TEXAS PUBLIC POLICY FOUNDATION
RESEARCH
DECEMBER 2022

Institutions Matter for Human Flourishing: A Comparison of States

by Vance Ginn, Ph.D.
Alliance for Opportunity

Key Points

- Comparing institutional frameworks in states and their outcomes provides key factors that encourage thriving states, families, and entrepreneurs.
- Measures of economic freedom and government burden are useful indicators of which states have growing economies and more jobs over time.
- The results for these states demonstrate how institutions that encourage individual liberty, free enterprise, and civil society support prosperous outcomes, particularly in relieving poverty.
- States ought to pursue policies that advance more of these lessons to provide a robust economy and flourishing civil society that will best help the neediest among us.

Executive Summary

When we compare state institutional frameworks and their outcomes, key factors emerge that encourage thriving states, families, and entrepreneurs. Data on measures of economic freedom and government burden are useful indicators of which states have faster growing economies and more jobs over time. In this brief, I consider the institutional framework and results of Georgia, Louisiana, and Texas, which are states in the Alliance for Opportunity's (n.d.) multi-state poverty-relief initiative.[1] I also consider other large states with different institutions such as California, Florida, and New York, and compare all of them with U.S. data. Economic results for these states demonstrate how institutions that encourage individual liberty, free enterprise, and civil society support prosperous outcomes, particularly in relieving poverty. States ought to pursue policies that advance more of these lessons to provide a robust economy and flourishing civil society. Doing so will provide more opportunities to let people prosper and paths to long-term self-sufficiency for the neediest among us.

Introduction

Institutions matter for the structure and change of societies and economies throughout history. These include economic institutions, such as capitalism to allocate resources through voluntary exchanges in the marketplace; social institutions, such as churches and families that can support the neediest among us; and political institutions, such as republics that have laws to enforce private property rights and contracts. These institutions are equally important to achieving flourishing societies with the potential for long-lasting prosperity (Acemoglu & Robinson, 2012; Ginn, 2018; North, 1990; North, 1993).

The U.S. system of federalism provides states with the liberty to enact and enforce different rules and policies within federal laws. This allows an examination of each state's economic outcomes from its institutional framework to determine which policies may best support prosperity. The comparison should be among states with similar sizes and demographics where applicable because these factors can influence economic institutions and results. Based on these comparisons and outcomes, certain institutions help encourage more opportunity and poverty relief than others.

1 The goal of the initiative is to reduce the number of people in poverty by 1 million over a decade.

continued

Economic Freedom Correlates to Strong Economies

Regarding population (World Population Review, n.d.) and real (inflation-adjusted in chained 2012 dollars) gross state product (GSP; Bureau of Economic Analysis, n.d.), the four largest states as of the second quarter of 2022 were California with 39.6 million and $2.9 trillion, Texas with 29.7 million and $1.9 trillion, Florida with 21.9 million and $1.6 trillion, and New York with 19.3 million and $1.5 million, respectively. In addition, the states of Georgia and Louisiana are included as they are part of the Alliance for Opportunity (n.d.). Georgia has 10.8 million residents and $588 billion output, and Louisiana has 4.7 million residents and $216 billion output. In terms of real GDP per capita, these six states rank in the following order: New York with $77,720, California with $73,232, Florida with $73,059, Texas with $63,973, Georgia with $54,444, and Louisiana with $45,957. These states provide a broad look at distinct types of institutional frameworks. Texas, Florida, and Georgia have a Republican trifecta with the governor, house, and senate. California and New York have a Democrat trifecta. Moreover, Louisiana leans Republican with a Democrat governor and a Republican house and senate.

Table 1 shows how these states compare with different institutional frameworks for measures of economic freedom, migration flows, government taxes and spending, cost of living, labor market, income inequality, and poverty.

Table 1

Comparison of Selected States for Measures of Economic Freedom and Outcomes

Measure	U.S.	Florida	Texas	Georgia	Louisiana	California	New York
Economic Freedom of North America (2020)	7th (World)	1st	4th	8th	20th	49th	50th
State Migration Trends, Most Inbound (2021)	--	9th	7th	14th	46th	47th	50th
State Business Tax Climate (2022)	--	4th	13th	32nd	39nd	48th	49th
State Economic Outlook (2022)	--	8th	11th	15th	20th	48th	50th
State & Local Spending Per Capita (2022)	--	5th	14th	3rd	25th	47th	49th
S&L Spending on Public Welfare Per Capita (2020)	--	47th	44th	49th	12th	5th	1st
S&L Tax Burden Per Capita (2019)	--	8th	4th	10th	15th	43rd	50th
S&L Property Tax Collections Per Capita (2019)	--	21st	40th	19th	7th	37th	47th
Composite Cost of Living Index (Q3:2022)	--	32nd	17th	6th	19th	48th	47th
Avg. U-3 Unemployment Rate (2002-21)	6.1%	5.8%	5.8%	6.4%	6.0%	7.4%	6.3%
Avg. Labor Force Participation Rate (2002-21)	64.2%	60.7%	65.4%	64.8%	60.2%	63.8%	61.7%
Avg. Emp-Pop 25-54-year-old Ratio (2002-21)	77.8%	77.5%	77.3%	76.9%	74.8%	75.3%	76.1%
Avg. Top 10% Income Shares (2000-18)	45.6%	41.8%	42.6%	39.6%	30.7%	42.3%%	35.5%
Official Poverty Measure (2019-21)	11.2%	12.5%	12.9%	13.1%	17.2%	11.0%	12.3%%
Supplemental Poverty Measure (2019-21)	9.6%	11.9%	10.4%	10.2%	11.7%	13.2%	12.1%

Notes. Dates in parentheses are for that year or the average of that period. Data shaded in red indicate "best," and in blue indicate "worst" per category by state. Data for Economic Freedom of North America are from *Economic Freedom of North America 2022* by D. Stansel, J. Torra, F. McMahon, and A. Carrion-Tavarez, Fraser Institute, 2022 (https://www.fraserinstitute.org/sites/default/files/economic-freedom-of-north-america-2022.pdf); State Migration Trends, Most Inbound from *Americans Moved to Low-Tax States in 2021* by J. Walczak, Tax Foundation, 2022 (https://taxfoundation.org/state-population-change-2021); State Business Tax Climate from *2023 State Business Tax Climate Index* by J. Fritts and J. Walczak, Tax Foundation, 2022 (https://taxfoundation.org/2023-state-business-tax-climate-index); State Economic Outlook from *15th Edition Rich States, Poor States* by A. Laffer, S. Moore, and J. Williams, American Legislative Exchange Council, 2022 (https://www.richstatespoorstates.org/app/uploads/2022/04/2022-15th-RSPS.pdf); State & Local Spending Per Capita from *US State and Local Government Total Spending* by C. Chantrill, U.S. Government Spending, n.d., retrieved November 29, 2022 (https://www.usgovernmentspending.com/state_spending_rank_2022dF0c); State & Local Spending on Public Welfare Per Capita from *State and Local General Expenditures, Per Capita, FY 2020* by Tax Policy Center, Urban Institute & Brookings Institution, 2022 (https://www.taxpolicycenter.org/statistics/state-and-local-general-expenditures-capita); State & Local Tax Burden Per Capita from Table 2 in *Facts & Figures 2022: How Does Your State Compare?* by J. Fritts, Tax Foundation, 2022 (https://taxfoundation.org/publications/facts-and-figures/); State & Local Property Tax Revenue Per Capita from Table 34 in *Facts & Figures 2022: How Does Your State Compare?* by J. Fritts, Tax Foundation, 2022 (https://taxfoundation.org/publications/facts-and-figures/); Composite Cost of Living Index from *Cost of Living Data Series* by Missouri Economic Research and Information Center, n.d., retrieved November 29, 2022 (https://meric.mo.gov/data/cost-living-data-series); Average U-3 Unemployment Rate, Average Labor Force Participation Rate, and Average Employment-Population 25-54-Year-Old Ratio are from author's calculations using annual averages for these each year's measure from *Expanded State Employment Status Demographic Data* by Bureau of Labor Statistics, n.d., retrieved November 29, 2022 (https://www.bls.gov/lau/ex14tables.htm); Average Top 10% Income Shares are from author's calculations using Annual Top Income Shares by U.S. State, 1917-2018 from *U.S. State-Level Income Inequality Data* by M. Frank, n.d., retrieved November 29, 2022 (https://www.shsu.edu/~eco_mwf/inequality.html); and Official Poverty Measure and Supplemental Poverty Measure are from *Poverty in the United States: 2021* by J. Creamer, E. A. Shrider, K. Burns, and F. Chen, Census Bureau, 2022 (https://www.census.gov/content/dam/Census/library/publications/2022/demo/p60-277.pdf).

Table 2

Poverty Measure Data Comparison: Change from Poverty Reports in 2020 and 2022

State	OPM 2022 Total *(Change from 2020)*	OPM 2022 Rate *(Change from 2020)*	SPM 2022 Total *(Change from 2020)*	SPM 2022 Rate *(Change from 2020)*
California	4.3M (-159,000)	11.0% (-0.4%)	5.2M (-1,585,000)	13.2% (-4.0%)
Florida	2.7M (-37,000)	12.5% (-0.4%)	11.9M (-702,000)	11.9% (-3.5%)
Georgia	1.4 M (0)	13.1% (-0.2%)	1.1M (-297,000)	10.2% (-3.1%)
Louisiana	786,000 (-83,000)	17.2% (-1.9%)	533,000 (-203,000)	11.7% (-4.5%)
New York	2.4M (65,000)	12.3% (0.2%)	2.4M (-424,000)	12.1% (-2.3%)
Texas	3.7M (132,000)	12.9% (0.2%)	3.0M (-868,000)	10.4% (-3.3%)
Total (GA, LA, TX)	5.9M (49,000)		4.6M (-1,368,000)	
Total (CA, FL, GA, LA, NY, TX)	15.3M (-82,000)		14.7M (-4,079,000)	
U.S. Total	36.7M (-666,000)	11.2% (-0.3%)	31.4M (-9,153,000)	9.6% (-2.9%)

Notes: Poverty data for the official poverty measure (OPM) and supplemental poverty measure (SPM) are three-year averages for the three immediate years prior to each report. Data for the 2020 report are from *The Supplemental Poverty Measure: 2019* by L. Fox, Census Bureau, 2020 (https://www.census.gov/content/dam/Census/library/publications/2020/demo/p60-272.pdf) and for the 2022 report are from *Poverty in the United States: 2021* by J. Creamer, E. A. Shrider, K. Burns, and F. Chen, Census Bureau, 2022 (https://www.census.gov/content/dam/Census/library/publications/2022/demo/p60-277.pdf).

These data reveal that Texas, Florida, and Georgia remain among the most economically free, boasting lower spending and tax burdens, better labor markets and costs of living, and, in most cases, lower income inequality and poverty—even while spending less on public welfare per capita. Meanwhile, New York and California have the worst rankings in terms of economic freedom, burdens of government, and costs of living among these states and almost in the entire country. Furthermore, the performance of these two dark blue states is either the worst or near the worst in each economic category. Louisiana, which fits in the middle of these states in terms of economic freedom and most measures of government burdens, tends to rank worst in most economic performance metrics. However, Louisiana has the lowest share of income going to the top 10% of income earners, though with lower incomes in general than many other states. And Louisiana's supplemental poverty measure, which considers after-tax income, transfer payments, cost of housing, and other differences not considered in the official poverty measure, is lower than Florida's, but this measure of poverty has its own problems (Corinth & Meyer, 2021; Ginn, 2022a).

Poverty Artificially Improves in Latest Census Report

According to the latest *Poverty in the United States: 2021* report (average data for 2019 to 2021; Creamer et al., 2022), the Census Bureau shows some improvements (decline in the total or rate) or no change in most calculations of the official poverty measure (OPM) and supplemental poverty measure (SPM). Since the 2020 report (average data for 2017 to 2019 years) before the COVID-19 pandemic influenced many of these figures and was when the Alliance for Opportunity started its work, **Table 2** shows that the U.S. measures of OPM declined by 666,000 to 36,650,000 and the rate declined by 0.3 percentage point to 11.2%.

For the same reports, the U.S. SPM declined by 9,153,000 to 31,400,000, and the rate declined by 2.9 percentage points to 9.6%, which is the lowest on record as there was a decline in 2019 with more jobs available and in 2020 with more safety net transfer payments to individuals (Mulligan et al., 2021).

Data on state and local government spending per capita reveal that New York and California rank among the worst for their spending burdens, as every dollar of spending must come from taxes or fees, while Texas and Florida rank among the lowest.

While there are mixed results for the states per the OPM, all the states considered had a decline in the number of people in poverty and the rate of poverty per the SPM. In total, from the three states considered by the Alliance for Opportunity, the OPM number increased by 49,000 while the SPM number declined by 1,368,000 (Creamer et al., 2022). Therefore, the number of people in poverty according to SPM has already declined by more than the Alliance's goal of 1 million over a decade. While this may seem good on the surface, the problem with these data in the 2022 report is that there were massive safety net expansions in 2020 and 2021. These were enhanced unemployment insurance payments in 2020 and 2021 and child tax credit payments paid monthly for the first time in the second half of 2021. These measures distorted the number of people in poverty in the SPM because it includes after-tax income and transfer payments (Mulligan et al., 2021). Given this temporary distortion, these numbers and rates will likely increase dramatically in following reports as the 2022 data will not include as much in safety net payments without work, and will include large increases in the regional costs of living, especially housing, that is included in the SPM. Therefore, it is important to consider not only the SPM but also the OPM, and other measures. Given the policy changes and cost-of-living adjustments, these improvements in the SPM are likely short-term. What really matters is long-term alleviation of poverty with financial self-sufficiency that comes with a well-paid job (Ginn, 2022b).

Inclusive Institutions Support Prosperity

Why do some of the highest-grossing states with the biggest populations, such as California and New York, report abysmal rates on economic freedom, spending and tax burdens, and SPM? Or, put another way, what allows southern states like Georgia, Texas, Louisiana, and Florida to have relatively more flourishing? The answer is economic, social, and political institutions that preserve and promote liberty, free enterprise, and personal responsibility.

According to Pew Research Center (n.d.), 42% of Texans attend religious services at least once a week, compared to only 29% of New York adults; the trend remains largely similar between most Republican and Democrat states. Additionally, 85% of itemizers in Georgia donate, on average, $6,862 to charity compared to only 82% of itemizers in California who donate, on average, $5,846 to charity, and the trends show that southern states are more charitable overall (Olito, 2019). In many southern states, social institutions of church, charity, and family often provide support to individuals so that communities rely less on taxpayer-funded government safety nets and are encouraged to contribute to people in need. States with these types of social institutions instill values of personal empowerment and self-sufficiency with people being supported by communities rather than government. This helps create a social fabric of trust that encourages generosity, making government assistance less desired or needed.

Per **Table 1**, data on state and local government spending per capita reveal that New York and California rank among the worst for their spending burdens, as every dollar of spending must come from taxes or fees, while Texas and Florida rank among the lowest (Chantrill, n.d.). New York and California also tend to have higher tax and regulatory burdens compared with states like Texas and Florida with political institutions that do not impose a personal income tax. States with more economic freedom and limited government have more economic activity, which has a direct positive impact on improving living standards through more jobs that provide human dignity, purpose, and hope. To achieve prosperous social and economic institutions, a limited political institution is necessary. An inclusive political institution gives way to these other thriving institutions by upholding individual liberty, free enterprise, and personal responsibility. These values create paths for entrepreneurs and small business owners to thrive, both of which are essential in supporting economic growth and job creation (Kirzner & Sautet, 2006).

Conclusion

These data provide evidence that states with more economic freedom and limited government as their institutional framework (i.e., relatively low tax-and-spend burdens, no individual income tax, and sensible regulation) provide more opportunities for work, higher wages, lower income inequality, and less poverty than in comparable states, in most cases. All states should consider adopting inclusive economic, social, and political institutions that champion individual liberty, free enterprise, and personal responsibility if they hope to achieve growing, thriving states. These values are most conducive to an economic environment that provides entrepreneurs with the most opportunities to flourish and for the neediest among us to receive support and pathways to prosperity. However, there remain areas for improvement in these states that would keep them competitive. These improvements to institutional frameworks include imposing strict spending limits at all levels of government, eliminating excessive burdens of taxes and regulations, relieving people from occupational licenses, providing more pathways to workforce development, and reforming safety nets (many of which are provided by the Alliance for Opportunity).

References

Acemoglu, D., & Robinson, J. (2012). *Why nations fail: The origins of power, prosperity, and poverty.* Crown.

Alliance for Opportunity. (n.d.). https://allianceforopportunity.com/

Bureau of Economic Analysis. (n.d.). *Real GDP by state: All industry total (Millions of chained 2012 dollars).* https://apps.bea.gov/itable/?ReqID=70&step=1&acrdn=1#eyJhcHBpZCI6NzAsInN0ZXBzIjpbMSwyNCwyOSwyNSwzMV0sImRhdGEiOltbIlRhYmxlSWQiLCI1MjgiXSxbIkNsYXNzaWZpY2F0aW9uIiwiTkFJQ1MiXSxbIk1ham9yX0FyZWEiLCIwIl1dfQ==

Bureau of Labor Statistics. (n.d.). *Expanded state employment status demographic data*. Retrieved November 29, 2022, from https://www.bls.gov/lau/ex14tables.htm

Chantrill, C. (n.d.). *U.S. state and local government total spending. U.S. Government Spending.* Retrieved November 29, 2022, from https://www.usgovernmentspending.com/state_spending_rank_2022dF0c

Corinth, C., & Meyer, B. D. (2021). *We need to change how we measure poverty*. American Enterprise Institute. https://www.aei.org/articles/we-need-to-change-how-we-measure-poverty/

Creamer, J., Shrider, E. A., Burns, K., & Chen, F. (2022). *Poverty in the United States: 2021.* Census Bureau. https://www.census.gov/content/dam/Census/library/publications/2022/demo/p60-277.pdf

Fox, L. (2020). *The supplemental poverty measure: 2019*. Census Bureau. https://www.census.gov/content/dam/Census/library/publications/2020/demo/p60-272.pdf

Frank, M. (n.d.). *U.S. State-level income inequality data.* Sam Houston State University. Retrieved November 29, 2022, from https://www.shsu.edu/~eco_mwf/inequality.html

Fritts, J. (2022). *Facts & figures 2022: How does your state compare?* Tax Foundation. https://taxfoundation.org/publications/facts-and-figures/

Fritts, J., & Walczak, J. (2022). *2023 state business tax climate index*. Tax Foundation. https://taxfoundation.org/2023-state-business-tax-climate-index/

Ginn, V. (2018). *Do institutions matter for prosperity in Texas and beyond?* Texas Public Policy Foundation. https://www.texaspolicy.com/do-institutions-matter-for-prosperity-in-texas-and-beyond/

Ginn, V. (2022a). *Unleashing opportunity: What can Texas learn from U.S. poverty relief efforts?* Texas Public Policy Foundation. https://www.texaspolicy.com/unleashing-opportunity-what-can-texas-learn-from-u-s-poverty-relief-efforts/

Ginn, V. (2022b). *Empowerment accounts: Less poverty and more self-sufficiency*. Texas Public Policy Foundation. https://www.texaspolicy.com/empowerment-accounts-less-poverty-and-more-self-sufficiency/

Kirzner, I., & Sautet, F. (2006) *The nature and role of entrepreneurship in markets: Implications for policy.* Mercatus Center at George Mason University. https://www.researchgate.net/publication/255999223_The_Nature_and_Role_of_Entrepreneurship_in_Markets_Implications_for_Policy

Laffer, A., Moore, S., & Williams, J. (2022). *15th edition rich states, poor states*. American Legislative Exchange Council. https://www.richstatespoorstates.org/app/uploads/2022/04/2022-15th-RSPS.pdf

Missouri Economic Research and Information Center. (n.d.). *Cost of living data series.* Retrieved November 29, 2022, from https://meric.mo.gov/data/cost-living-data-series)

Mulligan, C., Moore, S., & Antoni, E.J. (2021). *Bonus unemployment benefits are causing major labor shortage in America.* Committee to Unleash Prosperity. https://committeetounleashprosperity.com/wp-content/uploads/2021/06/CTUP_BonusUnemploymentBenefitsLaborShortage.pdf

North, D. (1990). *Institutions, institutional change, and economic performance.* Cambridge University Press. http://assets.cambridge.org/97805213/94161/excerpt/9780521394161_excerpt.pdf

North, D. (1993). *Prize Lecture: Economic performance through time.* The Nobel Prize. https://www.nobelprize.org/prizes/economic-sciences/1993/north/lecture/

Olito, F. (2019). *The top 20 most charitable states.* Insider. https://www.insider.com/most-charitable-states-2018-11

Pew Research Center. (n.d.). *Attendance at religious services by state.* Religious Landscape Study. Retrieved October 20, 2022, from https://www.pewresearch.org/religion/religious-landscape-study/compare/attendance-at-religious-services/by/state/

Semega, J., Kollar, M., Shrider, E. A., & Creamer, J. (2020). *The supplemental poverty measure: 2019*. United States Census Bureau. https://www.census.gov/content/dam/Census/library/publications/2020/demo/p60-272.pdf

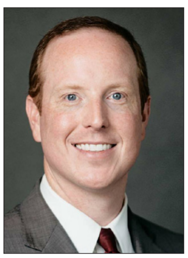
Stansel, D., Torra, J., McMahon, F., & Carrion-Tavarez, A. (2022). *Economic freedom of North America 2022*. Fraser Institute. https://www.fraserinstitute.org/sites/default/files/economic-freedom-of-north-america-2022.pdf

Tax Policy Center. 2022. *State and Local General Expenditures, Per Capita.* Urban Institute & Brookings Institution. https://www.taxpolicycenter.org/statistics/state-and-local-general-expenditures-capita

Walczak, J. (2022). *Americans moved to low-tax states in 2021.* Tax Foundation. https://taxfoundation.org/state-population-change-2021/

World Population Review. (n.d.). *US states—Ranked by population 2022.* Retrieved October 20, 2022, from https://worldpopulationreview.com/states

ABOUT THE AUTHOR



Vance Ginn, Ph.D. is president of Ginn Economic Consulting, chief economist at Pelican Institute for Public Policy, and senior fellow at Texas Public Policy Foundation and other free-market think tanks. He earned his doctorate in economics at Texas Tech University and has an accomplished career as an economist and university lecturer with experience in public policy, academia, and government. From 2019 to 2020, Dr. Ginn served as the associate director for economic policy of the Office of Management and Budget (OMB) at the Executive Office of the President. He resides in Round Rock, Texas.

About Texas Public Policy Foundation

The Texas Public Policy Foundation is a 501(c)3 non-profit, non-partisan research institute. The Foundation promotes and defends liberty, personal responsibility, and free enterprise in Texas and the nation by educating and affecting policymakers and the Texas public policy debate with academically sound research and outreach.

Funded by thousands of individuals, foundations, and corporations, the Foundation does not accept government funds or contributions to influence the outcomes of its research.

The public is demanding a different direction for their government, and the Texas Public Policy Foundation is providing the ideas that enable policymakers to chart that new course.

Texas Public Policy Foundation

901 Congress Avenue | Austin, Texas 78701 | 512.472.2700 | www.TexasPolicy.com