## ECONOMIC FREEDOM AND KENTUCKY'S WORKFORCE



According to the United States Bureau of Labor Statistics, Kentucky's labor force participation rate — the number of all employed and unemployed workers divided against the state's civilian population — has lagged substantially behind the United States' rate since at least 1981. The difference between the two rates continued to grow through the 1980s, and by 1988, Kentucky had a labor force participation rate 4.5 percentage points lower than the United States' rate. This was due largely to increases in the US rate, while the Kentucky rate was declining or flat. Labor force participation rates have been declining, in both the US and Kentucky, since 2001.

For most of the last decade, Kentucky's labor force participation rate has been between 3 and 4 percentage points lower than the US rate. In February of 2020, the last full month of data unimpacted by the COVID-19 pandemic and associated lockdowns, Kentucky's rate was 4 percentage points lower than the national rate.

By June of 2020, that difference had grown to 5.4 percentage points, and it has largely held steady since. In September of 2021, the difference was 5.1 percent.i

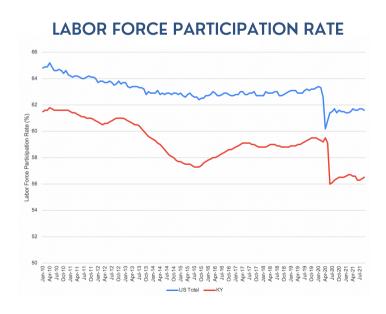
There are a tremendous number of factors impacting labor force participation rates, from the overall health of the economy to incentives around work created by government policy.

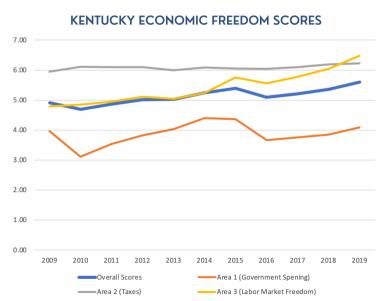
One area of growing interest is the relationship between economic freedom and labor force participation. In the most recent review of the literature on the subject, Ohanain (2020), finds that the balance of research identifies a positive relationship between economic freedom and labor force participation. This is true for multiple factors, including taxation, barriers to entry (such as occupational licensing) and policy distortions of the labor market.

Several state-level analyses have found similar results. Using 1981–2009 data for the 50 states, Heller and Stephenson (2014) found that greater levels of state economic freedom were associated with lower unemployment and with higher labor force participation and employmentpopulation ratios.<sup>iii</sup> Similarly, Garrett and Rhine (2011) found that economic freedom was positively associated with employment growth.<sup>iv</sup>

The Fraser Institute, a public policy think tank in Canada, annually publishes the Economic Freedom in North America report. The report ranks the 50 states in overall economic freedom as well as three subcategories: (1) government spending, (2) taxes, and (3) regulation. Over the last decade, Kentucky has consistently ranked in the bottom quartile but has been steadily improving it's score since 2010 – when our overall score was 4.69. In the most recent report, which uses 2019 data, Kentucky emerged from the bottom quartile for the first time this decade and was ranked 37th with an overall score of 5.60. vi

Kentucky has historically lagged behind both the nation and our surrounding states in both labor force participation and economic freedom. Research suggests Kentucky lagging in both is no accident, but rather the two are correlated. While getting people back into the workforce now is a multifaceted challenge, one way to improve labor market stability and participation is to improve economic freedom.





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Heller, L. R., & Stephenson, E. F. (2013). Economic freedom and labor market conditions: Evidence from the tates. Contemporary Economic Polloy, 32(1), 56–56. <a href="https://doi.org/10/1111/coep.12031">https://doi.org/10/1111/coep.12031</a> (Gerrett, T. A., & Mine, R. M. (2011). Economic freedom and employment growth in U.S. states. Federal Reserve Jank of St. Louis Review, 32(1), 1–18. <a href="https://doi.org/10/2055/f/933-138">https://doi.org/10/2055/f/933-138</a> (Since 2017, Pegasua institute has been amember of the Economic Freedom if North America (EFNA) Network and

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