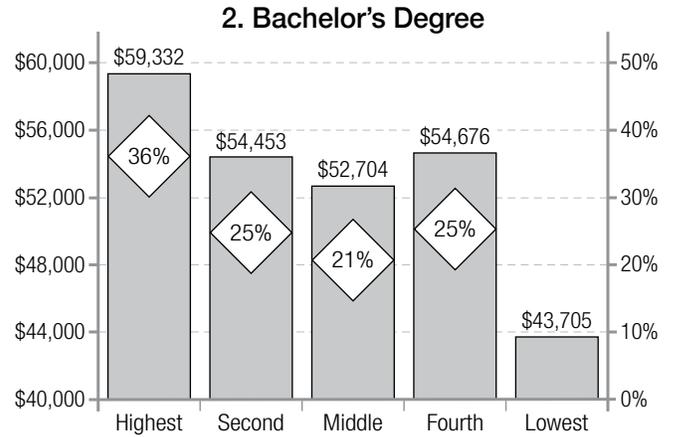
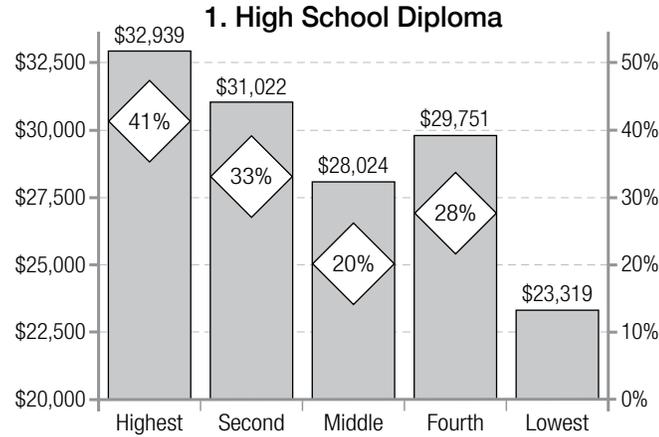


EXHIBIT 4

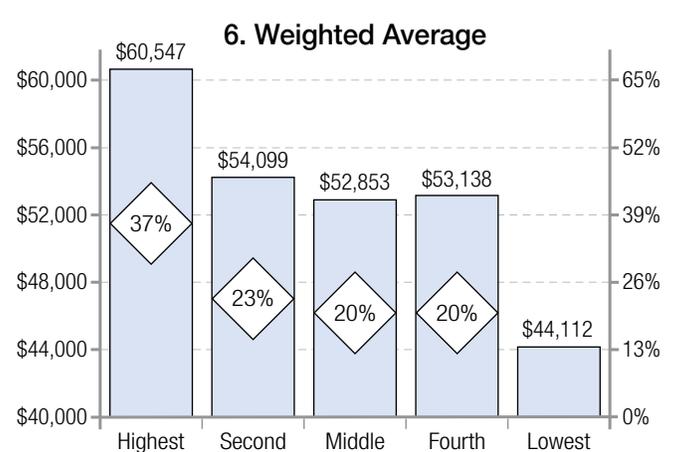
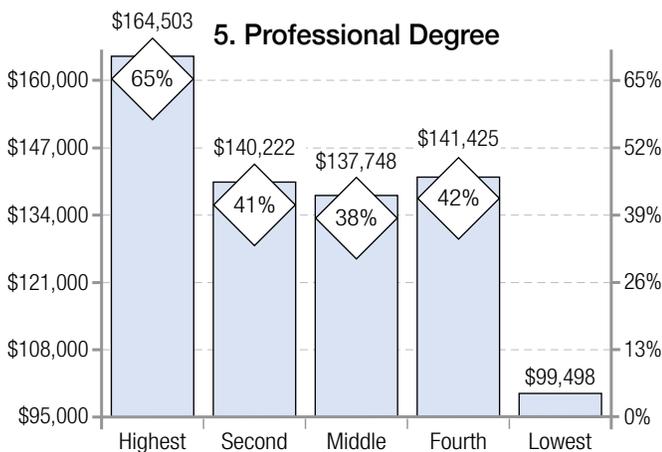
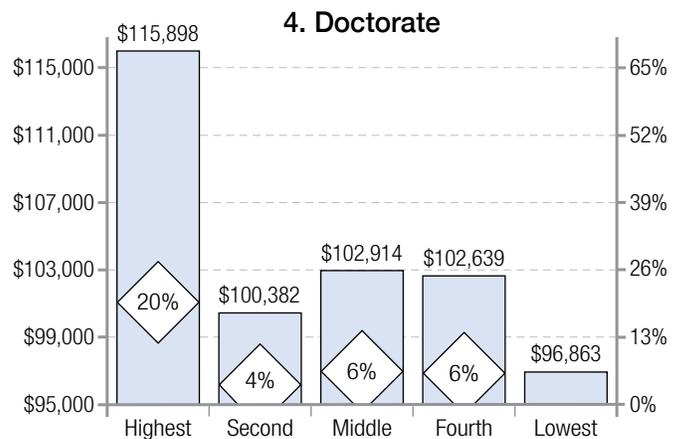
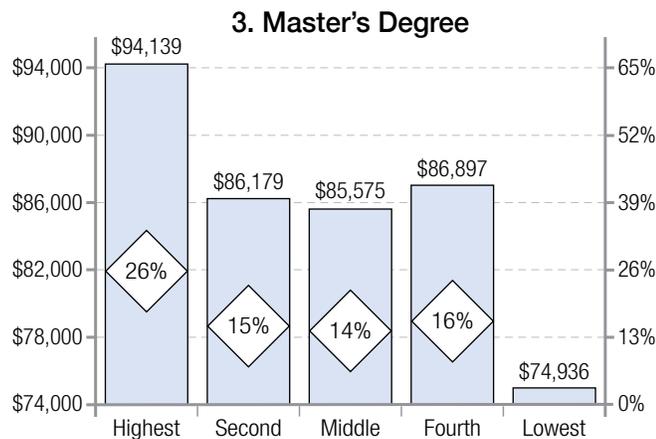
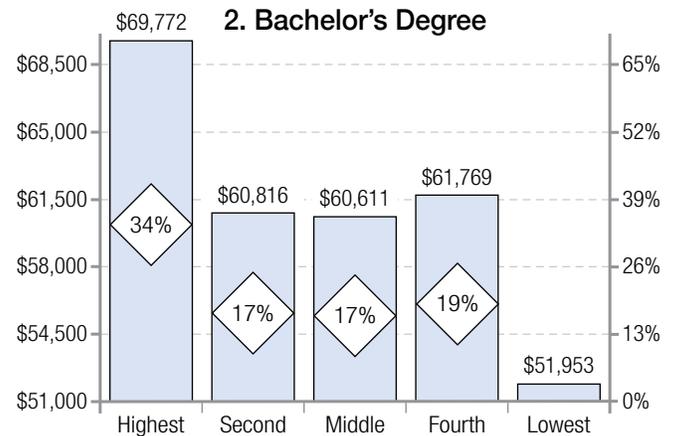
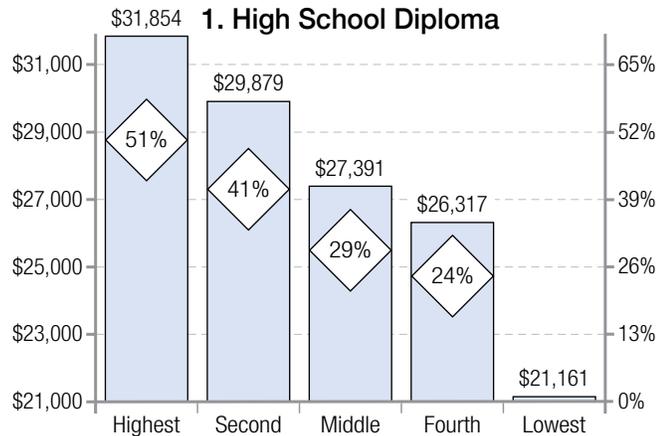
Economic Freedom, Education and Earnings – Asian-Americans

Asian-Americans show the same pattern as the other ethnic groups. At five education levels, average earnings are highest in the most economically free states and lowest in the least-free states.

Vertical bars measure real after-tax earnings for Asian-Americans in five groups of 10 states (*left axis*), arranged from the highest to the lowest in economic freedom.

the lowest in economic freedom. The Weighted Average presents a summary for Asian-Americans by combining all five educational levels.

The diamonds report economic freedom premiums, or how the earnings in each quintile compare to the far right column's earnings of the least-free group (*right axis*).



in the least-free 10 states (*Exhibit 5 below, panel 1*). The economic freedom premium was \$23,472, or 34 percent. The three other groups exhibit similar patterns, with premiums of \$18,525, or 38 percent, for Hispanics (*panel 2*), \$15,415, or 32 percent, for Blacks (*panel 3*) and \$23,139, or 43 percent, for Asian-Americans (*panel 4*).

Occupations. The 70 job classifications with U.S. employment of 100,000 or more cover about three-quarters of the

Census Bureau database – our broadest assessment of the connections between economic freedom and race and ethnicity in the United States.

Our results follow the now-familiar pattern of real after-tax earnings being highest in states with the most economic freedom and lowest in those with the least economic freedom (*Exhibit 6 on Page 12*). The economic freedom premiums for the 10 freest states were large – \$17,744, or

35 percent, for Whites (*panel 1*); \$18,422, or 43 percent, for Hispanics (*panel 2*); \$13,036, or 32 percent, for Blacks (*panel 3*); and \$17,022, or 43 percent, for Asian-Americans (*panel 4*).

Economic Freedom and Earnings

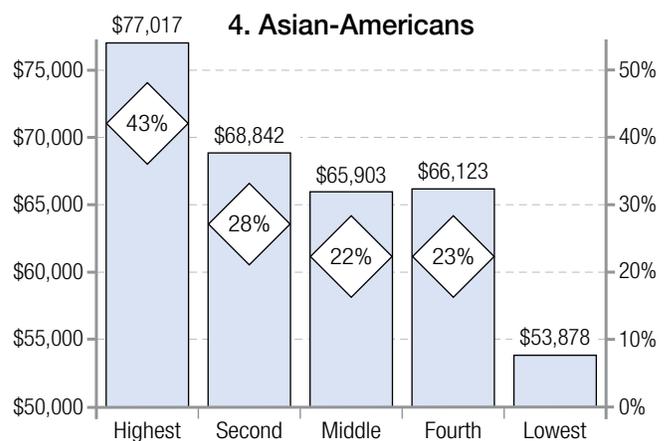
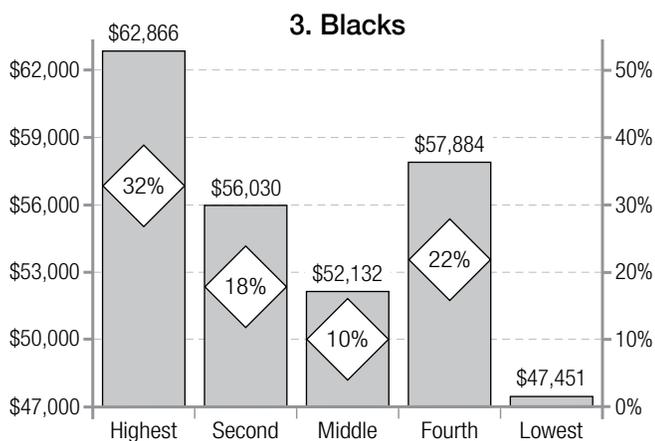
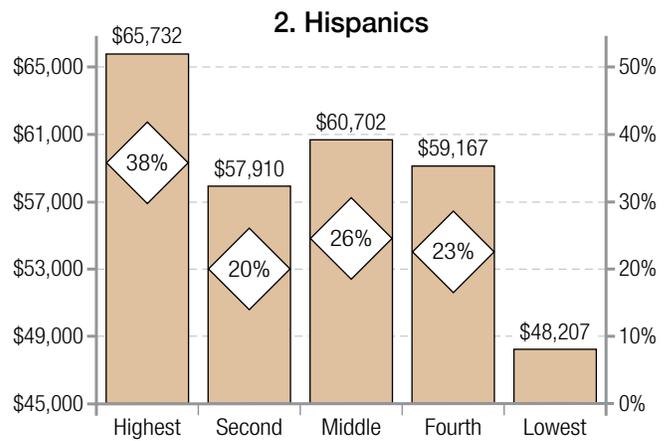
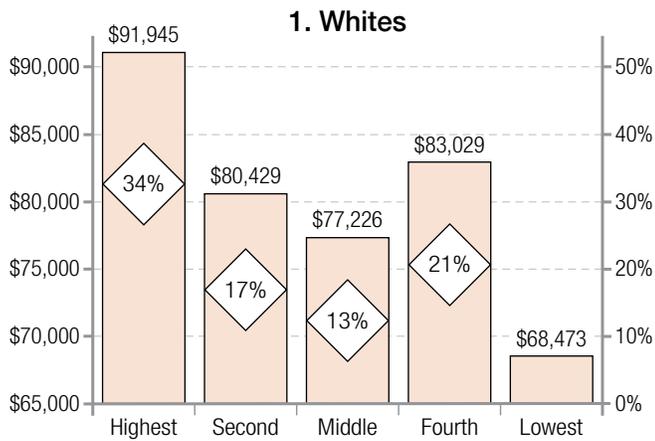
The economics of race and ethnicity usually focus on inequality, the fact that Whites earn more than Hispanics, Blacks

EXHIBIT 5

Economic Freedom, Education and Earnings – Across Fields of Study

For college graduates in a large cross-section of majors, states with the greatest economic freedom pay the most and states with the lowest economic freedom pay them the least. The pattern holds for the nation’s four largest racial and ethnic groups – Whites, Blacks, Hispanics and Asian-Americans.

Vertical bars measure real after-tax earnings for college graduates in 56 college majors in five groups of 10 states (*left axis*), arranged from the highest to the lowest in economic freedom. The numbers in the diamonds report economic freedom premiums, or how each quintile compares to the earnings of the least-free group (*right axis*).



and Asian-Americans. In the exhibits, we presented 160 separate findings on real after-tax incomes. Whites trailed another group in only eight, always by just a few percentage points. The anomalies clustered in categories where data were relatively scarce – for example, Hispanics with doctorates and Asian-Americans with doctorates and professional degrees.

Overall, our data confirm Whites’ advantages in the U.S. labor market – at

all levels of economic freedom. The income gaps were sizable. In the weighted-average data for combined educational levels, for example, Whites earned \$18,000 more than Hispanics (28 percent), \$15,500 more than Blacks (25 percent) and \$10,400 more than Asian-Americans (16 percent).

Our results fit patterns associated with widely accepted narratives of racism and discrimination in American society. We can’t point to economic freedom as a

remedy for gaps in racial and ethnic groups’ relative incomes. We also find no evidence that government interventions – i.e., low economic freedom – do anything for inequality.

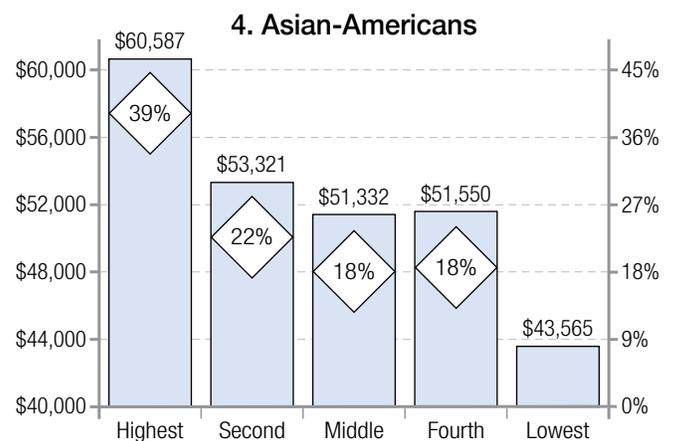
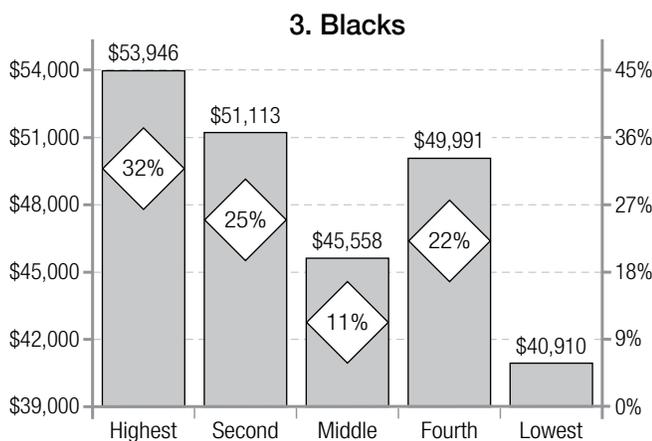
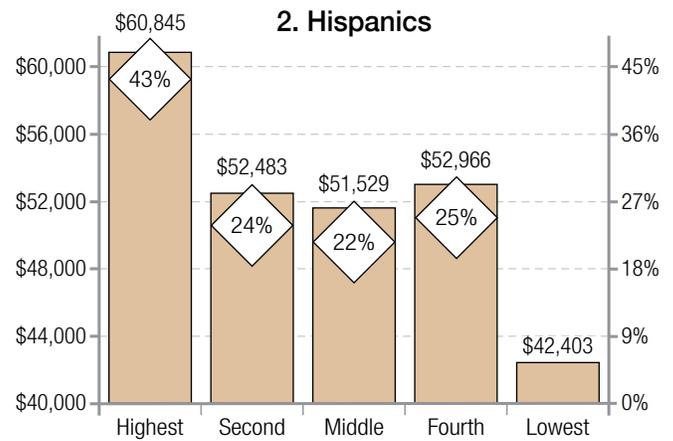
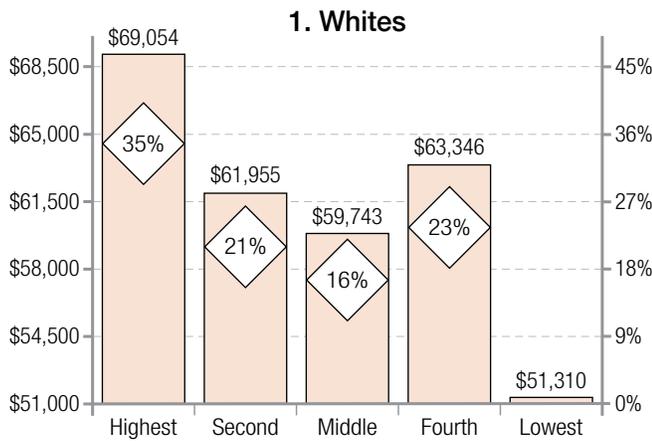
Households should prefer higher living standards, even where other households can afford to live better. States with the greatest economic freedom face inequality but gain higher living standards. Where lower economic freedom prevails, states still face

EXHIBIT 6

Economic Freedom and Earnings – Across Occupations

Turning from education, we look at data on occupations, the most direct measure of what workers earn. The four largest American ethnic groups follow the same pattern – average earnings at a broad swath of jobs are highest in the most economically free states and lowest in the least-free states.

Vertical bars measure real after-tax earnings for 70 occupations in five groups of 10 states (*left axis*), arranged from the highest to the lowest in economic freedom. The numbers in the diamonds report economic freedom premiums, or how each quintile compares to the earnings of the least-free group (*right axis*).





The economist spoke at SMU in 2018, two years before his death.

Walter Williams

How Market Interventions Often Hurt Minorities

For Walter Williams, economics wasn't an Ivory Tower occupation. Like Milton Friedman before him, Williams brought his discipline into the public dialog, using common language to present his arguments and evidence in books, columns and speeches.

Williams touched on a range of issues facing contemporary society, but as a black economist he couldn't ignore the interplay between economics and race. He published two books on the subject – *The State Against Blacks* in 1982 and the broader *Race & Economics* in 2011.

Both volumes make the case that government interventions often make Blacks and other minorities worse off by erecting barriers that reduce access to employment and opportunity.

Williams' targets minimum wages, for example. He begins by noting today's higher unemployment and lower labor-force participation for Blacks when compared to whites. Before the 1960s – in eras of far greater racial animus – Blacks fared as well or better than whites on these measures.

Williams explains this using economic logic. Without minimum wages, employers of less-skilled workers can earn higher profits

if they hire Blacks willing to work for lower wages. Competitors who refuse to hire Blacks end up poorer. A minimum wage negates this penalty by restricting Blacks' ability to compete in the labor market. In effect, minimum wage laws discriminate against Blacks.

In his two books, Williams skewered other public policies that work against blacks: laws that mandate paying above-market "prevailing wages," licensing requirements for occupations and provisions favoring union contracts with closed shops. Williams saw economic freedom as Blacks best path to a better life.

Williams spoke to SMU audiences twice at the invitation of the O'Neil Center, the Bridwell Institute's predecessor at SMU Cox. He joined our 2010 conference on "Reviving Economic Freedom in America" via remote feed. In 2018, Williams came to the SMU campus in person to deliver an address focused on a theme that defined his life's work – bigger government is a threat to individual liberty.

Economics was Williams' passion and profession to the end. He died in his car in December 2020 at age 84 – just after teaching his final class at George Mason University.

inequality but with lower living standards.

From this perspective, economic freedom matters for all racial and ethnic groups.

Our study's strongest and most consistent results indicate that real after-tax average incomes are higher in the 10 freest states than in the 10 least-free states – and not by trifling amounts. In the occupations data, for example, economic freedom premiums range from \$13,000 to \$18,000 a year.

Among the 160 findings in the exhibits, the 10 freest states had the highest incomes in all but two of them – Blacks with

doctorates and Blacks with professional degrees. In all 160 findings, the 10 states with the least economic freedom always had the lowest incomes

This striking consistency emerges from the two bookend groups' distinct difference in EFNA-measured economic freedom – an average score of 7.5 for the freest states vs. 4.75 for the least free (*Box 1*). The middle three groups bunch more closely together. The gaps among the second, middle and fourth groups are only one-sixth as large as the one between the top and bottom quintiles.

The small variations help explain data points that don't line up well – for example, bars that seem too low for the second and third groups (i.e., master's and professional degrees for Blacks) or too high for the fourth group (i.e., all but professional degrees for Hispanics). Narrow gaps in EFNA scores allow idiosyncrasies in education or job composition to overshadow the impacts of economic freedom, especially for findings based on small sample sizes.

Even in the muddled middle, where results are uneven, most American workers

BOX 3

The Texas Attraction – Higher Real Earnings

Like the nation, Texas has been becoming more racially and ethnically diverse for decades – but the state has begun moving at a faster pace.

That's a key takeaway from the Census Bureau's latest national headcount. People of color accounted for a staggering 90 percent of the state's nation-leading population growth over a decade – from 25.1 million in 2010 to 29.1 million in 2020.

The latest census data put non-Hispanic whites at 40.6 percent of the state's population, well below the nation's 57.8 percent. Hispanics, the state's fastest-growing ethnic group, made up 40.1 percent, exceeding the nation's 18.7 percent by a hefty margin. Blacks were at 12.1 percent (12.4 percent, nationally) and Asian-Americans at 4.9 percent (6.1 percent).

EFNA consistently ranks Texas high on economic freedom, putting it among the 10 states in our study's most economically free group, the one with the highest after-tax real earnings. Our results suggest Texas workers in all four racial and ethnic groups should be doing better than their counterparts in other states.

But how much better? To find out, we turn to our most direct measure – the data on earnings by occupation. Aggregating over the 70 jobs yields average earnings, adjusted for cost of living and state taxes, for racial and ethnic groups. We look at the 15 states with the largest labor markets, their large pools of data ensuring

the best results.

For all four groups, real earnings are highest in Texas – \$76,700 a year for whites, \$66,100 for Hispanics, \$59,300 for Blacks and \$62,300 for Asian Americans (*see charts, right*). Texas paid people of color \$5,000 to \$29,000 more than other big states, even those like Florida, Virginia and Georgia that joined Texas among the most economically free.

The most glaring gaps show up when comparing Texas to states in the least-free group – most notably, New York. Its real after-tax earnings were the lowest among the 15 big states: \$43,467 for whites, \$37,016 for Hispanics, \$34,342 for Blacks and \$38,424 for Asian Americans.

Work that affords a better life.

That's the Texas attraction.

It goes a long way toward explaining why economically free Texas leads all other states in net in-migration, with many newcomers arriving from less-free New York and California. They seem to grasp intuitively what our research finds empirically: economic freedom raises living standards for all people.

In Texas, the trend toward diversity is expected to continue, suggesting non-whites will be an ever-more important source of the labor supply needed to keep the state among the nation's leaders in growth and job creation.

still receive some sort of economic freedom premium – it’s just a matter of how large. The only ones left out live in the 10 states with the lowest economic freedom.

Why Economic Freedom Works

In his academic work and writings, Walter Williams took a keen interest in how racial and ethnic groups fared in market systems. The economist argued that many government interventions hurt Blacks and other minorities (*Box 2 on Page 13*). Williams believed that Blacks and other

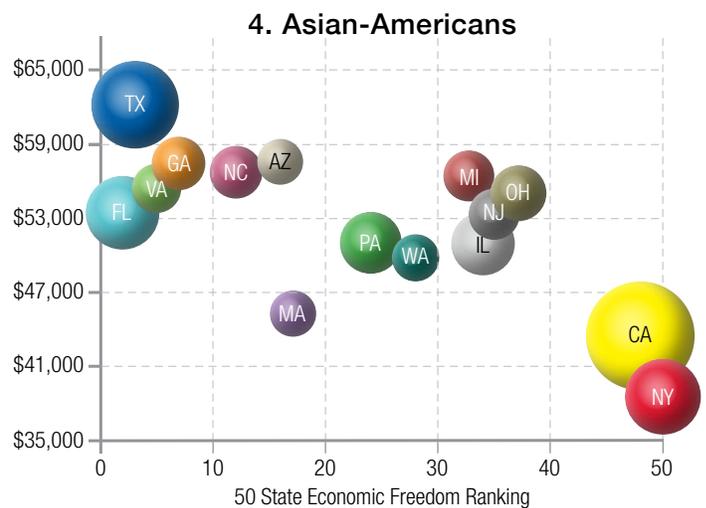
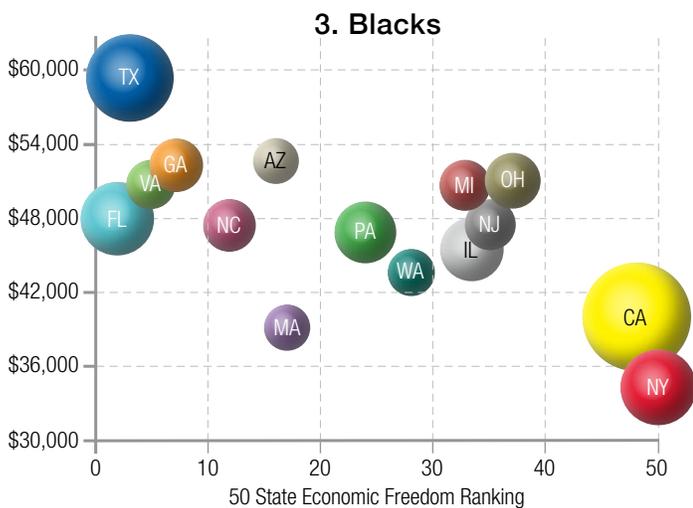
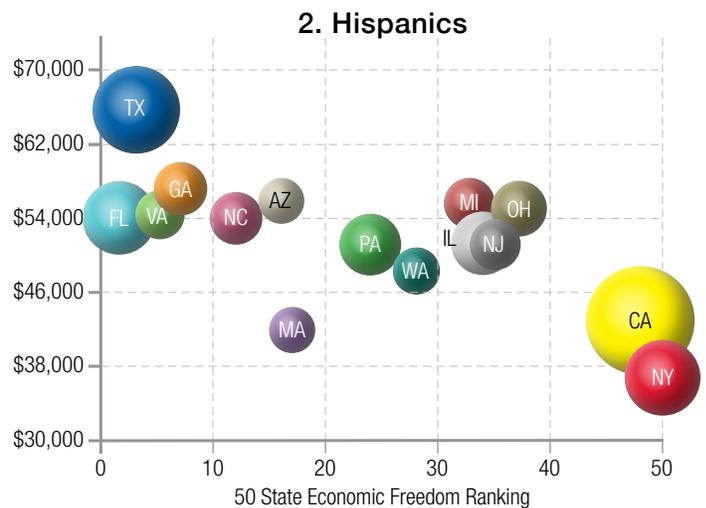
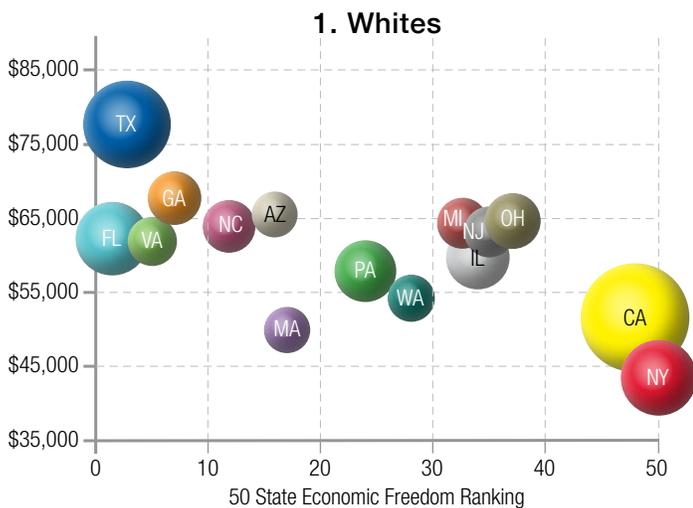
non-White groups could succeed without special favors or programs – even in the face of racial prejudice.

Many other economists joined Williams in contributing to the research on the causes and consequences of economic freedom. Much of their work focuses on taxes and regulation. To oversimplify – but not all that much – the U.S. economic freedom spectrum ranges from states with low taxes and minimal regulation to states with high taxes and heavy regulation.

Taxes. Five of the top six states with the greatest economic freedom don’t levy any

income taxes at all. The nation’s highest state income tax rates are 13.3 percent in California, 10.9 percent in New York and 9.9 percent in Oregon – all of them among the bottom six in economic freedom.

More broadly, the data show that states with high economic freedom tend to impose lower tax burdens than states with lower economic freedom. In addition to directly increasing households’ spending power, lower taxes boost incentives for work, investment and other productive activities. In doing so, they increase employment and demand for labor, putting upward



pressures on earnings.

Voters want state and local governments to provide roads, police, parks and other public goods – so some taxation is necessary. Yet, states with low economic freedom tax more heavily, primarily because they seek alternatives to market outcomes through a more expansive government role in the economy.

Inevitably, some taxpayer dollars go to benefit special interests and redistribute income. The spending can distort market incentives and foster inefficiency by financing a crony capitalism – a catchall term for subsidies benefiting private businesses.

Regulation. Housing accounts for the biggest share of cost-of-living differences among states. Freer states tend to impose relatively few land-use and building restrictions – so new supply blunts the upward pressures on housing prices. The opposite holds in states with lower economic freedom – their burdensome regulations pinch housing supply and raise prices.

Labor laws and unions push up production costs and prices. Only three of the 10 freest states mandate minimum wages above the federal standard of \$7.50 an hour; eight of the 10 least-free states do, with California at \$15 an hour. Right-to-work laws forbid requiring union membership as a condition of employment, leading to lower unionization rates. Nine of the 10 freest states have these laws; only three of the 10 freest states do.

Some health and safety regulations serve legitimate public interests. Many others, however, are thinly disguised ways to shield entrenched interests from price competition. Occupational licensing, for example, creates barriers to entry that raise pay for some jobs while keeping otherwise qualified people out of the business. Today, 30 percent of jobs

**Each hour of work
contributes more to well-
being in states with greater
economic freedom – a finding
of other research we now
extend across racial and
ethnic groups.**

require government permission, up from 5 percent in the 1950s.

Government-imposed rules and standards raise the cost of doing business, and companies pass it on to consumers. What's worse, heavy regulation unleashes unintended consequences that inevitably bog down economies by undermining the market competition that pushes producers to lower costs, increase efficiency, expand output, improve quality and innovate. Regulations can make it difficult to start and grow new businesses, stifling entrepreneurship. Labor demand and real earnings take a hit.

Our data show healthy economic freedom premiums – gaps in real after-tax earnings between states with the most and least economic freedom. The results align with differences in taxes and regulations that shape trends in prices, economic growth and demand for labor. Each hour of work contributes more to well-being in states with greater economic freedom – a finding of other research we now extend across racial and ethnic groups.

Where states sit on the economic freedom spectrum reflects historical, political and cultural differences that shape

deep-seated beliefs on how much to trust markets or government. All the economic treatises on the advantages of economic freedom aren't likely to make New York or California voters want to emulate Texas and Florida.

But people do move – in effect, voting with their feet. In general, researchers find migrants tend to seek out places with lower living costs, better income prospects, lower taxes and warmer weather. In “Economic Freedom and Migration Flows Between U.S. States” (2007), University of Texas at El Paso economist Nathan Ashby explicitly found migration positively associated with EFNA-measured economic freedom in a study of 2000 census data.

Over the past decade or so, Texas has emerged as a magnet for in-migration from other states. Our occupation data show that Texas has the nation's highest after-tax real earnings for Whites, Hispanics, Blacks and Asian-Americans (*Box 3 on Page 14*). California and New York – two states shedding population through out-migration – are the lowest among the 10 largest states.

Most Americans might not appreciate the nuances of economic freedom, but the willingness to pack up and move suggests an intuitive grasp of its benefits. They can see that markets and freedom work better than bigger government in improving households' living standards. Our research shows no racial or ethnic group is left out – making free enterprise the economic system for all of us.

W. Michael Cox is an economics professor in the Bridwell Institute for Economic Freedom (wmcox@smu.edu). Richard Alm is writer in residence at the institute (ralm@smu.edu).

Full version of methodology notes available upon request.



SMU | COX

BRIDWELL INSTITUTE
FOR ECONOMIC FREEDOM

2020-21: Year in Review

The SMU Cox School of Business created the Bridwell Institute for Economic Freedom in September 2020 as part of a \$15 million donation from Tucker Bridwell and his wife Gina. Half of the money went to the new institute and the rest to the fundraising campaign to upgrade the business school's facilities.

Although a new name at SMU Cox, the Bridwell Institute didn't start from scratch. It inherited the mission and programs of the 12-year-old O'Neil Center for Global Markets and Freedom, its predecessor at SMU Cox. All O'Neil Center personnel transferred to the Bridwell Institute, with

Robert Lawson continuing as director.

"At the Bridwell Institute, we'll still conduct research on economic freedom, including the indexes for nations, states and metropolitan areas," Lawson said. "We'll still help SMU students explore the ideas of economic freedom through reading groups. We'll still engage the Dallas-Fort Worth community with Texas Economic Forums, speakers and other events. We'll still foster the teaching of free enterprise and its benefits in Texas high schools."

An Abilene businessman, Bridwell is president of the Mansefeldt Investment Corp. and the Dian Graves Owen

Foundation. He also manages MDJ Minerals, one of the largest oil and gas mineral positions in the Permian Basin. He earned his bachelor's degree from SMU Cox in 1973 and his MBA in 1974.

"Gina and I are extremely excited about the possibilities of the new Institute for Economic Freedom," Bridwell said at the announcement ceremonies, held on campus despite the stress of the COVID-19 pandemic. "This is a passion project of ours, and we are very glad to be able to help the institute expand its research and teaching about free enterprise and its impact around the world."



The announcement of the Bridwells' gift in September 2020. Tucker Bridwell at the lectern, surrounded by (left to right, wearing Covid-19 pandemic masks) SMU Cox Dean Matt Myers, SMU Cox Executive Board chairman David Miller and SMU President Gerald Turner.

The epitome of an engaged alumnus, Bridwell has served on the SMU Cox Executive Board for 15 years and counting. He's donated money for student scholarships and spearheaded the effort that raised \$5 million in 2018 for the business school's Kyle D. Miller Endowed Energy Management Fund.

The Bridwells' 2020 gift will partly fund SMU Cox's new Bolin-Bridwell Hall, which will be built in the business school's northwest corner, a prominent spot facing Bishop Boulevard. It's where the Bridwell Institute will make its home after the business school's two-year facilities reconstruction finishes in 2024.

In academic circles, institutes confer greater prestige than centers, and Lawson expects the upgrade to expand the possibilities for economic freedom-related research, student programs and public

events. A new six-member advisory board will give the Bridwell Institute a conduit to the business community.

"The Bridwell Institute mostly operates in the academic world, but we think the public and business community – yes, the real world – can benefit from our research on economic freedom and free enterprise," Lawson said. "The board will help us find the connections and resources to do that."

In addition to Lawson and Bridwell, the board consists of SMU Cox Dean Matt Myers and three high-profile Texans with deep ties to SMU.

Richard Weekley, the Houston-based builder who graduated from SMU Cox in 1967, has been the key donor for the Bridwell Institute's 6-year-old Teaching Free Enterprise program, aimed primarily at high school teachers.

Sarah Perot, a 1983 SMU graduate and

member of SMU's Board of Trustees, joined her husband, real estate developer Ross Perot Jr., to endow the Bridwell Institute's Jerome M. Fullinwider Centennial Chair in Economic Freedom in 2011. The chair, now held by Lawson, honors her father.

Harlan Crow is the scion of the family of real estate investors and developers that named SMU Cox's Trammell Crow Building in 1987. Crow and his wife Kathy, a 1994 SMU MBA graduate and member of the SMU Board of Trustees, contributed \$5 million to SMU to establish the Kathy Crow residential commons in 2014.

In the box below, Tucker Bridwell discusses his support for economic freedom.



The COVID-19 pandemic disrupted SMU operations for the final three months of the 2019-20 academic year. It took



Tucker Bridwell

Meet Tucker Bridwell

Missouri-born Tucker Bridwell says he "got to Texas as soon as I could" – by age 3. He's been living and working in his adopted state ever since.

Bridwell grew up in small-town Abilene, earned bachelor's and MBA degrees at SMU Cox and spent his professional life in the most Texan of all businesses – oil and gas. Bridwell and his Oklahoma-born wife Gina still live in Abilene, where they've raised four native-Texan children, aged 32 to 45.

Now 70 years old, Bridwell talked about the donation that created the Bridwell Institute for Economic Freedom in September 2020.

Question: How did the donation come about?

Bridwell: I started going to the Koch Foundation seminars eight or nine years ago, and you're encouraged to give. One of the places you could give was the O'Neil Center. I just took a small bite – \$100,000 a year for five years for reading groups. That's how I first became introduced to the center, but I never really got involved much.

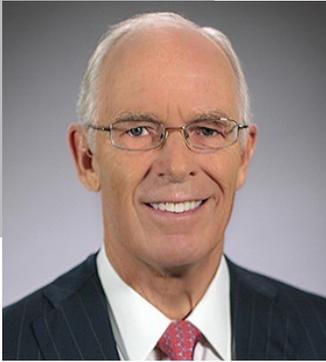
In March 2020, I was on a Zoom call with Koch Foundation people, and one of them said, "Tucker, did you know that the O'Neils are looking for somebody else to pass the baton to on the

O'Neil Center." I confirmed it. I talked with Gerald Turner, and he told me the difference between a center and an institute: It's basically twice as much money. Gerald put on his selling shoes and talked me up to an institute over a center.

It wasn't long before I was on a Zoom call with Scott O'Neil, who needed to vet me, I guess. At the end, he said to me, "I'd like you to be the guy who succeeds us."

Question: What about the Bridwell Institute struck a chord with you?

Bridwell: I've been concerned for years about political and



Richard Weekley



Sarah Perot



Harlan Crow

a higher toll in 2020-21 as campuswide precautions continued throughout the academic year. Following SMU guidelines, most Bridwell Institute personnel worked from home, carrying on research and other activities as best they could but missing out on the intellectual cross-fertilization of regular contact with colleagues.

“Because of the pandemic, there were fewer of the informal discussions that would normally occur among our Bridwell Institute colleagues,” economist Dean Stansel said. “Since those conversations can lead to research collaboration and can facilitate the progress of other projects, our overall productivity was reduced.”

The Bridwell Institute adjusted its activities and programs to the pandemic’s new reality. We cancelled our annual conference, and our academic workshops were pared down and became Zoom events. Our scholars curtailed their speaking engagements and, if they attended conferences, it was usually via the Internet.

economic forces that seemed to me to be choking economic freedom and free enterprise. You can call it whatever you want to call it, but in my opinion it’s veiled socialism. My wife is in the same camp. It’s a fight worth fighting. We were going to make a gift to SMU Cox anyway as part of the Cox Campaign, so we decided this is where we wanted to be.

Question: How active do you want to be in the mission and operations of the Bridwell Center?

Bridwell: I’m still learning about the mission. I’m familiar with some of the research, especially the global economic index and the ranking of the states. Both are very valuable. Why would I tinker with that? Why would I want to tinker with anything where the people I’d be tinkering with know 20 times more about any of these subjects than I do?

You guys know what you’re doing. As I get my feet on the ground, I may sit down with you guys and have a discussion and say, “Hey, why don’t we think about this?” I’m pretty hands off. I didn’t start this thing – like I say, I’m just taking the baton, trying to run the race without getting in anybody’s way.

Question: What will the Bridwell Institute’s new advisory board bring to the table?

Bridwell: Dick Weekley, Sarah Perot and Harlan Crow –

they’ve all got fertile minds, they’re all extremely well-connected in the business world. What the board can do is use their talents and resources to help the Institute with resources to help Bob Lawson and the team accomplish what they want to accomplish. But again, not get in the way.

Question: You’ve lived 67 years in Texas – how does that play into your support for the Bridwell Institute?

Bridwell: Texas is one of the most prosperous and productive states in the country. It’s not an accident. It’s less taxation and less regulation and all the components that mean more economic freedom for the people and the businesses that work here and produce here. I’m not a scholar, but I understand that. Blue collar, white collar – I think a lot of people do. It’s imperative for us to retain that here in Texas.

Question: Does having the Bridwell Institute at SMU help in that regard?

Bridwell: I certainly hope so. That is chief among the reasons that I wanted to fund it. Everything just lined up. We’re in one of the freest states. We’re in one of the two key business hubs, and one of the top five or 10 nationally. SMU has a great business school. So the Institute is housed in the perfect place to advance free enterprise.

Both fall and spring Texas Economic Forums were on-line; so was the fall Flourishing & A Free Society event, part of a series that invites noted outside speakers to address SMU students and the Dallas-area business community.

Most of our professors taught economics remotely, quickly revamping their course materials and learning to teach in new ways. The institute’s reading groups once again filled all their open spots with SMU students – but weekly sessions were shortened and held via Zoom rather than in-person. Teaching Free Enterprise had some success in converting existing curriculum models to a virtual format – but getting Zoom-weary teachers to sign up for remote training was a challenge.

The Bridwell Institute did take a small step toward normalcy toward the close of the academic year by holding the spring Flourishing & A Free Society event at a

hotel near the SMU campus. Attendance was well-short of pre-pandemic norms, with about 30 masked guests showing up for a discussion on how immigrants might impact the institutions that support economic freedom.



The O’Neil Center’s staff transferred to the Bridwell Institute – with no additions or subtractions in academic year 2020-21. Duties and titles remain the same for all:

- Robert Lawson, the Fullinwider Chair in Economic Freedom, completed his sixth year as O’Neil/Bridwell director;
- Meg Tuszynski, research assistant professor, finished her fourth year as assistant director and led our student reading groups while continuing her research activities;
- W. Michael Cox, founding director of the O’Neil Center and co-author of a series of Annual Report essays dating back to

2009, led the Institute’s research initiative focused on the Texas economy;

- Richard Alm, writer-in-residence, collaborated with Cox on the Annual Report essays and research projects focused on the Texas economy;
- Dean Stansel, research associate professor, co-authored the Economic Freedom of North America (EFNA) report and led student reading groups;
- Ryan Murphy, research associate professor, primarily worked with Lawson on measuring global economic freedom and led the advanced student reading groups;
- Mike Davis, senior lecturer, once again shouldered the Institute’s heaviest teaching load and was a versatile and quotable resource for local TV and other media;
- Program specialist Liz Chow, who earned her SMU Cox MBA in May 2021, assisted with logistics and marketing for the Institute’s initiatives;

Bridwell Institute Faculty and Staff, 2020-21



Robert Lawson



Meg Tuszynski



W. Michael Cox



Richard Alm



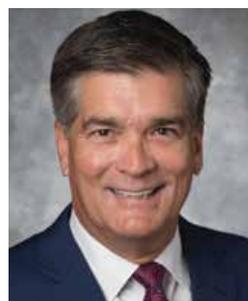
Dean Stansel



Ryan Murphy



Michael Davis



Ray Hugel



Liz Chow



Albert W. Niemi

- Former SMU Cox Dean Al Niemi, who holds the William J. O’Neil Chair in Global Markets and Freedom, continued his teaching and research.

The O’Neil Center relies primarily on donors to fund its operations. With an annual budget of over \$2 million, the Center is grateful for the generous support from the Bridwells and Weekley as well as the William E. Armentrout Foundation, McLane Company, Inc., the Charles G. Koch Charitable Foundation, the William J. O’Neil Foundation, the Deason Foundation and numerous individual donors.



Empirical measures of economic freedom – data-driven assessments of the balance between the private sector initiative and

government intervention in economies – are the centerpiece of the Bridwell Institute’s academic research. The Institute stands alone in academia with expertise in measuring economic freedom at all three levels of analysis – nations, states and metropolitan areas.

The Institute focuses on three mutually supporting research themes:

- **Global Economic Freedom**, which concentrates on measuring economic freedom and its impacts on key metrics of national economic performance;

- **Economic Freedom of North America** takes a similar approach to studying state and metropolitan-area economic freedom and its consequences for subnational economies;

- **Texas Economic Freedom** focuses on Texas and its largest cities, all ranked highly in economic freedom and outperforming

the rest of the nation on key metrics of economic activity.

These three research agendas support the two other Bridwell Institute initiatives: **Student Enrichment** and **Public Outreach**. Our events, speeches and non-academic writings spread the ideas of liberty and economic freedom to SMU students in classrooms and reading groups and to the broader community through public programs and the media.

At SMU, the 2020-21 academic year began on June 1, 2020 and ended on May 31, 2021. The following pages present highlights of the Bridwell Institute’s activities and accomplishments over that 12-month span, starting with the three research agendas, then moving on to Student Enrichment and Public Outreach.

Global Economic Freedom

EFW Report

Ranking Economies from Most to Least Free

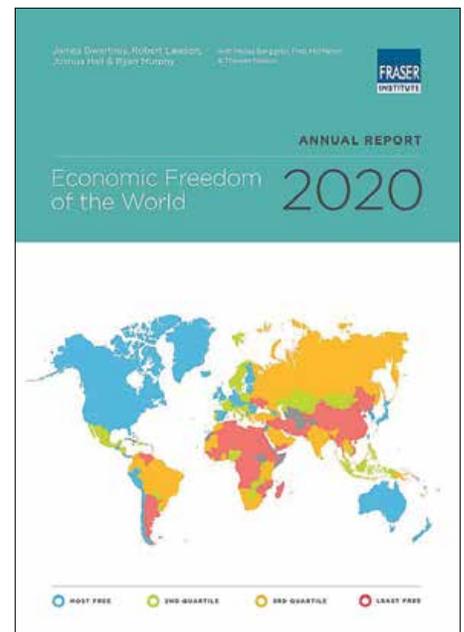
The centerpiece of the Global Economic Freedom research agenda is the Economic Freedom of the World (EFW) report, which provides an empirical measure of the balance between private-sector and government spheres. Index scores are based on the size of government, legal system and property rights, sound money, freedom to trade internationally and regulatory burdens.

Lawson has been a key researcher and co-author on the EFW report for decades. A network of economic researchers around the world supplies the raw EFW data. Lawson and Murphy, an EFW co-author, compile the numbers and calculate economic freedom scores for 162 countries – from Albania to Zimbabwe.

The EFW report for 2020, published by Canada’s Fraser Institute in September, showed that the most economically free places, based on 2018 data, were Hong Kong, Singapore, New Zealand, Switzerland and Australia.

The United States came next, slipping one spot from the previous year. Among the five broad areas, the United States ranked highly in regulation, sound money, and legal system and property rights; its lowest rankings were in freedom to trade internationally and size of government.

The EFW index gives researchers a powerful tool to test ideas about free enterprise and its consequences. Numerous studies have found that high EFW scores correlate with higher incomes, faster economic growth, lower poverty rates, higher life expectancy and many other positive outcomes.



Publications and Presentations

Tuszynski had a chapter on “Entanglement and Perverse Spontaneous Orders” in a book titled *Emergence, Entanglement, and Political Economy*, edited by Diana Thomas and David Hebert. The chapter took a new look at spontaneous order, including a public sector intertwined with the private sector. The framework expands the possibilities for perverse incentives that create spontaneous orders that might not have socially beneficial characteristics.

Economics and Business Letters published “Who Gains from Economic Freedom? A Panel Analysis of Decile Income Levels,” written by Lawson and a co-author. They found that countries with greater economic freedom have higher incomes at all levels of the income distribution, even though income shares are lower for those at the bottom.

In “The Determinants of Economic Freedom: A Survey,” published in *Contemporary Economic Policy*, Lawson, Murphy and a co-author review EFW research on the origins of economic freedom. The review finds the strongest, most consistent results link democracy and political freedom to greater economic freedom. The studies suggest increasing inequality has eroded economic freedom.

Murphy examined the origins of economic freedom in “Plausibly Exogenous Causes of Economic Freedom,” published in the *Journal of Bioeconomics*. The work shows education has a strongly positive relationship with economic freedom. Country size has a negative impact. Diseases’ relationship with economic freedom seems to occur through the conduit of education.

What are the effects of culture on economic institutions? Murphy’s “The

Soft Stuff of Institutional Development,” accepted by the *Journal of Private Enterprise*, explores that question in a study of 12 dimensions of culture. No clear patterns emerged, suggesting that the relationships among migration, culture and institutions aren’t as tight as many commentators contend.

Lawson and his economist daughter Kerianne Lawson (North Dakota State University) joined forces for “Economic Liberalizations Around the World Since 1970: Shock Therapy Versus Gradualism,” published in the *Cato Journal’s* fall 2020 issue. They find countries that reformed more quickly grew somewhat faster during and just after the reform period.

In the same *Cato Journal* issue, Murphy and a co-author weigh into an active debate with “Assessing State Capacity Libertarianism.” The authors use measures of state capacity to show that economic freedom and state capacity are substitutes, not complements.

Libertas: Segunda Epocha published Murphy’s “Socialist Calculation Fails: By How Much, and Due to What?” It’s an inquiry into the socialist calculation’s intermediate stages and their impacts on the widely recognized gap in economic performance between capitalist and socialist countries.

Murphy’s “Corporations as the Outgroup?” appeared in *Man and the Economy*. The article contends that it’s impossible for a firm itself to behave ethically in the absence of imperfections in the market. Firms will cooperate or defect opportunistically in ways that resemble a psychopath. This helps

explain many of the public’s antagonistic sentiments toward firms.

“Here’s to Hoping Joe Biden Remembers His ‘You Can’t Eat Equality’ Line,” Lawson’s January op-ed in the *Orange County Register*, used EFW research in pointing to the inherent tradeoff between greater equality and faster growth – i.e., “would you rather have a larger share of the small pie or a smaller share of a big pie?”

COVID-19 wreaked havoc on academic conferences. One took place in person late in the academic year – April’s annual meeting of the Association of Private Enterprise Education in Ft. Lauderdale. Lawson gave two presentations that involved studies that used the economic freedom indexes – “Who Gains from Economic Freedom? A Panel Analysis of Decile Income Levels” and “Economic Freedom and One-Way U-Haul Prices.”



Public interest continued for Lawson’s co-authored book *Socialism Sucks: Two Economists Drink Their Way Through the Unfree World*, published in 2019. Despite the pandemic’s restrictions, he gave five talks on the book, three to Bastiat Society gatherings, one to the Fort Worth Rotary Club and one at the University of Kentucky.

Two other Lawson college speeches focused on the EFW report.

Economic Freedom of North America

EFNA Report

Which States Have the Freest Economies?

Since 2013, Stansel has been the primary author of the *Economic Freedom of North America* (EFNA) report. In addition, he created the first index that measures economic freedom for the nation's metropolitan statistical areas (MSAs) in 2015.

The annual EFNA report, published by the Fraser Institute in November, ranked U.S. states by economic freedom in 2018. The most economically free states were New Hampshire, Florida, Virginia, Texas and Tennessee – the same Top Five as the previous year but in a slightly different order.

The quintet at the bottom exhibited the least economic freedom: New York, West Virginia, Alaska, California and Vermont.

For Texas, the EFNA data show consistently high economic freedom – in the Top 5, with the exception of one or two years – since the first index in 1981. In the latest report, the state ranked second in labor-market freedom and third in government spending. Knocking Texas down a bit was a 12th-place finish on tax burden – despite being one of six states with no income taxes.

Like the EFW index, the EFNA and MSA indexes show positive relationships between economic freedom and higher incomes, faster growth and other favorable outcomes.



EFNA Meeting Confers on Economic Freedom

The Bridwell Institute once again hosted the annual EFNA meeting in August. More than two dozen researchers from the United States, Mexico and Canada came together for two days of discussions related to measuring economic freedom for states and provinces.

The group discussed data issues, updated each other on current events and brainstormed on EFNA-related research projects.

Lawson gave an update on the EFW report on global economic freedom. Stansel did the same for the latest EFNA report.

Key contributions also came from Stansel's co-authors – Fred McMahon of the Fraser Institute, EFNA's publisher, and Jose Torra of Caminos de la Libertad, the lead researcher in Mexico.



Stansel (front, second from left) and Lawson (front, far right) with colleagues from three nations at SMU Cox.

Publications and Presentations

The *Southern Economic Journal* published “Economic Freedom and Migration: A Metro Area-Level Analysis,” a paper by Stansel and three co-authors that found a positive relationship between metro areas’ economic freedom and net in-migration. A 10 percent increase in relative economic freedom was associated with a 27.4 percent increase in net in-migration.

The *Cato Journal*’s fall 2020 issue featured “Immigration and State Institutions: Does Region of Origin Matter?” by Tuszynski and Stansel. Their research casts doubt on the idea that immigrants bring with them the “bad” organizations, social models and culture that led to poor economic conditions in their home countries. The economists found virtually no evidence that increased immigration degraded U.S. institutions and culture.

Murphy, Tuszynski and a co-author

placed “Some Dynamics of Socioeconomic Relationships: Well-Being, Social Capital, Economic Freedom, Economic Growth, and Entrepreneurship” in *American Journal of Entrepreneurship*. The study explored entrepreneurship’s somewhat tangled relationships with well-being, economic freedom and growth. Among other results, they find positive effects for economic freedom on entrepreneurship but negative effects for entrepreneurship on economic freedom.



In October, with the pandemic closing many American offices, the *Orange County Register* published a Tuszynski op-ed titled “Work-at-home Crowd Prefers to Relocate to Places with Lower Taxes, Less Regulation.” Her conclusion: When people don’t have to live where they work, they choose states with higher levels of

economic freedom.

Despite being limited to remote sessions, Stansel found opportunities to discuss the measurement of state and local economic freedom. He focused on EFNA at events sponsored by the John Locke Foundation (North Carolina), America’s Future Foundation (Dallas), EFNA Network Conference (SMU) and Center for the Study of Economic Liberty (Arizona State University). Stansel organized a session at the Southern Economic Association meeting on using state and local economic freedom indexes in research projects.

For a presentation to the Association of Private Enterprise Education conference, held in-person in April, Tuszynski used data that measure the breadth and burden of occupational licensing in low- to moderate-income occupations to examine the impact on women’s labor force outcomes.

Texas Economic Freedom

Texas Economic Forum

Exploring Texans’ Favorite Topic: Texas

EFNA ranks Texas among the most economically free states, and the state’s big urban areas are at or near the top in MSA economic freedom. The causes and consequences of Texas’ economic freedom have been a key part of the Bridwell Institute’s research on the economies of Texas and its major cities.

The research has proven very popular. No surprise there: Texans like nothing better than to read and talk about themselves.

For five years, the Texas Economic Forum, an open-to-the-public discussion of economic issues related to Texas and DFW, has been a cornerstone of the Institute’s efforts on Texas

Economic Freedom. Cox and Alm have put together forums on such topics as DFW’s entrepreneurial edge, the disruption of the energy business, Texas-Mexico business ties and the pact that replaced NAFTA.

Most Texas Economic Forums have been partnerships with other institutions, including the SMU Cox Maguire Energy Institute and SMU’s Mission Foods Texas Mexico Center.

Our Texas Economic Forums went on during the pandemic year of 2020-21 – but like so many other things, it wasn’t business as usual. We held the fall and spring sessions online.

Fall 2020 Texas Economic Forum

“DFW: The Improbable Economic Superstar”

The titular presentation, made by Cox, explained why one of the world’s greatest urban economies grew up on nondescript north Texas prairielands. The key has been economic freedom, an embrace of free enterprise and entrepreneurship.

The research, presented in an article by Cox and Alm in the IEDC *Economic Development Journal*, uses Stansel’s metropolitan area economic freedom index to locate DFW among the top MSAs in growth, job creation, net in-migration and other favorable outcomes.

The event included three other presentations on DFW-related topics. Cullum Clark of the George W. Bush Institute, our SMU campus neighbor, contributed his research on the importance of DFW’s anchor institutions in education and health care.

Dallas College leader Joe May discussed the role of junior colleges in upgrading North Texas’ labor skills. Real estate professionals Susan Arledge and Susan Gwin Burks assessed DFW’s advantages in site selection.



Spring 2021 Texas Economic Forum

“What’s Next: Issues and Opportunities for the State’s Economy”

With vaccinations making a return to normalcy seem possible, Cox joined Pia Orrenius of the Federal Reserve Bank of Dallas and Vance Ginn of the Austin-based Texas Public Policy Foundation to discuss the Texas economy’s immediate and longer-term prospects.

The panelists agreed the Texas economy should recover faster than most of the rest of the country – even with the low oil prices that prevailed in 2020.

They saw several potential obstacles to maintaining longer-term

growth, including climate-related hostility to fossil fuels, shortages of skilled and unskilled labor and educational systems that too often fail to teach basic skills. National immigration policies are contributing to the labor shortages.

Texas remade its economy after the Oil Bust of the 1980s. The state’s best hope for meeting these looming challenges is the same today as it was then. It’s not bigger government; it’s economic freedom, which unleashes ingenuity of the private sector.

Publications and Presentations

For a decade, Cox and Alm have written columns for *D CEO*, the leading Dallas business magazine. In “Dance with the One Who Brung Ya” (August/September 2020), they discussed the relevance of the Texas model of low taxes and limited regulation during and after the pandemic. “Unshackling Texas’ Economy” (December 2020) discussed Texas’ surprisingly high level of government intervention, and “Looming Trade Troubles in Texas” pointed to emerging headwinds for the country’s No. 1 exporting state (April 2021).

Cox and Alm wrote a chapter on the “Trade and Investment in the Texas-Mexico Relationship” for a forthcoming volume of research on how Texas and California

manage their political and economic ties with their neighbor to the south.

Cox and Alm used both EFW and EFNA in “Texas-Mexico Economic Integration and its Uncertain Future,” a chapter in *The Future of US-Mexico Relations: Strategic Foresight*, published in 2020 by Arte Publico Press. Alm made a presentation of the work at an online event held by SMU’s Mission Foods Texas-Mexico Center.



Stansel and Tuszynski combined election polls with their research on immigration and state-level economic policy to show that fears of a California-cation of Texas seem overblown. They presented their findings

in a November *Dallas Morning News* op-ed titled “California Migrants are not Trying to Un-Texas Texas.”

At a February on-line forum sponsored by Dallas’ *Texas Lawbook*, Stansel joined a panel of lawyers for an assessment of “The Impact of the Biden Administration on Texas Business.”

The free-market Bastiat Society’s Texas chapters tapped Bridwell scholars for several presentations – Lawson with “Socialism Sucks” in both Dallas and Fort Worth, Tuszynski with “The Failures of Central Planning and the Magic of Markets in the Age of Coronavirus” in Dallas and Alm with “Thrown for a Loss: Big-Time Pro Sports in the Pandemic” in Dallas.

Student Enrichment

Student Reading Groups

Discussing the Key Ideas of Economics

Although limited to Zoom sessions due to the Covid-19 pandemic, the Bridwell Institute’s reading groups continued to receive a record number of applications and attract a diverse mix of SMU undergraduate students.

Led by Stansel and Tuszynski, the McLane Teammates Scholars, Armentrout Scholars and Bridwell Scholars met in four clusters of 12 students each in both the spring and fall semesters. Murphy expanded from one to three advanced reading groups, a program for students who had participated in a previous reading group.

“The pandemic had a major impact on our activities,” Stansel said. “The reading groups were unable to meet in person and the meetings were shortened by an hour due to the elimination of the hour of informal conversation over a meal. This reduced their ability to get to know each other and reduced the quality of the experience overall.”



For the McLane, Armentrout and Bridwell groups, the fall theme was the topical “Exploring Inequality.” Participants read and discussed work by such scholars as Milton Friedman, Joseph Stiglitz, Tyler Cowen and Paul Krugman.

Forty-eight students explored such questions as: What do people mean by the term “inequality”? How do you measure it? Is it changing substantially over time? What can (and should) public policy do to address it? What other solutions are there?

The McLane, Armentrout and Bridwell spring groups tackled “Economics, Evolution and the Environment,” with participants

reading and discussing works by such writers as Matthew Ridley, the self-proclaimed “rational optimist,” and Nobel laureate economist William Nordhaus.

Forty-eight students explored such questions as: How are biological and social evolution related? How can economics inform ecology and vice versa? What does our evolutionary history imply for social policy? What is the best way to protect the natural environment? How can we address the problem of climate change?

Parallel groups at Baylor University, Texas Tech University, Angelo State University and the University of Central Arkansas read and discussed the same works. Each semester, SMU students got together with their counterparts from the four other colleges for a summit headlined by a noted speaker.

Cowen, faculty director of George Mason University’s Mercatus Center, led a session on inequality at the fall event. Ridley spoke in the spring, focusing on his latest book *How Innovation Works: And Why It Flourishes in Freedom*. About 90 students attended each summit, held via Zoom rather than on campus because of the pandemic.



Murphy introduced a new format in launching summer and winter reading groups – all participants read one common book, then each chose a second related book, setting the stage for a discussion of how the two compared. Development Economics was the summer theme, with the common book *The Narrow Corridor* by Daron Acemoglu and James Robinson. The theme for the winter group was Progress Studies, centered on *Stubborn Attachments* by Tyler Cowen.

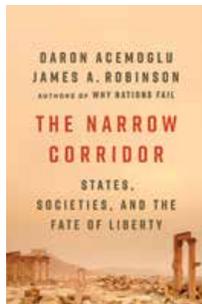
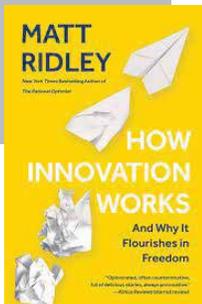
In fall and spring advanced groups, Murphy had all students read the same works. History and Political Economy of Food, the fall’s theme, featured selections from five books that focus on the production, consumption and enjoyment of food. The spring group took up Civil Liberties, with readings on such subjects as warrior cops, open borders, racial inequality, campus free speech and socialism.



Matt Ridley



Tyler Cowen



Teaching Free Enterprise

Hard Hit by Pandemic's High Stress

The pandemic made 2020-21 a challenging year for Teaching Free Enterprise (TFE), the Bridwell Institute program created to improve economic instruction in high schools.

A dozen events for teachers were cancelled in June and July. In a departure from established practices, TFE shifted to virtual delivery in mid-June. It involved a steep learning curve for presenters and an additional burden for teachers, who were facing their own pandemic stresses.

On-line sessions meant serving teachers in small, isolated groups. TFE had 42 sessions in 2020-21, a third more than the previous year. However, teacher attendance plunged from 1,500 to 381. The educational community served

by TFE suffered from a clear lack of motivation for professional development requirements and Zoom fatigue.



Even during the pandemic, TFE continued to add new

instructional units, all introduced through on-line sessions. Stansel and Tuszynski joined forces on “COVID-19 and the Economy,” an economic freedom-infused analysis of the pandemic’s impact on the economy and policy. Tuszynski added a unit on Environmental Economics, with an emphasis on private sector solutions. Danielle Zanzalari, a Seton Hall professor, added much-needed units on Financial Literacy – the first focused on handling money and second on investing.

As the academic year closed at the end of May, TFE had more than 15 events booked for the upcoming academic year, a sign that teachers anticipate resuming professional development activities with a return to normalcy. While in-person events are preferred, TFE won’t entirely abandon the on-line techniques honed by necessity during the pandemic. An ambitious virtual summer program for 2021, for example, will offer 50 separate sessions in July and August.



Bob Lawson lecturing on EFW at a TFE event.

Teaching SMU Cox Students

SMU Cox relied on Bridwell Institute professors to teach economic classes at the undergraduate, MBA and graduate levels. All classes were remote because of SMU’s pandemic safety guidelines.

As usual, Davis shouldered a heavy teaching load, teaching macroeconomics for MBA students and several courses for the new SMU Cox on-line MBA. Niemi continued to teach his popular Evolution of American Capitalism.

Lawson taught managerial economics – a core course on micro foundations – to MBA and MS Management students.

Cox and Tuszynski increased their teaching loads. In addition to summer classes, Cox took on MBA-level macroeconomics; Tuszynski taught Markets and Freedom and, in the spring, joined the faculty for the on-line MBA program.

All told, Bridwell Institute faculty taught

more than 800 SMU students in 2020-21, with most of the classes held on-line.

In addition to the Reading Groups, Bridwell Institute faculty led other student-focused activities. For example, Tuszynski took on two 15-student discussion groups, conducted via Zoom. The fall semester topic was Economic Freedom of the World-related research, and the focus shifted to entrepreneurship in the spring.

Public Outreach

Flourishing & a Free Society Series

Diversifying the Discourse at SMU

The Bridwell Institute invites speakers to campus to present intriguing ideas relevant to American capitalism and the economy.

Covid-19 restrictions relegated the fall event to the Internet; the spring speaker was our first in-person event since early March 2020.

Fall 2020

“The Role of Business in a Free Society”

Tyler Cowen of George Mason University revisited the themes of his 2019 book *Big Business: A Love Story*, which presented evidence that deflates many of the common gripes about corporate America, such as companies are dishonest and CEOs are overpaid.

Siri Terjesen of Florida Atlantic University focused on the lifeblood of capitalist systems – the perpetual creative destruction

unleashed by entrepreneurship and innovation.

Jason Brennan of Georgetown University, author of a book titled *Why It's OK to Want to Be Rich*, examined America's split personality when it comes to money – “everyone wants to be rich but we're also a little ashamed of it.”

Lawson moderated the hour-plus Zoom session.



Spring 2021

“The Political Economy of Immigration and Institutions”

Ben Powell, director of Texas Tech's Free Market Institute, took aim at one of the newer justifications for immigration restrictions – that people from other countries might bring with them attitudes and ideas inimical to the American way of life.

According to Powell, this argument has gained prominence in recent years among opponents of increasing immigration.

In a presentation based on *Wretched Refuse? The Political Economy*

of Immigration and Institutions, his new book with co-author Alex Nowrasteh, Powell pointed to research that casts doubt on arguments that portray immigration as a threat to culture, institutions or productivity in destination countries.

In making his argument, Powell used EFW data to show that immigration doesn't destroy institutions responsible for prosperity in the modern world.

Responding to Calls from the Media

SMU Cox recognized the Bridwell Institute's Mike Davis and Dean Stansel for their contributions to the public dialog on business and economics.

For years, Davis has been one of the Dallas area's go-to sources for commentary on current events. Not surprisingly, a frequent topic in 2020-21 was the Covid-19 pandemic's economic impacts and the federal government's relief policies.

Stansel did 20 radio interviews with Florida stations. In addition, Dallas' Fox affiliate interviewed him on Covid-19 and the economy in September, Washington's Covid-19 legislation in December and pandemic unemployment in January.

Yahoo Finance regularly tapped Cox, a former Dallas Fed chief economist, for commentary on Fed policy and its impact on the economy.



Media Expert of the Year Awards



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BRIDWELL INSTITUTE
FOR ECONOMIC FREEDOM

PO Box 750333

Dallas, TX 75275-0333

smu.edu/bridwell-institute

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