Looking for the New New World

2010 Annual Report • O'Neil Center for Global Markets and Freedom • SMU Cox School of Business

TABLE OF CONTENTS

The O’Neil Center for Global Markets and Freedom was established at SMU in 2008 by William J. “Bill” O’Neil (BBA, ’55) and his wife Fay C. O’Neil to study the impact of competitive market forces on freedom and prosperity in the global economy.

The center offers education and training for today’s forward-looking individuals who recognize the importance of globalization in changing the business environment in which we are all operating.

A Message from the Dean

"The Ascension of DFW: How to Keep a Good Thing Going," the O'Neil Center's first annual report essay, started with a relatively simple question: Why is the Dallas-Fort Worth area growing by 160,000 people a year?

O'Neil Center director Mike Cox and co-author Richard Alm didn't accept the simple answer—it's the jobs. They dug more deeply into DFW's economic success, attributing it to a combination of statewide economic freedom, a commitment to globalization at top companies and a labor force with the skills needed for selling services worldwide.

"Looking for the 'New' New World," the center's second annual report essay, started with another relatively simple question: Why are so many people moving from states like California to places like Texas? Cox and Alm looked at a range of possible reasons—from crime rates and unemployment to tax rates and schools.

When all's said and done, they find just six factors drive most net migration within the United States, all but one of them related to differences in state policies. I don't want to steal the essay's thunder, so I'll just say the findings vindicate Texas' economic philosophies and strategies.

This essay shows how much state policies differ and how much those differences matter. Cox and Alm track moves by individuals and families, but I meet with out-of-state business leaders nearly every week, and they tell me that they, too, are looking for a new world, a place where they can operate without the government-sanctioned barriers to business decision-making. Often, that place is Texas. Our state can serve as a model for the rest of the country.

I hope you find this essay as enlightening as the one about DFW's ascension. The Cox School of Business launched the O'Neil Center three years ago in anticipation of this kind of work. We wanted to create a research institute that would not only ask the right questions but also provide the right answers—for the benefit of today's corporate and political leaders as well as the students we will be graduating into the business world.

Albert W. Niemi, Jr.
Dean, Cox School of Business

Looking for the New New World

By W. Michael Cox and Richard Alm

Millions of Americans migrate across state lines, and from 2004 to 2008, the top destination was Texas—by far.

Wave after wave of immigrants came to these shores, the Statue of Liberty's huddled masses yearning to breathe free. Generations of Americans trekked westward searching for land and gold—first in covered wagons, then in stagecoaches, trains, automobiles and airplanes. After World War II, black Americans headed to Northern cities, seeking deliverance from rural poverty and racism.

We're still moving about today. The migrations aren't on the epic scale of the past, yet the motive for American restlessness remains the same—a search for a new place that offers something better than the old one.

People move for many reasons, so the something better down the road may at first blush seem random and enigmatic. In the mid-1950s, however, economist Charles Tiebout found the larger meaning in our sundry comings and goings by asserting that mobile households choose where to live based on state and local government policies, including taxes and spending. In effect, people vote with their feet.

Tiebout's commonsensical proposition suggests that recent migration patterns provide a rough guide to the policies that attract and repel contemporary Americans.

Reading the tea leaves of state-to-state population flows can help governors and legislators who want their states to compete for businesses, workers and taxpayers. Domestic migration also has implications for the nation as a whole. Americans aren't likely to favor one sort of government in their state capitals and communities while tolerating a wholly different type of government in Washington.

In a country as pluralistic and polarized as the United States, it's not surprising to hear all manner of opinion on what the public wants. Americans might be drawn to places that provide generous public services, including spending on education, even if it means heavy tax burdens. Or they might prefer states that limit government spending and keep taxes relatively low.

No sampling of opinion will give a good answer. For that, a direct approach is better—following the footprints of Americans on the move to see where they're taking flight and where they're coming to roost. Sorting out the dominant reasons behind these migrations requires the powerful economic tool that made *Freakonomics* a runaway best-seller and its authors rock stars on the talk-show circuit.

Migrants from the old world founded the United States, taking great risks and enduring great hardships in their search for a new world of freedom and opportunity. These values speak to desires deep in the human soul, so it's not too much to suggest that today's Americans are looking for a "new" new world of freedom and opportunity. This essay reveals where they're finding it.

Hitting the Road

Americans are footloose. According to the Census Bureau, a typical lifetime involves 11.7 moves, or one every six or seven years. Most relocations cover short distances—across town, maybe, or to a nearby city. More interesting from a policy perspective, however, are the millions of Americans who migrate across state lines.

The Internal Revenue Service publishes county-by-county data on the number of U.S. taxpayers who change addresses from one year to the next. Between 2007 and 2008, for example, the IRS tells us that 107 people moved from Jackson County, Mo., to King County, Wash.,—in effect, from Kansas City to Seattle. Fifty-three people relocated in the opposite direction.

Some people move in, others move out—that's the nature of a shifting population. The vast IRS database, however, provides the grist to calculate net migration, the key to determining how Americans vote with their feet.

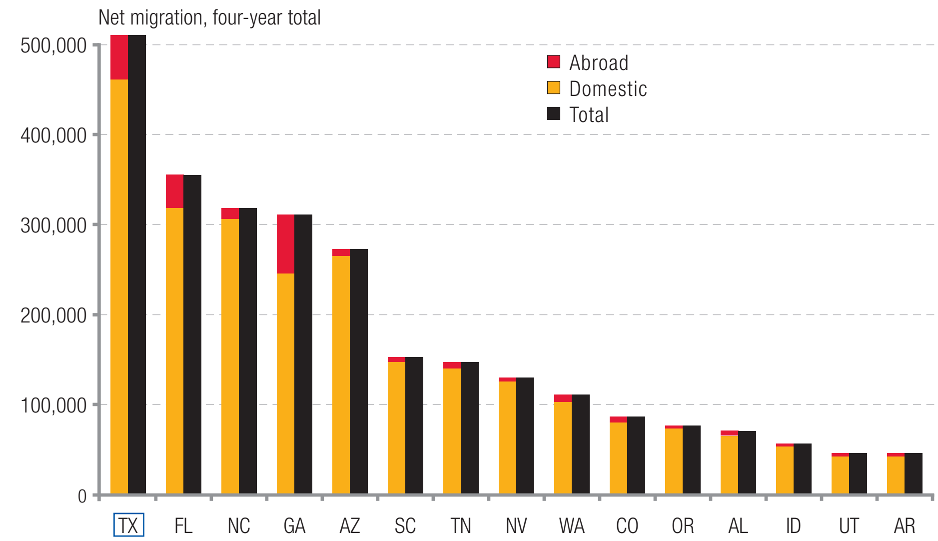
From 2004 to 2008, the top destination was Texas—by far. The state saw a net gain of more than 500,000 migrants *(Exhibit 1)*. Florida, long a mecca for retirees, ranked second, followed by North Carolina, Georgia and Arizona. Some newcomers arrived from abroad, but most came from other parts of the United States.

Where did the new Texans come from? All over. From 2004 to 2008,

EXHIBIT 1

Beating a Path to Texas

From 2004 to 2008, net migration added more people to Texas than any other state, with the overwhelming majority arriving from within the country *(top chart)*. Among states, California led in sending the most migrants to Texas *(bottom)*.



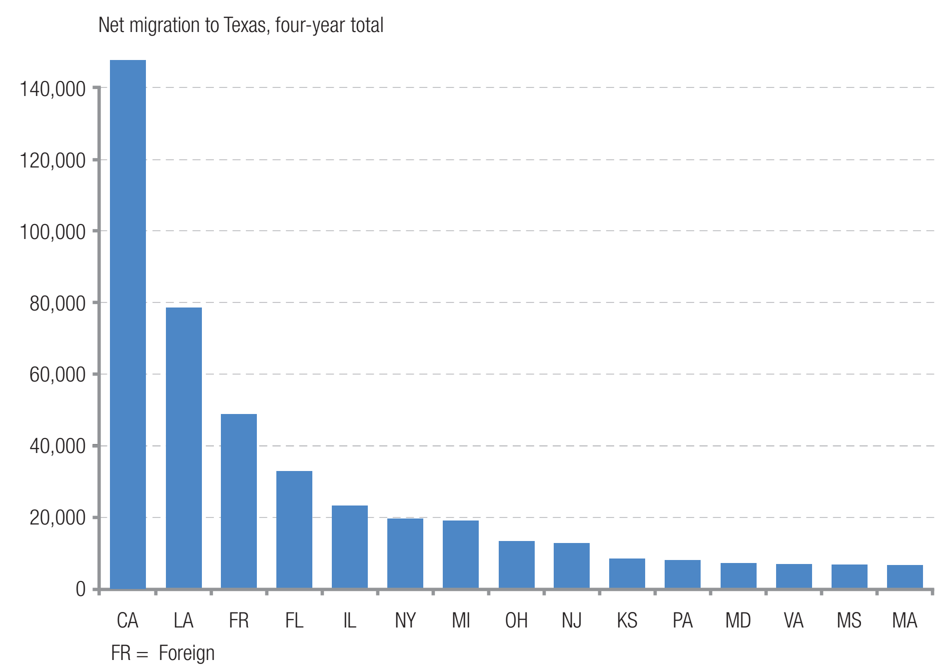
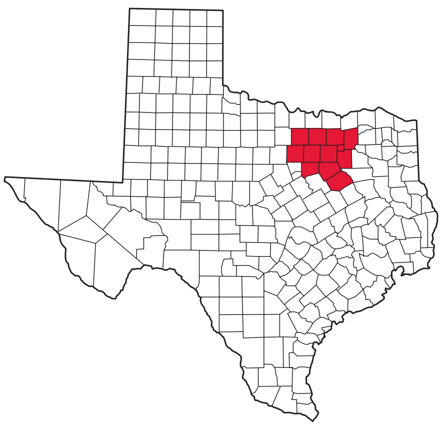


EXHIBIT 2

Texas' Major Migration Magnets

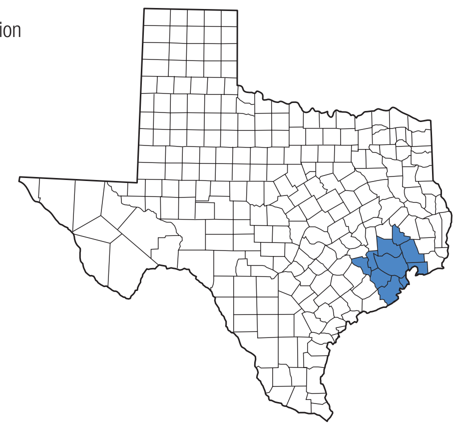
The state's four largest metropolitan areas attracted the most migrants from 2004 to 2008—from rural areas, foreign countries and other states. The newcomers hailed from many different parts of the country, but California's cities stand out as an origin for many new Texans.



Dallas-Fort Worth Area

Origin	Net In-migration
1 The countryside	198,067
2 Los Angeles	22,158
3 New Orleans	16,476
4 Abroad	16,214
5 Riverside	8,445
6 New York City	6,207
7 Chicago	5,543
8 San Diego	4,176
9 Miami	3,594
10 Detroit	3,070
11 El Paso	2,201
12 Phoenix	1,990
13 San Francisco	1,930
14 Oxnard	1,910
15 Tulsa	1,817
16 Kansas City	1,588
17 Oklahoma City	1,554
18 Sacramento	1,388
19 St. Louis	1,342
20 Washington, D.C.	1,309

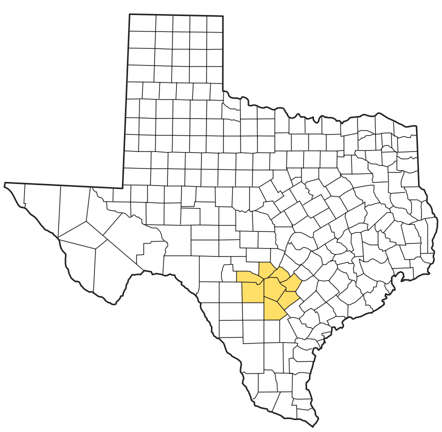
The following counties comprise the DFW area: Collin, Dallas, Delta, Denton, Ellis, Hunt, Johnson, Kaufman, Parker, Rockwall, Tarrant and Wise.



Houston Area

Origin	Net In-migration
1 The countryside	177,101
2 New Orleans	32,676
3 Los Angeles	14,905
4 New York City	7,185
5 Miami	4,702
6 Riverside	4,151
7 Chicago	4,083
8 San Diego	2,261
9 Detroit	1,683
10 Washington, D.C.	1,565
11 Baton Rouge	1,502
12 Boston	1,220
13 San Jose	1,212
14 San Francisco	1,202
15 Orlando	1,100
16 Tulsa	1,016
17 Tampa	964
18 Sacramento	940
19 El Paso	885
20 Virginia Beach	847

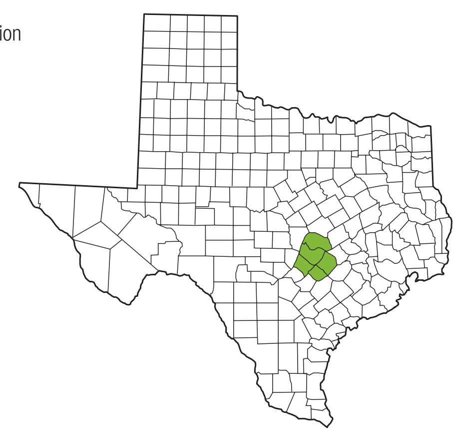
The following counties comprise the Houston area: Austin, Brazoria, Chambers, Fort Bend, Galveston, Harris, Liberty, Montgomery, San Jacinto and Waller.



San Antonio Area

Origin	Net In-migration
1 The countryside	115,925
2 Los Angeles	8,991
3 Abroad	4,666
4 Riverside	4,073
5 Houston	3,237
6 New Orleans	2,515
7 El Paso	2,229
8 Chicago	2,022
9 San Diego	1,806
10 New York	1,610
11 Phoenix	1,260
12 Honolulu	1,162
13 Miami	891
14 McAllen	884
15 Detroit	767
16 Sacramento	628
17 Washington, D.C.	604
18 San Francisco	603
19 Dallas-Fort Worth	577
20 Orlando	533

The following counties comprise the San Antonio area: Atascosa, Bandera, Bexar, Comal, Guadalupe, Kendall, Medina, and Wilson.



Austin Area

Origin	Net In-migration
1 The countryside	119,467
2 Los Angeles	7,791
3 Houston	5,630
4 Dallas-Fort Worth	4,310
5 Abroad	4,288
6 New Orleans	2,486
7 San Diego	2,301
8 Riverside	2,257
9 Chicago	2,125
10 Phoenix	1,753
11 San Francisco	1,696
12 Miami	1,464
13 San Jose	1,441
14 El Paso	1,324
15 New York City	945
16 Las Vegas	933
17 Washington, D.C.	864
18 Boston	712
19 Sacramento	710
20 Oxnard	695

The following counties comprise the Austin area: Bastrop, Caldwell, Hays, Travis and Williamson.

Note: Countryside connotes communities outside the top 100 Metropolitan Statistical Areas.

Texas had net in-migration from everywhere except Colorado, Wyoming and Washington, D.C. The state losing the most population to Texas was California—a four-year total of nearly 148,000 people. Living all in one place, these former Californians would form Texas' 18th largest city, a burg bigger than Waco or McAllen.

As a feeder to Texas, Louisiana ranked second to California—swelled by the 2005 evacuation of Hurricane Katrina refugees to Texas. Among other states with significant net migration to Texas were Illinois, Michigan and Ohio, suggesting many were still traveling the well-worn path from the Midwest, where states' manufacturing-based economies have faced long-term declines.

Upon arriving in Texas, migrants tended to settle in the state's four big metropolitan areas—Dallas-Fort Worth, Houston, San Antonio and Austin *(Exhibit 2)*. These growing cities received substantial net inflows from rural Texas, foreign countries and nearby states. However, the California pipeline shows up in substantial net migration from the Southern California cities of Los Angeles, San Diego, Riverside and Oxnard. The Texas cities also lured many new residents from San Francisco, San Jose and Sacramento.

The Golden State diaspora went well beyond Texas. From 2004 to 2008, California still added newcomers from abroad, but it nevertheless led all states by losing about 700,000 residents—enough to nearly empty San Francisco *(Exhibit 3)*. An exodus on that scale is all the more striking because California had been one of the top magnets for newcomers in the 20th Century.

New York saw a net outflow of 550,000 people, mirroring California with small net gains from overseas and large net losses to the rest of the country. Michigan, New Jersey and Illinois also had big population losses over the four-year period. Louisiana's numbers once again reflect the evacuations due to Hurricane Katrina.

Households relocating from one state to another take income-earning capacity with them—so the IRS data provide a way to calculate the net dollar impact of the population ebbs and flows. Although Texas added the most people from 2004 to 2008, Florida amassed the largest net income gain—a total of $26.2 billion. Texas ranked second with $10

California led all states by losing about 700,000 residents from 2004 to 2008.

EXHIBIT 3

Taking the Exit Ramp

From 2004 to 2008, California and New York suffered the greatest population losses due to net migration. They both recorded a population gain from foreign countries but saw an exodus to Texas and other states.

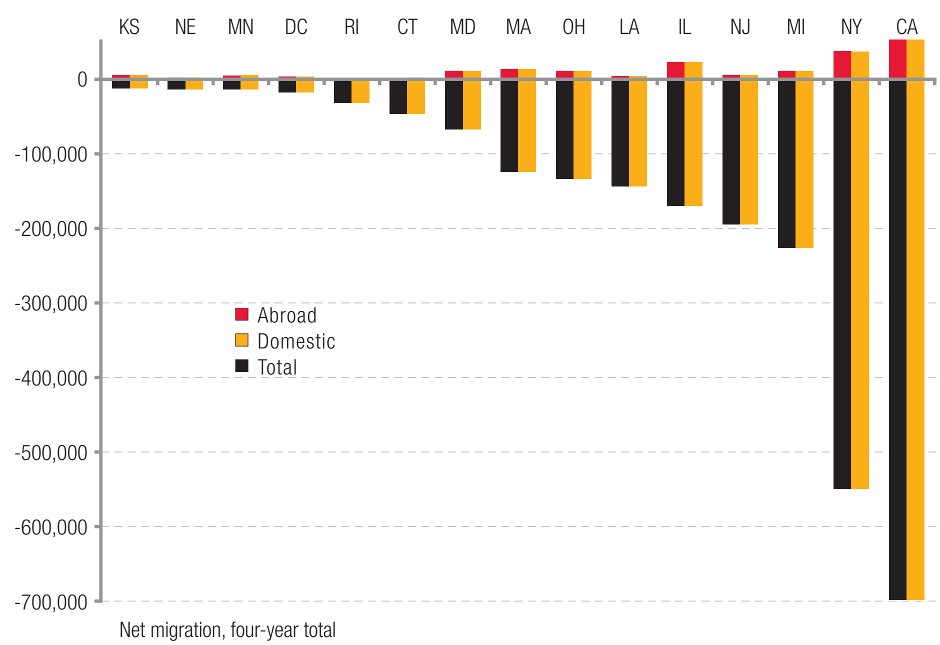
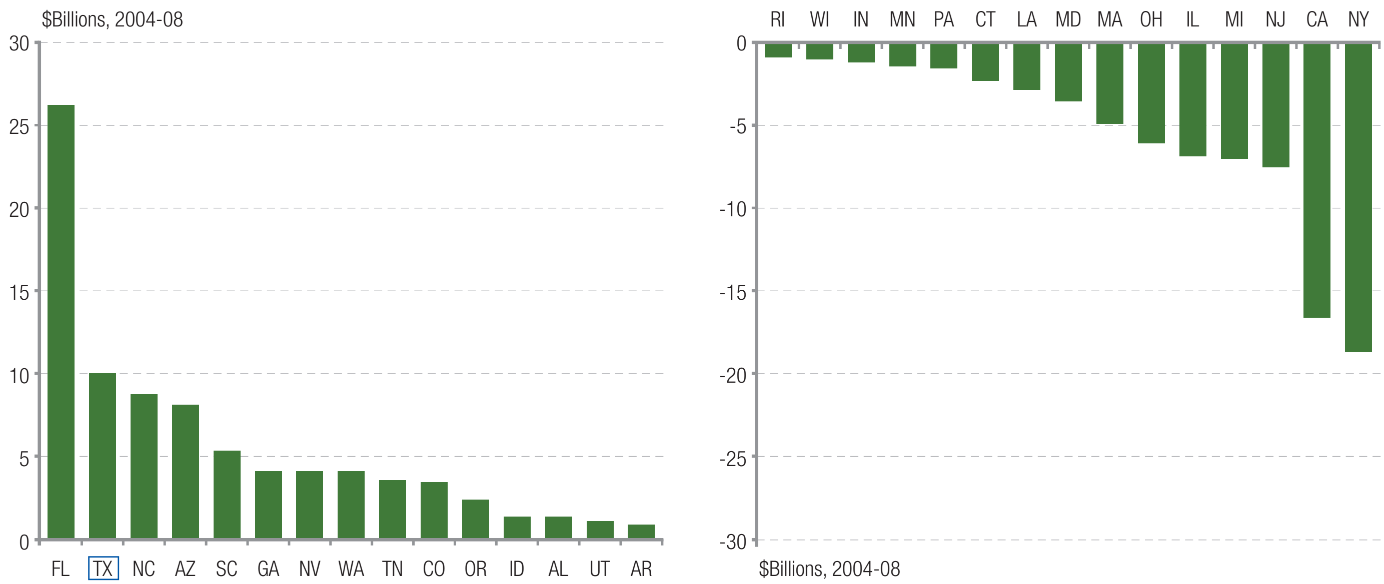


EXHIBIT 4

Following the Money Trail

Migrants take income-earning potential with them. Population shifts created large net financial inflows in Florida and Texas *(left)*, while New York and California had the largest net outflows *(right)*.



billion, followed by North Carolina and Arizona *(Exhibit 4)*. New York suffered the greatest erosion among states with net losses due to migration, followed by California.

Florida's income gains are most likely inflated. They capture what a large number of wealthy households had earned in other states before retiring and relocating. Once in Florida as households headed by retirees, they didn't create as much economic activity as they did in their former states. A large share of Florida's retirees came from New York, suggesting its income losses are overstated.

By contrast, Texas attracted a higher share of working-age migrants and their families, making its income gain a truer measure of net migration's financial contribution to the state's overall economy.

The IRS data give a snapshot of net migration over a relatively short time span. The broad patterns that emerge, however, jibe with other reports on America's shifting population. For example, Census Bureau figures for 2010 show that Texas added 4.3 million people in the previous decade—more than any other state and enough to justify four new seats in the U.S. House of Representatives. California's population growth slowed sharply, and the state failed to increase the size of its House delegation for only the second time since joining the union in 1850.

Clearly, Americans are on the move—but does it validate Tiebout by telling us anything important? Finding out involves a search for the key factors that explain why people are forsaking places like California and flocking to places like Texas.

Motives for Moving

Each relocation is its own story. An individual or family may pack up and leave because of a new job, marriage, retirement or the homesick blues. Many hit the road for enticements that lay over the horizon—the cultural effervescence of New York City, the beaches of Florida, the majestic vistas of the Colorado Rockies or the natural wonders of California.

Making sense of it all requires finding the common ground between the broad patterns of net migration and the documented differences among states. Relocation surveys identify a range of measurable factors that typically trigger decisions to move.

Amenities make for interesting, fun or pleasant places to live; however, measuring anything so diverse and subjective can be tricky. Where foreigners go when vacationing in the United States provides one gauge of states' relative attractiveness. Looking at 2006-08, Hawaii, Nevada, Florida and New York drew the most foreign tourists per 1,000 people, suggesting they've got the most to offer *(Exhibit 5)*. California and Texas did pretty well as international tourist destinations, ranking in the Top 10.

Fear of crime will compel families to leave high-risk communities in favor of places where they feel safe walking down the street and going to sleep at night. In 2004-08, the crime rate—serious offenses per 100,000 residents—was seven times higher in South Carolina than in Maine. As states with large urban areas, California and Texas ranked among the nation's 15 worst in crime rates.

Employment prospects have always been a strong lure, which suggests states with tight labor supplies have an edge in attracting migrants. From 2004 to 2008, job seekers probably didn't find much luck in Michigan and Mississippi, the states with the nation's highest average unemployment rates. Prospects were best in Hawaii, the Dakotas and Wyoming, where labor markets had little slack. Texas fared a bit better than California, although neither state ranked in the top 20 for lowest jobless rates.

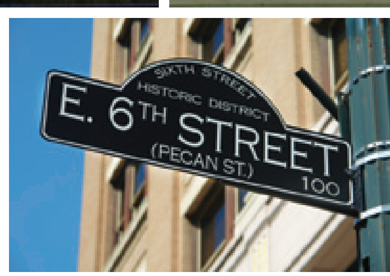
Money motivates workers, suggesting an advantage for places with higher pay. In 2004-08, the nation's leaders in earnings per job were found in the Northeast, led by New York, Connecticut, Massachusetts and New Jersey. California, on the other side of the country, comes next. These states lost some of their appeal because steep living costs and taxes ate into the higher pay. Texas, a state with low living costs and taxes, ranked a respectable 13th.

Fertile ground for starting and growing businesses contributes to America's renown as the land of opportunity. In 2008, budding entrepreneurs were more likely to succeed in South Dakota and Nevada, states where fledgling companies failed at the lowest rates. Texas offered a relatively friendly environment for small businesses, coming in sixth among states. Small-business failure rates peaked in New Jersey and California.

Court systems tilted toward plaintiffs in civil cases might encourage doctors and others who face high risks of litigation to leave a state. The Pacific Research Institute's tort liability index, based on such factors as suits filed and jury awards, found the most daunting legal environments in New Jersey and New York. Ruinous lawsuits were least likely in Alaska and Hawaii. Texas was in the middle ranks of the states at No. 18.

Amenities, public safety, job prospects, earnings, small business survival and tort liability show that states differ in ways that might lure or deter migrants. None of these factors, however, proves significant when run through regression analysis, the statistical technique doing the heavy lifting in Steven D. Levitt and Stephen J. Dubner's *Freakonomics* and its spinoffs.

Regressions are the economist's threshing machine, routinely used to separate the wheat of significant causes from the chaff of insignificant ones. Applied to population shifts among states, regression analysis identified the half-dozen factors that are most important in explaining net migration within the United States. One of them is what everyone talks about but can't do anything about—the weather.



Austin (*clockwise from above*): The historic State Capitol building, legendary Sixth Street, University of Texas clock tower.

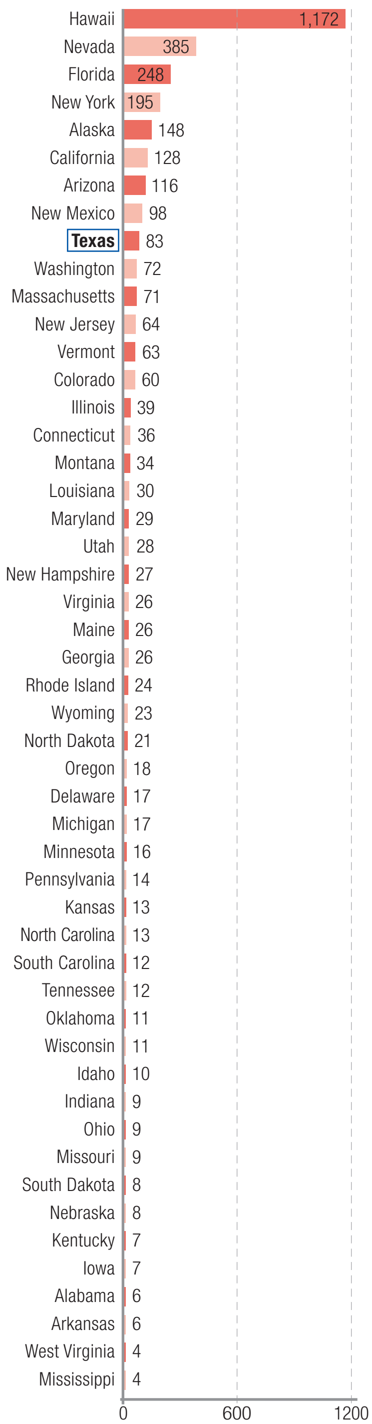
EXHIBIT 5

Possible Motives for Migration

States differ in many characteristics that may affect decisions to move. Some examples are natural and man-made amenities, the incidence of crime, labor market vitality, pay rates, entrepreneurial success rates and the risk of ruinous lawsuits.

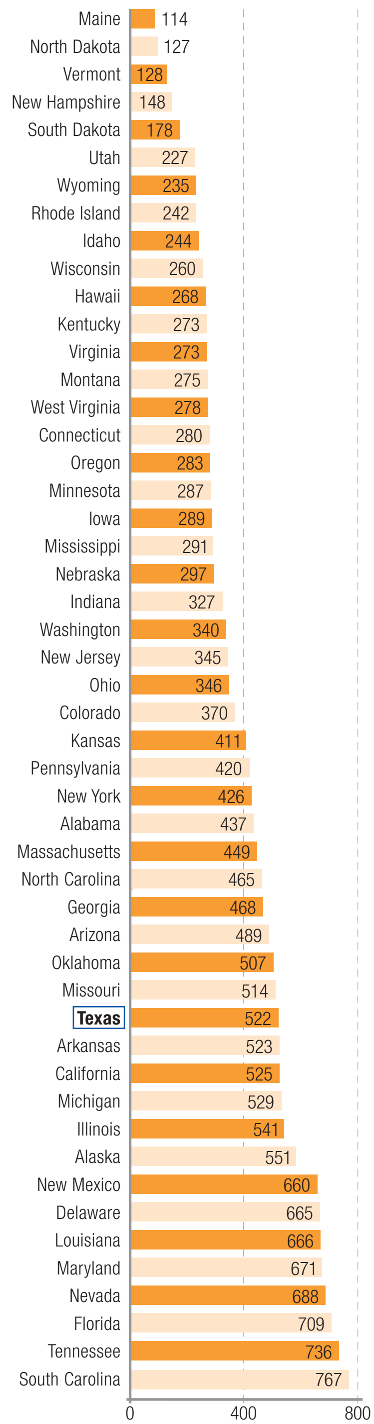
Amenities

International visitors for pleasure per 1000 residents



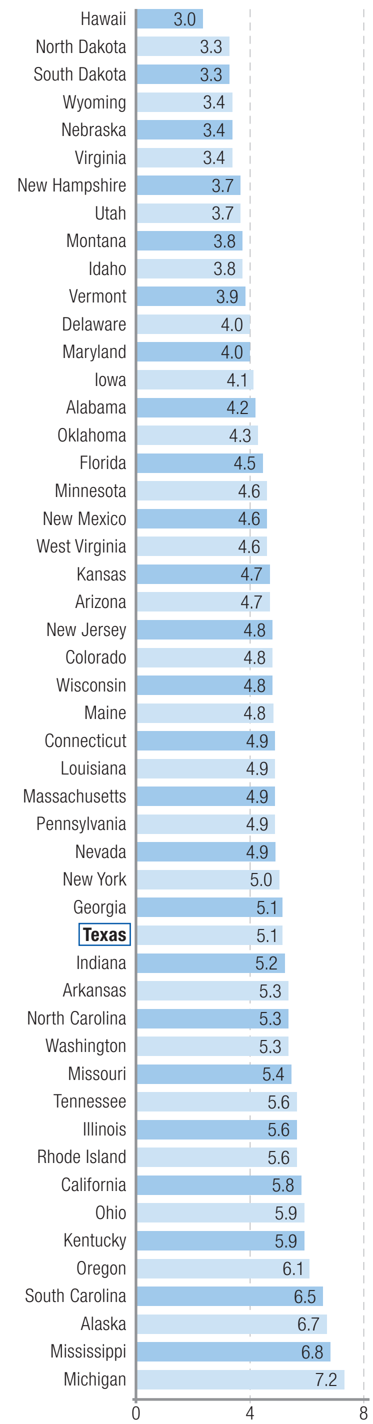
Public Safety

Serious offenses per 100,000 residents



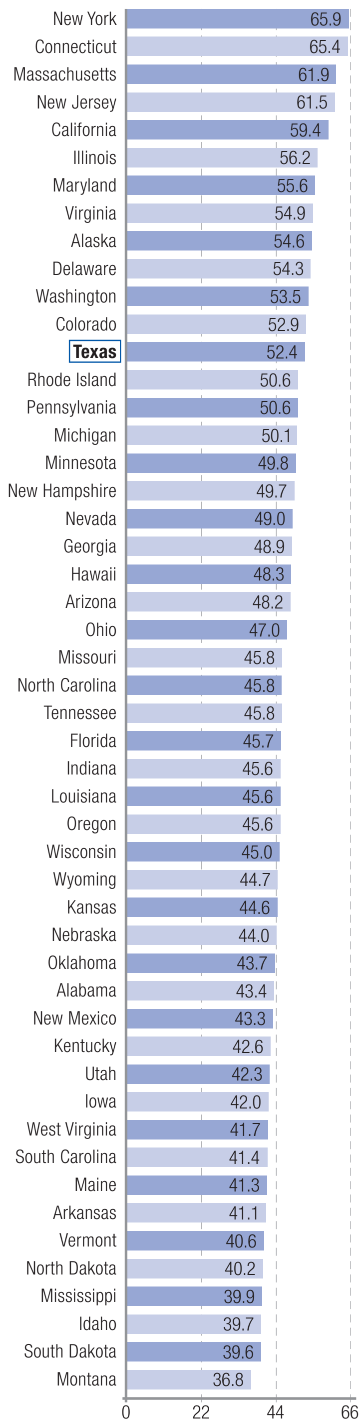
Job Prospects

Average unemployment rates 2004-08



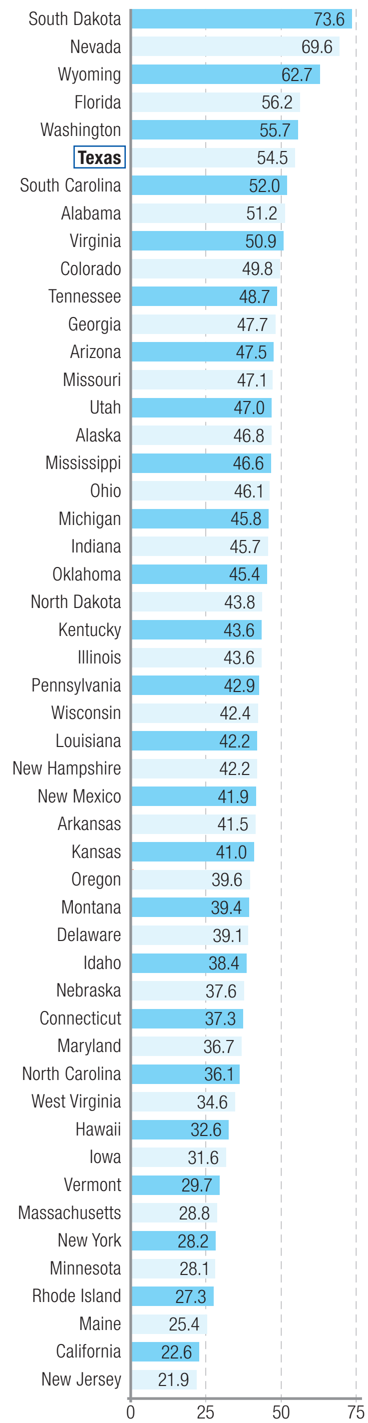
Income

Real average annual earnings
2004-08 (thousands of dollars)



Small Business Climate

Survival index, 2008



Court System

Tort liability index

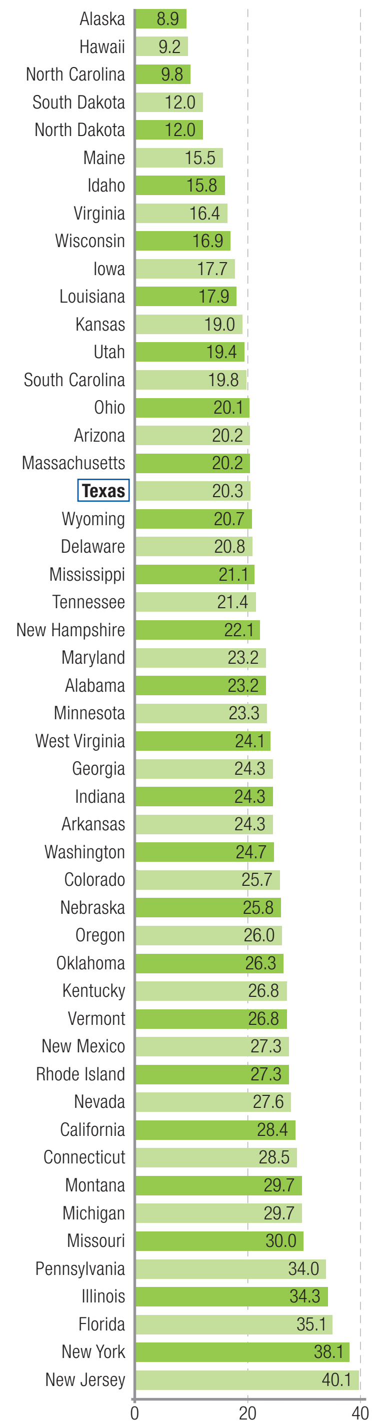


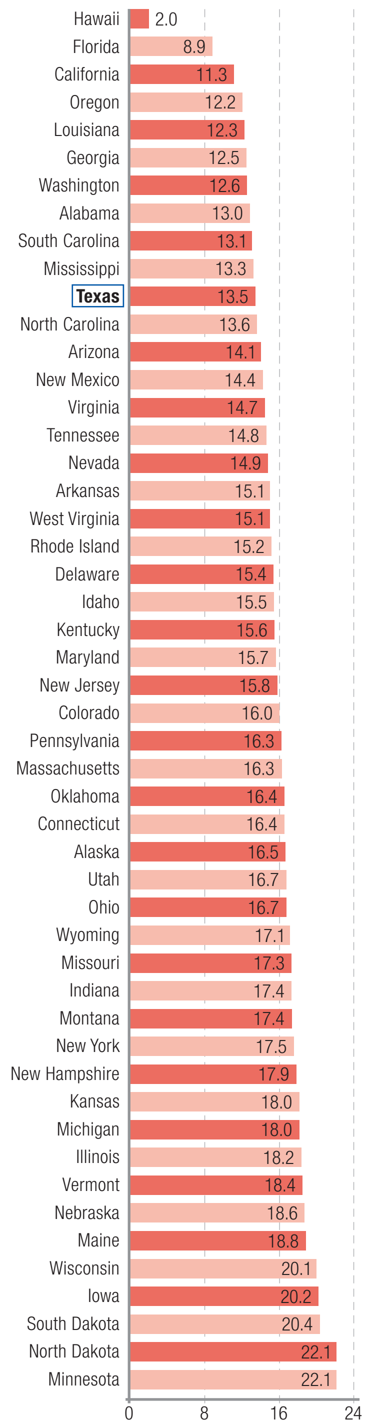
EXHIBIT 6

Proven Motives for Migration

Six factors explain a large share of net migration among states from 2004 to 2008—climate differences, personal income taxes, union power, state and local government spending, housing prices and public school quality.

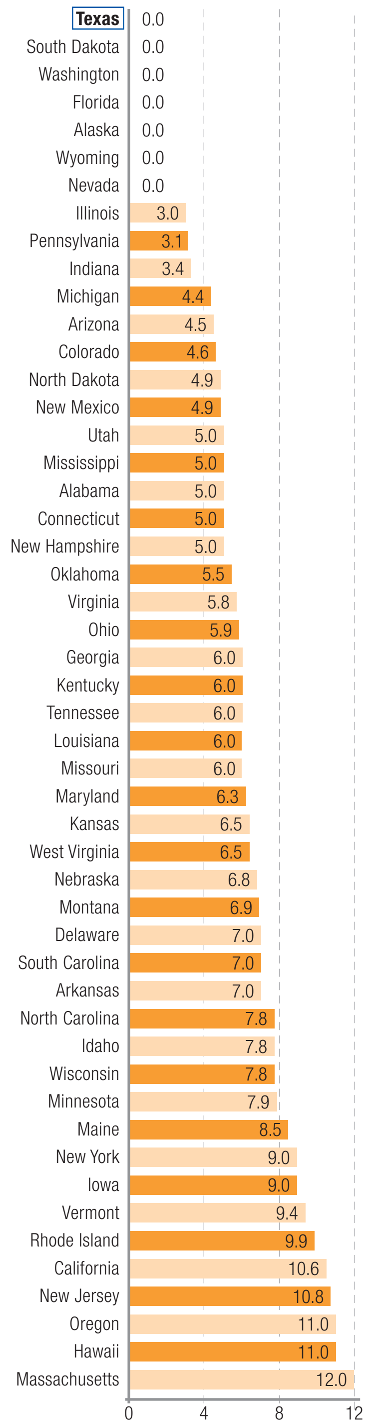
Climate

Variability in monthly temperature in degrees Fahrenheit



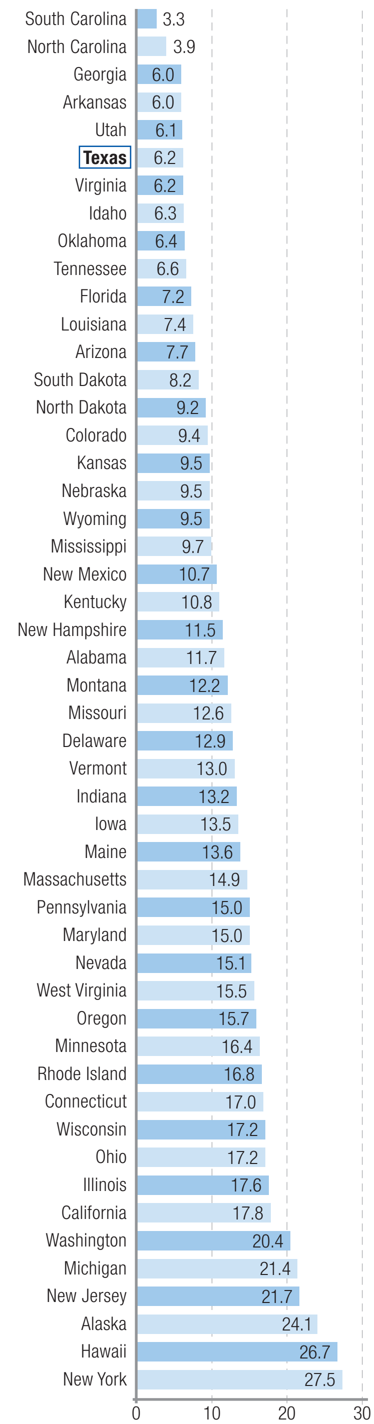
Personal Income Taxes

Top marginal rates (in percent)



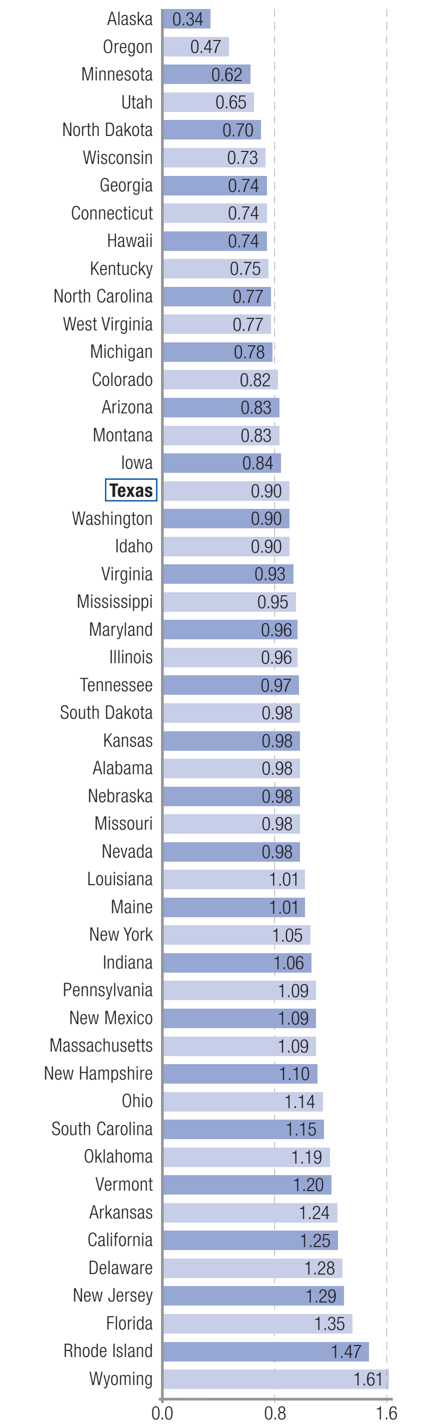
Union Membership

Private sector, percent of labor force



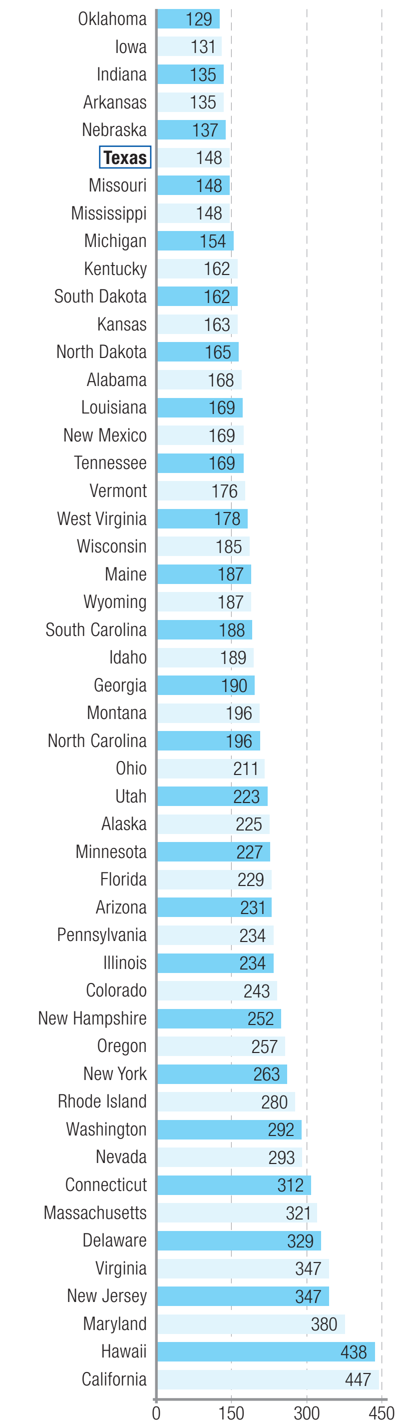
Government Spending

Five-year growth in state and local outlays per capita, relative to average for all states



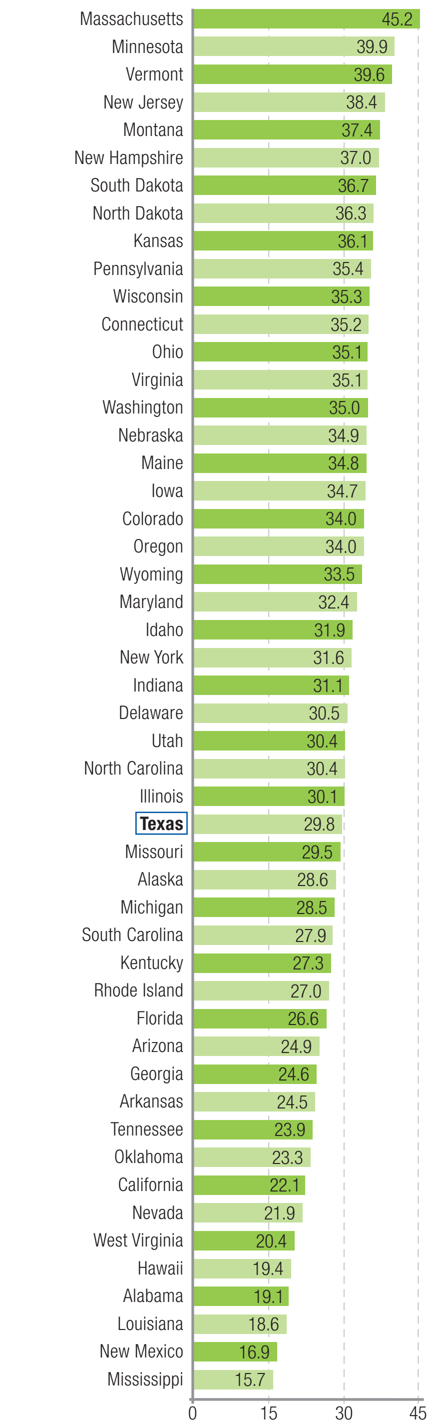
Housing Prices

Four-year average of median prices for single-family homes (thousands of dollars)



Public Schools

Average of the proficiency rates for math and reading among eighth grade students in 2007



What Matters Most

Americans aren't keen on extreme temperature swings. Looking at variability over the course of a year, climates are least welcoming in states where winters are fiercely cold and summers can be hot—Minnesota, the Dakotas, Iowa and Wisconsin. Hawaii, Florida and California are blessed with the best weather. Despite its legendary summer heat, Texas offers a fairly appealing climate, with the nation's 11th narrowest temperature variation *(Exhibit 6)*.

The regression analysis tells us that each 1-degree decrease in the variability of average monthly temperatures increases net in-migration by 9,295 people a year *(see methodology on page 19 for details on regression)*.

Unlike climate, the five other significant factors that explain net migration involve policy choices, suggesting that state governments can influence net migration—for good or ill.

The *Economic Freedom of North America Report,* published by the Fraser Institute, ranks states on various policies that help or hinder free enterprise economies. Texas ranks second to Delaware in overall economic freedom—but when looking at net migration, this broad measure doesn't meet scientific standards for significance. Two of Fraser's more targeted gauges of economic freedom do: top individual income tax rates and union workers' share of the labor force.

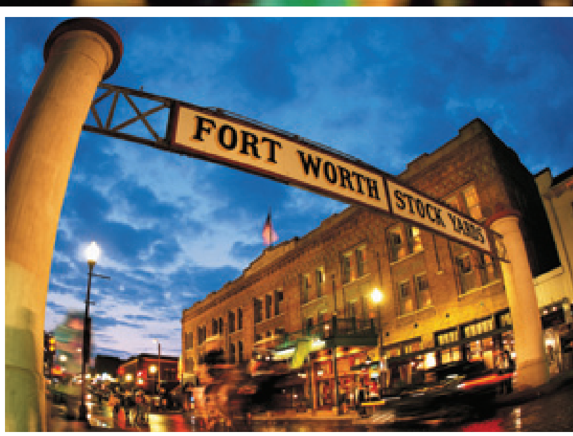
Income taxes are a burden when a dollar going to public services delivers less benefit than a dollar spent on private consumption and savings.

High taxes strain household budgets and reduce rewards to workers and savers, eroding growth and job creation and providing added reason to set off in search of opportunities elsewhere. Low taxes, on the other hand, strengthen the economy because consumers have more money to spend and workers have greater incentives to engage in productive activities.

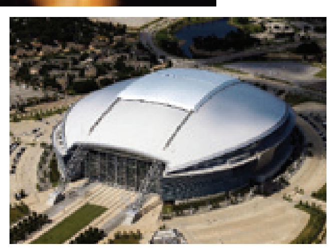
Texas and six other states didn't impose any income taxes at all in 2008. At the other end of the spectrum, the highest marginal income tax rates were 12 percent in Massachusetts, 11 percent in Oregon and Hawaii and 10.8 percent in New Jersey. California—the state sending the most migrants to Texas—came next at 10.6 percent. In nearly all states, the top marginal rates kicked in at relatively high incomes, giving wealthier households the greatest incentives to relocate.

The regression analysis shows that each 1 percentage point decrease in a state's highest marginal income tax rate will attract 4,448 people a year—assuming, of course, other states don't change their tax rates. Annual gains may seem small, but they add up over time. Maintaining a 10-percentage-point difference in tax rates over a decade would prompt the migration of a half-million people.

Unions have broad labor market effects that explain why some workers advocate them and some employers resist them. Unions raise members' wages above prevailing market levels. They impinge upon employers'



Stockyard photo: courtesy of Fort Worth Convention and Visitors Bureau.



Dallas-Fort Worth metroplex
(clockwise from top):
Dallas' vibrant skyline,
Cowboy Stadium in Arlington,
famous Fort Worth Stockyards.

prerogatives in hiring, setting hours and enforcing work rules. They make adopting new business strategies more costly and cumbersome, especially where plant closings and layoffs are involved.

Many might expect the prospect of higher pay and greater job security would draw workers to heavily unionized states. These incentives, however, lose their force because strong unions work against the interests of newcomers in two ways. First, they restrict their benefits to existing members, who don't necessarily want competition from new workers. Second, they inhibit job creation by raising the explicit and implicit costs of doing business.

As a result, employers and even workers will be attracted to less unionized states, where markets set pay and companies have greater leeway in hiring new workers, firing redundant ones and adjusting their operations.

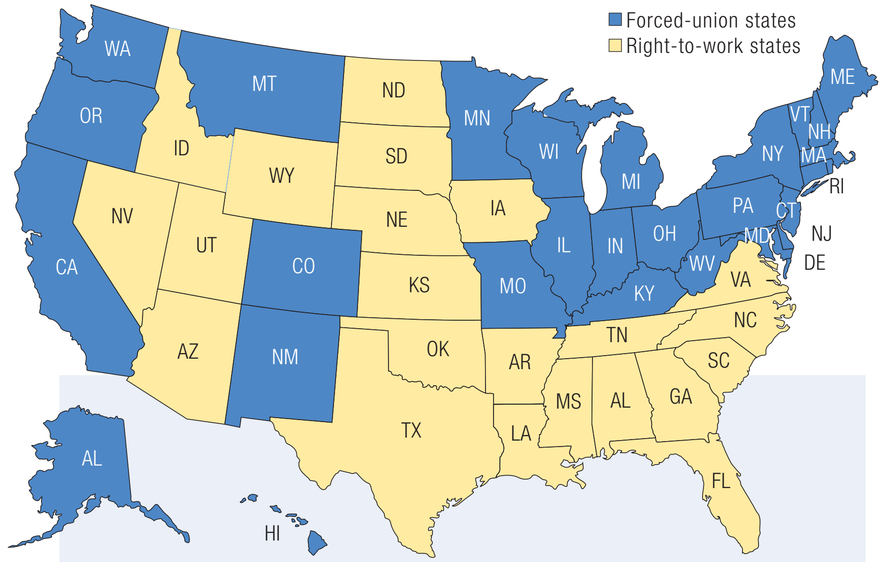
State labor laws heavily influence the strength and spread of unions. All but two of the 25 states with the highest membership rates allow contracts that require workers to join unions and pay dues. Texas and other states have taken a different tack, enacting right-to-work laws that prohibit mandatory union membership. Among the 20 states with the lowest unionization rates, only Colorado doesn't operate under a right-to-work regime *(Exhibit 7)*.

In 2006, private-sector union membership varied from a high of 27.5 percent of the workforce in New York to a low of 3.3 percent in South Carolina. California ranked as the seventh most unionized state, while Texas was the sixth least unionized state. In all states, union membership was higher in the public sector, ranging from a high of 73 percent in New York to a low of 8

EXHIBIT 7

A Nation Divided

Right-to-work laws encourage employment because they prevent labor contracts that deny jobs to workers who don't join unions and pay dues. Most states in the Deep South and Great Plains have adopted right-to-work laws, while the Northeast, Upper Midwest and West Coast lean toward closed shops *(map)*.



Right to work has deep Texas roots. On Sept. 1, 1941, editorial writer William Ruggles of the *Dallas Morning News* first used the phrase in urging "the right to work… without membership in a union." Houston lawyer Vance Muse picked up the gantlet and campaigned for a Texas right-to-work law.

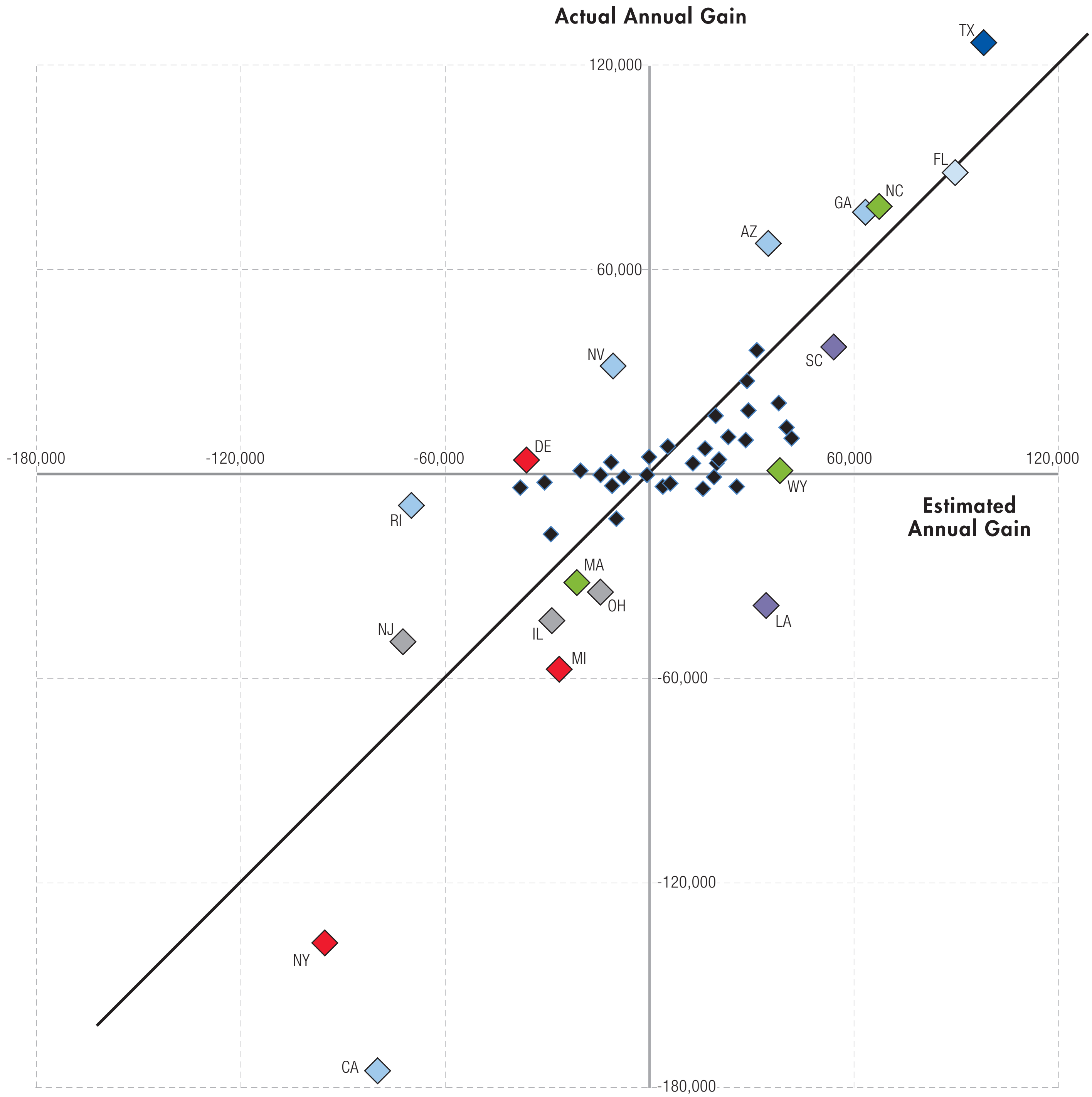
The right-to-work movement came out of the pro-union policies of the Great Depression and it's aftermath. In 1935, the National Labor Relations Act granted sweeping new rights to unions, prohibiting employers from engaging in unfair labor practices. One provision made it possible for unions to seek the dismissal of workers who refused to become members. Ruggles was among those who thought this New Deal legislation tilted the playing field too far in organized labor's favor.

In 1947, the pendulum swung back as Congress overrode President Truman's veto and passed the Taft-Harley Act, which allowed states to outlaw union shops within their borders. Texas enacted its right-to-work law that same year. By 1956, 16 states had passed right-to-work laws. Now, there are 22.

EXHIBIT 8

A Good Fit for Net Migration

Overall, the net migration predicted for each state by the regression analysis comes very close to matching actual four-year averages. The remaining discrepancies suggest the existence of other factors pulling some migrants to places like Texas and pushing others out of places like California and New York.



The combined effect of the six significant factors yields estimates for each state's net migration. Actual results vary from the predictions, with the model not accounting for all of Texas' population gains.

State	Estimated	Actual
Texas	97,901	127,663
Florida	88,391	89,124
North Carolina	66,830	79,584
Georgia	62,638	77,950
South Carolina	53,475	38,202
Utah	41,324	11,718
Idaho	39,778	14,290
Colorado	37,401	21,867
South Dakota	37,322	1,700
Arizona	34,793	68,442
Louisiana	33,663	-36,015
Tennessee	31,239	36,927
Oregon	28,303	19,193
Washington	28,114	28,001
Kentucky	27,747	10,471
Virginia	27,527	10,879
Kansas	25,100	-2,883
Arkansas	22,669	11,545
Indiana	20,095	3,922
Montana	19,065	5,088
Wyoming	18,987	3,537
Alabama	18,670	17,866
Mississippi	18,383	-159
Oklahoma	16,076	8,089
Nebraska	15,163	-3,391
Pennsylvania	12,353	3,740
North Dakota	4,950	-1,755
Missouri	4,735	8,306
Alaska	3,698	-2,235
New Mexico	-646	5,872
New Hampshire	-844	744
Vermont	-8,272	-808
Connecticut	-10,344	-11,935
Hawaii	-10,732	-2,139
Nevada	-10,930	32,790
West Virginia	-11,778	4,187
Ohio	-14,826	-33,484
Iowa	-14,877	808
Maine	-20,584	1,472
Massachusetts	-21,082	-31,245
Michigan	-26,618	-56,572
Illinois	-28,613	-42,420
Maryland	-29,180	-16,912
Wisconsin	-31,026	-1,611
Delaware	-36,228	4,837
Minnesota	-38,052	-3,460
Rhode Island	-69,958	-8,096
New Jersey	-72,138	-48,707
California	-80,214	-174,685
New York	-95,654	-137,443

percent in North Carolina. Texas was a few rungs higher—at 14 percent.

Public-sector union membership isn't a significant factor in net migration. However, a 1 percentage point decrease in a state's private-sector unionization rate leads to net in-migration of 3,948 people a year.

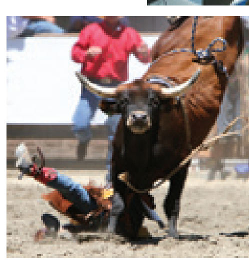
Like big unions, big government puts a damper on economic activity, especially if it means higher taxes. In recent decades, the federal government delivered both lower taxes and greater spending—at the cost, of course, of a bloated national debt. Balanced-budget laws preclude deficit spending by most state and local governments, so they can't spend more on public services without raising added revenue.

In the regression analysis, several measures of government size don't meet accepted standards for significance. But one does—the five-year rise in per capita state and local spending, measured relative to the average of all states. Most likely, big spending increases create fears that future tax hikes will be necessary to sustain the growing public sector.

Before the Great Recession led to budget cutting in many states, government spending had been rising fastest in Wyoming, Rhode Island and Florida. California was a few notches up, ranking 45th. The slowest growth had been in Alaska and Oregon. Texas was among the states with below-average increases in state and local spending.

Net migration patterns suggest that citizens' preference for low taxes trumps their desire for more public services. A tenth of a percentage point decrease in the relative growth of state and local spending translates into an added 4,638 newcomers a year.

Houston
(clockwise from left):
NASA Space Museum,
downtown metro,
nation's largest rodeo.



Education's importance to net migration doesn't amount to a blank check for increasing school spending.

Before this decade's big real estate bust, housing prices surged along the east and west coasts. Federal data for 2004-08 show that prices for existing and new homes were highest in California, Hawaii and Maryland. The best housing bargains could be found in Oklahoma, Iowa, Indiana, and Arkansas. Texas was a few notches up, with some of the country's most reasonably priced homes.

In *The Housing Boom and Bust,* economist Thomas Sowell of Stanford University's Hoover Institution traces the big gaps in housing prices to short-sighted public policies. Until the 1970s, he notes, home prices were very similar in coastal California and the rest of the nation.

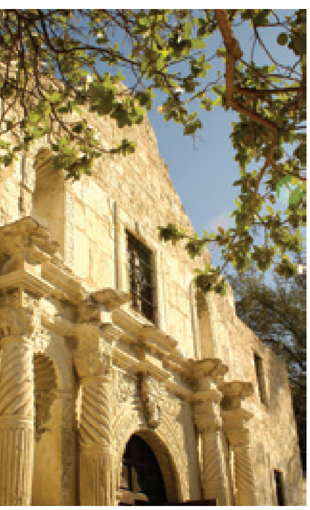
Local governments in California then began enacting various land-use restrictions that benefitted existing homeowners, creating an artificial scarcity of land. In the decade's that followed, real estate prices went into an upward spiral that left the rest of the nation far behind. By contrast, Dallas and Houston had faster income and population growth than California, but the Texas cities saw only modest housing price inflation because they imposed fewer restrictions on land use.

Keeping a roof overhead takes a big chunk of a typical family's budget, creating incentives to leave states with high home prices for places with more affordable housing. The regression analysis shows that each $10,000 decrease in a state's median housing price yields net in-migration of 2,232 people a year.

For generations, education has been the most reliable path to higher-paying jobs and better living standards—so potential migrants with children are likely to seek states with superior schools. In 2007, students in Massachusetts, Minnesota and Vermont performed the best on proficiency tests. At the other end of the rankings were Mississippi and New Mexico. Texas students came in a somewhat mediocre 30th, suggesting the state could benefit from improving its public schools. However, Texas did outperform California, which ranked in the bottom 10.

Among measures of educational quality, scores on public schools' eighth grade proficiency tests in reading and math provide the best fit for net migration. The regression analysis shows that a 1 percentage point increase brings in 2,722 people a year.

Education's importance to net migration doesn't amount to a blank check for increasing school spending.



San Antonio
(clockwise from above):
the exciting Riverwalk,
accessable downtown,
historic Alamo.

States have been doing that in recent decades, finding that more money doesn't necessarily lead to better educational outcomes. Texas, for example, spends substantially less per public-school pupil than California—but its eighth grade students have been doing better in reading and math.

The most promising cost-effective strategies for improving education include healthy doses of competition and consumer choice, an approach championed by Nobel laureate Milton Friedman in *Capitalism and Freedom* (1962) and *Free to Choose* (1980). The practical ways for creating competition in education include vouchers to allow parents to choose their children's schools and charter institutions that operate outside the educational bureaucracy.

All told, the six factors account for about two-thirds of the net migration among states from 2004 to 2008—so the regression analysis gives us a good idea of what matters the most *(Exhibit 8)*. The reasons behind the rest of the state-to-state population flows remain in the shadows. What's missing ranges from the small contributions from factors that failed the strict significance tests to personal considerations that aren't readily measured.

No state ranks highly on all six key drivers for net migration—but population shifts result from all of them taken together. California's climate, for example, still entices, but good weather can't make up for high taxes, big unions, excess spending, expensive housing and poorly performing schools *(Exhibit 9)*. Even with mediocre public schools, Texas leads among the gainers because of a combination of low taxes, right-to-work laws, smaller government and affordable housing.

EXHIBIT 9

Texas and California: Worlds Apart

The regression analysis identified the half-dozen most important influences on the decision to move from one state to another. The calculations below provide estimates of what it all meant for Texas, the state with the largest net in-migrations, and California, the state with the largest net out-migration.

Personal Income Taxes

California's income tax topped out at 10.6 percent, and Texas levied no income tax at all. The tax gap meant a net migration difference between California and Texas of 47,149 people a year.

Unions

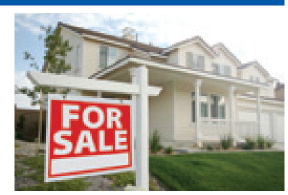
Among private-sector workers, California's union membership rate was 17.8 percent, compared with 6.2 percent in Texas. A lower unionization rate gave Texas an edge of 45,797 people a year in net migration from all sources.

Government Spending Growth

California's state and local spending rose 25 percent faster than the national average, while Texas' growth was 10 percent below it. This added 16,232 people a year to Texas' lead over California in net migration.

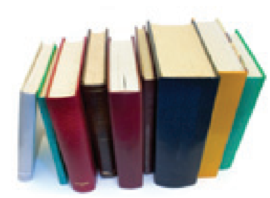
Home Prices

After the boom years, average home prices ended up three times higher in California than in Texas. The two states' disparity in housing prices gave Texas a net migration advantage of 66,911 people a year.



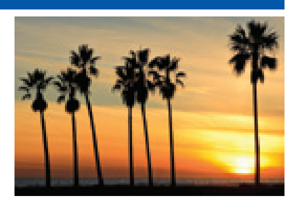
Education

On eighth-grade proficiency tests in reading and math, students averaged 8.7 points higher in Texas than in California. In terms of net migration, Texas lost 20,954 fewer people a year than California because of educational quality.



Climate

During a typical year, dispersion from the average temperature was 11.3 degrees in California and 13.5 degrees in Texas. Due to climate, California topped Texas by 20,606 people a year in net migration from other states and abroad.



Good state policy ought to be a guide for the nation as a whole. This message should prompt the national government to cut spending and reduce the nation's mammoth budget deficits.

A "New" New World

The factors shaping migration have evolved since 2004-08, a period that covers the boom years before the Great Recession. The housing boom turned to bust, for example, brought record foreclosures and sharply declining home prices to California and other states.

At the same time, falling tax revenues have put state finances in a wringer. Taxes are going up in some places, but citizens grappling with tight family budgets and iffy job prospects are in no mood to pay more to government. Across the country, in free-spending states as well as frugal ones, legislatures are cutting spending, including funds for education.

All these changes have no doubt had some effect on where Americans are moving. Shifting migration patterns, however, don't alter the fundamental fact that states compete for businesses, workers and taxpayers. As Tiebout foretold, people will move to places where policies are more to their liking, or they'll move away from places that tax them too much or overly inhibit their economic freedom.

By voting with their feet, today's Americans have made Texas the "new" new world—that's what the migration numbers tell us. Texas' edge, however, is policy driven rather than God given—that's what the regression analysis tells us.

If policies are what matter most, the metaphorical new "new world" can be extended beyond Texas. Other states can make themselves more attractive to domestic migrants by lowering taxes, reining in spending growth, enacting right-to-work laws, limiting the land-use restrictions that raise housing prices and improving education without spending a lot of money.

Good state policy ought to be a guide for the nation as a whole. Migration within the United States tells us that Americans prefer lower taxes—even if it means sacrificing some public services. Heeding this message should prompt the national government to cut spending and reduce the nation's mammoth budget deficits.

While states cut spending, Washington wallows in red ink. The problem is the lack of restraint on spending. The president and Congress have been talking about deficit reduction, but little progress has been made. Bringing home the bacon still wins votes. So the electorate isn't yet saying no. The U.S. can still borrow huge sums of money at low interest rates. So bond markets aren't yet saying no.

The best hope for fiscal sanity in Washington lies in external restraints on spending that serve the same function as states' balanced budget mandates. We might require balanced budgets except in times of emergency, or we might limit federal outlays to a predetermined share of GDP.

The alternative is ominous—a future of heavy public-debt burdens, deficit-fueled inflation, slower growth and sharply higher taxes. At some point, federal debt service may become so burdensome and taxes may become so onerous that Americans will start to vote with their feet and seek a new "new world" outside America's borders.

Methodology

We ran a cross-section ordinary least squares regression with the dependent variable being average annual net in-migration by state (from other states and from abroad) for the four year period from 2004 to 2008. We tested 16 independent explanatory variables, including the 12 identified on pages 8-11. The other four were government transfers and subsidies as a share of gross state product (a welfare-seeking variable), average temperature (a Sunbelt variable), a broad measure of economic freedom, and tradable services output per capita. We would like to have had a measure of highly tradable services exports—but state data aren't available.

We used the backward selection method, dropping variables until all were significant at the 5 percent level or lower, correcting for the mild heteroskedasticity present in the standard OLS analyses. Six variables retained statistical significance throughout the process. We excluded Louisiana from the analysis because Hurricane Katrina in 2005 forced the resettlement of a large number of the state's residents.

The final regression equation and results from the econometric analyses were:

$$M = 237{,}764.6 - 4{,}448.1{*}T - 3{,}948.3{*}U - 46{,}378.4{*}G + 2{,}721.8{*}S - 223.2{*}H - 9{,}295.1{*}C$$

$$\begin{array}{ccccccc} (38{,}710.8) & (1{,}368.0) & (848.9) & (18{,}401.9) & (1{,}172.1) & (129.1) & (2{,}119.9) \\ (6.14) & (-3.25) & (-4.65) & (-2.52) & (2.32) & (-1.73) & (-4.39) \end{array}$$

where M is a state's total annual net migration from other states and abroad; T is the state's highest marginal personal income tax rate; U is unions' percentage of the state's private sector labor force; G is the five-year growth in state and local spending relative to the average across states; S is the percentage of the state's eighth grade public school students that achieved proficiency in math and reading, on average, during the 2004-08 period; H is average of median home prices, and C is the standard deviation in state's average monthly temperatures.*

The first set of values in parenthesis are standard errors of the coefficient estimates and the second are t-statistics, indicating significance at the 10 percent level for housing prices and 5 percent level for all other variables. The adjusted R^2 is 0.657, a robust result. The transfers and subsidies variable retained significance at the 90 percent level or above until the final cut; however, its coefficient was negative. The implication is the number of people attracted to a state by transfers and subsidies tends to be less than the number driven out to avoid being taxed to finance the benefits. We also applied the stepwise selection method for optimal model selection, which gave us identical results to the ones obtained through the backward selection procedure.

* The above reported p-values are conditional. As prescribed in the econometric literature, a factor of 16/6 (number of initial variables over the number of final model variables) is applied to obtain the unconditional probability values, which are: 0.000 for T, 0.006 for U, 0.000 for G, 0.042 for S, 0.243 for H and 0.000 for C. All variables retain their significance after the inflation, with the exception of housing, which becomes significant at the 24 percent level.

Notes and Data Sources

EXHIBITS 1-4

Total net migration—the difference between in-migration and out-migration—from state to state and abroad during 2004-08: Internal Revenue Service, SOI Tax Stats—State-to-State Migration database files.

EXHIBIT 5

Amenities. International visitors for pleasure by primary state of destination, 2006-08 average (numerator): Department of Homeland Security, Office of Immigration Statistics, 2008 Yearbook of Immigration Statistics, Nonimmigrant Admissions; state resident population, 2006-08 average (denominator): Census Bureau, Table 1: Annual Estimates of the Resident Population for the United States, Regions, States, and Puerto Rico: April 1, 2000 to July 1, 2009.
Public Safety. Violent crime rate per 100,000 residents, 2004-08 average: Department of Justice, Federal Bureau of Investigation, Crime in the United States, annual.
Job Prospects. Average of state annual unemployment rates, 2004-08: Department of Commerce, Bureau of Labor Statistics.
Income. Average annual earnings per job in 2008 dollars during 2004-08: Bureau of Economic Analysis.
Small Business Climate. Small Business and Entrepreneurship Council. Survival index used here is calculated as 100 minus the council's 2008 Small Business Survival Index, so larger numbers reflect a lower incidence of failure.
Court System. Tort Liability Index, 2010 Report, Lawrence J. McQuillan and Hovannes Abramyan, Pacific Research Institute. The index is a composite that uses the most recent data available, generally (but not exclusively) extending back into 2004-08.

EXHIBIT 6

Climate. Data for 1971-2000: National Oceanic & Atmospheric Administration, calculation of standard deviation in average mean monthly temperature.
Personal Income Taxes. Highest marginal income tax rate on personal income in 2008: The Tax Foundation.
Union Membership. Percent of the private sector labor force in unions, 2006: The Fraser Institute, Economic Freedom of North America (2006).
Government Spending. Five-year state and local spending trends relative to national average, 1999-2000 to 2004-05: Small Business and Entrepreneurship Council, Small Business Survival Index 2007, p. 41.
Housing Prices. Average of median housing prices of single family homes during 2004-08: Housing prices Federal Housing Finance Agency, "Monthly Interest Rate Survey" and 2006 State and Metropolitan Area Data Book, Department of Census, Bureau of Labor Statistics.
Public Schools. The average percentage for math and reading proficiency among eighth grade students in 2005 and 2007: Department of Education, National Center for Education Statistics, National Assessment of Educational Progress (NAEP), 2007 Mathematics and Reading Assessments (as of March 15, 2008).

EXHIBIT 7

Right-to-work states: National Right-to-Work Committee. Information on William Ruggles comes from "'Right to Work' Born at the News" by Cheryl Hall, *Dallas Morning News*, July 11, 2010, p. 21A.

EXHIBIT 8

Actual and estimated state migration figures are net annual totals for 2004-08. State migration estimates are derived using the regression coefficients (see methodology, above) and the individual state values for the six explanatory variables shown in Exhibit 6. Louisiana was included in the analysis for this procedure.

EXHIBIT 9

Texas' and California's estimates for net migration are derived using the regression coefficients and the two states' values for the six explanatory variables shown in Exhibit 6.

We thank Petar Vanev for assistance with econometric analysis and Machiko Hollifield for helping assemble the data bases.

A Conversation with Dwight Lee

Contemplating Markets and Morality

Dwight Lee was the O'Neil Center's first hire in 2008, settling comfortably into the William J. O'Neil endowed chair in global markets and economic freedom. Before coming to SMU, Lee taught at the universities of Georgia, Colorado and elsewhere. Over his 40-year career, he has carved out an international reputation as a free-market scholar, writing a dozen books and more than 150 journal articles.

At the SMU Cox School of Business, Lee teaches future business leaders to understand economics in a practical way, an approach very much in keeping with a book he co-authored, titled *Common Sense Economics*. He took time from his teaching and research to answer a few questions about his recent exploration of markets and morality.

Q: We usually justify markets as being efficient and even fair—but we don't hear much about markets and morality?

A: Much of the criticism of markets results from widespread disapproval of the morality of the behavior that drives the market process. This predisposes most people to see markets as fundamentally immoral. However, the superiority of markets rests on their ability to generate desirable outcomes by relying on a somewhat different version of moral behavior.

Q: What do you mean by that?

A: Most people comprehend magnanimous morality—intentionally helping identifiable beneficiaries at some personal sacrifice. Think of the transformed Scrooge giving up his hard-earned money to aid the Cratchits and their crippled son Tiny Tim. However, markets bring into play another version of morality, which entails such generally accepted norms as telling the truth, honoring your promises and contractual obligations, respecting the property rights of others and refraining from intentionally harming others. This is mundane morality.

Q: How does this apply to markets?

A: Setting aside magnanimous morality and focusing on mundane morality leads to an understanding that doing good doesn't have to be intentional, nor does it have to entail personal sacrifice or involve identifiable beneficiaries. Adam Smith's inspired metaphor of the Invisible Hand tells us that markets induce people motivated by personal gain to do enormous good for society as a whole rather than anyone in particular. Markets produce favorable results by relying on behavior consistent with mundane morality.

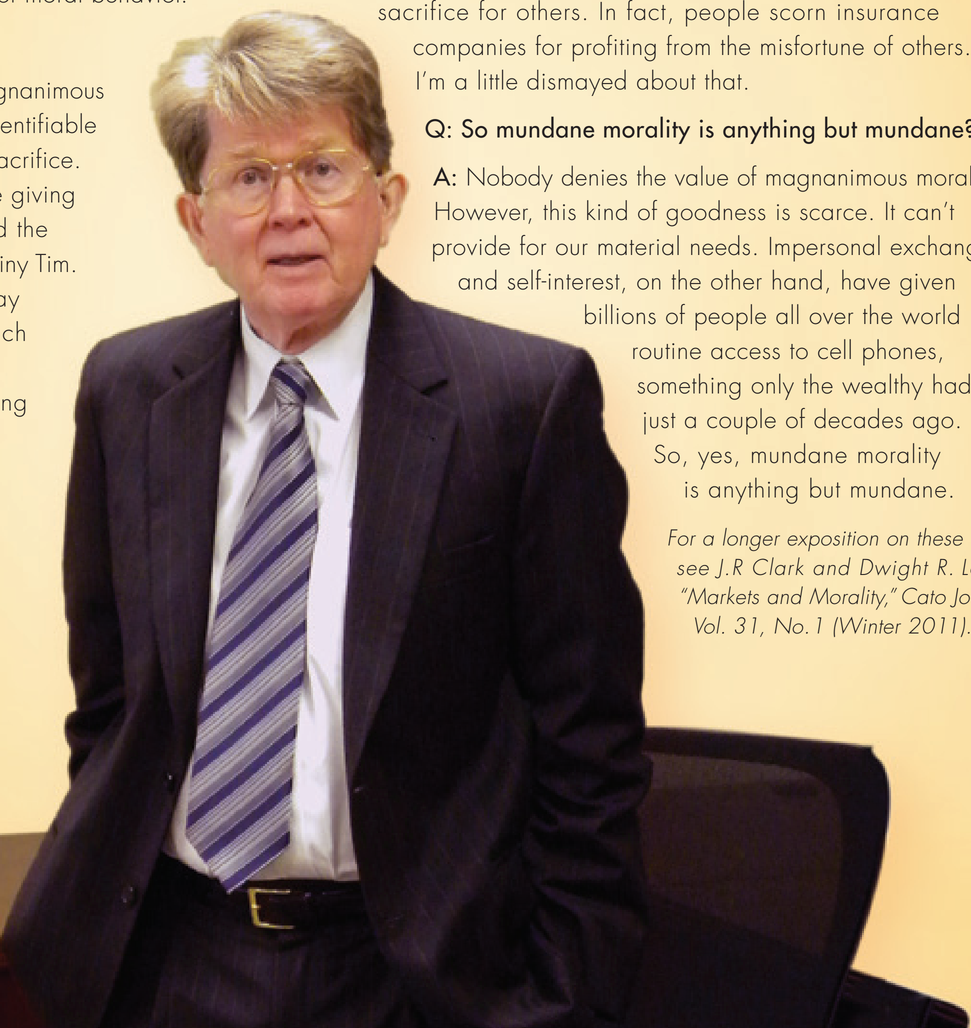
Q: Can you bring this into the real world?

A: Sure. Traditional barn raisings appeal to our sense of magnanimous morality. When an unfortunate family loses a barn to fire, the neighbors come from far and wide to help rebuild the barn. Markets accomplish the same end through insurance, provided by profit-seeking firms that pool the risk of large numbers of people and make restitution when needed. This achievement is seldom celebrated as an improvement over barn raisings because insurance is a business transaction completely lacking in concern and sacrifice for others. In fact, people scorn insurance companies for profiting from the misfortune of others. I'm a little dismayed about that.

Q: So mundane morality is anything but mundane?

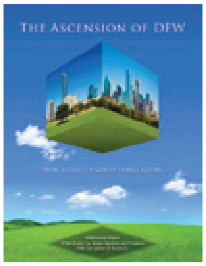
A: Nobody denies the value of magnanimous morality. However, this kind of goodness is scarce. It can't provide for our material needs. Impersonal exchange and self-interest, on the other hand, have given billions of people all over the world routine access to cell phones, something only the wealthy had just a couple of decades ago. So, yes, mundane morality is anything but mundane.

For a longer exposition on these ideas, see J.R Clark and Dwight R. Lee, "Markets and Morality," Cato Journal, Vol. 31, No. 1 (Winter 2011).



2010: Year in Review

The O'Neil Center's 2010 highlights start with "The Ascension of DFW," a widely praised study focusing on the importance of economic freedom and globalization in making the Dallas-Fort Worth region the nation's fastest-growing major metropolitan area. The center received further acclaim for its conference on "Reviving Economic Freedom in America," which included appearances by iconic free-market economists Walter Williams and Thomas Sowell.



In March, Richard Alm joined the O'Neil Center as writer in residence, an addition to a faculty that includes director W. Michael Cox, SMU Cox dean Albert W. Niemi Jr. and professors Dwight R. Lee, Michael Davis and Maria Minniti.

Cox and Alm have worked together for nearly 20 years, publishing the Pulitzer Prize-nominated *Myths of Rich and Poor* in 1999. In addition, they have written dozens of newspaper and magazine articles and a widely praised series of free-enterprise reports for the Federal Reserve Bank of Dallas.

Cox and Alm co-authored the essay on net migration in this report as well as "The Ascension of DFW," which created significant buzz for the O'Neil Center. We sent the essay to 11,000 North Texas business leaders. We distributed copies to prospective students to emphasize the close-at-hand opportunities for SMU Cox School of Business graduates. We even translated the publication into Chinese to make it more accessible to executives and students in the world's fastest growing economy.

Dozens of business and civic groups invited Cox to give presentations based on "The Ascension of DFW"—most notably, the influential Dallas Citizens Council. The essay's subject matter was featured in a *Dallas Morning News* business-section cover story on March 14, 2010.

Cox and Alm also wrote "An Order of Prosperity to Go," a *New York Times* op-ed on America's prowess in exporting services *(see O'Neil Center in Print, page 24)*. The two had a six-part series in *Investor's Business Daily* laying out the major forces likely to shape the U.S. economy in the decade ahead. *D CEO* magazine published two Cox and Alm annotated charts on Texas' rapid employment growth. In two articles for *Leadership Excellence* magazine, Cox and Alm condensed services exports and six themes for busy executives.

Lee published *A Maverick's Defense of Freedom,* a book of writings and speeches by free-market champion Benjamin A. Rogge. Lee's *Independent Review* article titled "Why Businessmen Are More Honest than Preachers, Politicians, and Professors" argued that markets keep businessmen honest. In an *Investor's Business Daily* op-ed, Davis used baseball as a way to highlight the punishing tax rates of New York and other cities.

Cox and University of Houston economist Roy J. Ruffin wrote "Variety, Globalization, and Social Efficiency" for the *Southern Economic Journal.*

The O'Neil Center faculty's expertise was in demand again this year. In October, Cox was featured on *Ideas in Action,* a half-hour PBS show hosted by James K. Glassman, executive director of the George W. Bush Institute, soon to be our neighbor on the SMU campus. Fox Business News interviewed Cox on the evils of high taxes in September and inflation prospects in December. In March, he was in the studio for a wide-ranging C-SPAN session on trade, taxation, debt and other topics.

Richard Alm

Lee organized three Liberty Fund conferences—one on wealth distribution, one on higher education and one on Darwinism's role in liberty and political economy. The polymathic Davis had more press clippings than any other SMU Cox professor, shedding light on such diverse topics as rising gasoline prices, Blockbuster's business troubles and the Dallas area's restrictions on alcohol sales.

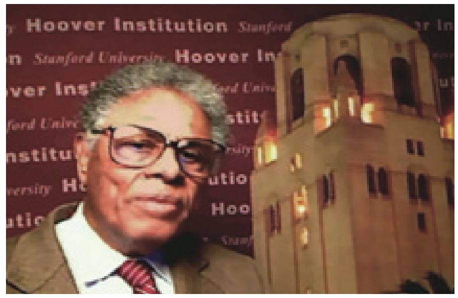
In October, More than 350 business leaders gathered at SMU's Collins Center to explore "Reviving Economic Freedom in America," a topic given greater import by rapid growth in the size and intrusiveness of government. In its recap of the conference, *D CEO* magazine said the O'Neil Center could "soon join outfits like the Heritage Foundation and Hoover Institution as magnets for free-enterprise scholarship."

At the conference, Cox presented his research on the factors that drive net migration among states, expanded into the essay in this annual report. Here are highlights from other presentations:

Walter Williams, distinguished professor of economics at George Mason University. Via remote feed, Williams began by considering the legitimate role of government in a free society, finding no support in the Constitution for three-quarters of Congress' spending and taxing activities. "There is no constitutional authority for farm subsidies, bank bailouts, food stamps, not to mention midnight basketball," he said.

Flouting the Constitution's limits on government has led to out-of-control spending, Williams said. From 1787 to 1920, federal expenditures were only 3 percent of


Walter Williams



Thomas Sowell


John Allison

GDP, except during wartime. Today, central government's share of economic activity has risen beyond 25 percent of GDP. "As time goes by, you and I own less and less of our most valuable property—namely, ourselves and the fruits of our labor," Williams said.

The system of private property and voluntary exchange has been under unrelenting attack for the past half century of more. "Free enterprise is threatened today, somewhat ironically, not because of its failure," Williams said. "It's threatened because of its success."

People want government to do good, but the state has no resources of its own, so it can only benefit one person by taking from someone else. The result is Americans have sacrificed personal liberty a little at a time in the name of income equality, sex and race balance, affordable housing, orderly markets, consumer protection, energy conservation and other causes.

"If someone came over here talking about taking all of our freedom all at once, we would righteously rebel," Williams said. "But they can talk about taking away our freedom bit by bit."

Thomas Sowell, senior fellow, Hoover Institution at Stanford University. On a remote feed, Sowell pointed to a growing sense among ordinary people that we are losing America. "The country they grew up in is being changed in very fundamental ways that may prove irreversible," he said.

At the heart of it: Big government with contempt for the American public. Bills are rushed through Congress before anyone knows what's in them. Arbitrary powers have been wielded to dispense vast amounts of money in the name of stimulus. Government can tell General Motors how to make cars, tell bankers how to bank and insurers how to insure. They issue waivers to their own health care legislation.

Government attempts to spread the wealth have led to runaway spending and an alarming growth in the national debt, now larger as a share of GDP than at any time since World War II. "The difference today is that, the national debt began to be paid down after World War II," Sowell said, "and the current debt is projected to increase for the rest of the decade."

Sowell traces the rise of government intervention to faulty analysis of the Great Depression. Nine months after the stock market crashed in October 1929, unemployment was only 6.3 percent. The jobless rate didn't climb to 25 percent until *after* government began to meddle in the economy. "Much of what we believe about the need for government intervention is based on a false perception of the past," Sowell said.

The recent stimulus shows we haven't learned from our mistakes. It hasn't increased private spending, lending, investment or jobs—in large part because of arbitrary and capricious policy. "What government can create more than anything else is uncertainty," Sowell said.

John Allison, retired chairman and CEO of BB&T and distinguished professor at the Wake Forest University School of Business. Government regulation of the financial and housing markets was the primary cause of the financial crisis of 2008, Allison said. Wall Street financial firms made serious errors, he acknowledged, but "those mistakes were secondary compared to government policy."

Allison identified three blunders. First, the Federal Reserve pursued interest-rate policies that led to an inverted yield curve and pushed banks and other lenders into riskier loans. Second, deposit insurance meant badly run banks could attract deposits and make unsound loans. Third, a succession of policies artificially boosted home ownership—in particular, the 1999 requirement that Fannie Mae and Freddie Mac hold more high-risk subprime loans in their portfolios.

"We were running the numbers, and it was mathematically certain they were going to fail," Allison said. "And Congress absolutely refused to do anything about it."

The government's response to the financial crisis has done more harm than good, Allison said. Bailouts have kept firms from failing, and attempts to prop up housing prices have delayed recovery. New regulations and newly energized regulators are crimping business activity.

Allison said the roots of the financial crisis were as much philosophical as economic. "Where did affordable housing come from?" he said. "Everybody has a right to a house, provided by who? Everybody has a right to free medical care, provided by who? My right to free medical care is the right to enslave a doctor to provide it or to enslave somebody else to pay for it. That is an exact inversion of the American concept of rights. In the American concept of rights, each of us has a right to what we produce."

David Henderson, research fellow,

Hoover Institution at Stanford University. Most problems with health care were created or exacerbated by government control, he said. Unfortunately, the 2,700-page health care bill passed in March represents a huge step in the direction of greater government control and discretionary power.

Henderson said the legislation was a gigantic bait and switch—it doesn't deliver promised controls on health care costs, but it does impose taxes to pay for new benefits for the currently uninsured. "The bill does nothing to deregulate doctors, hospitals or drugs," Henderson said. "The bill is almost all about insurance and is really a tax, regulatory and subsidy scheme."

And a badly conceived one at that, Henderson said. Insurance companies can't price on risk; they must offer coverage to all comers at the same rates. Individuals have an incentive to game the system and buy insurance only when they're sick, a strategy the individual mandate won't eliminate. The penalties for not having coverage are less than the cost of the insurance. Taxes and penalties will erode customer services and discourage job creation.

"Now that we have this bill, we will, unless it is repealed, lose much of our health care freedom," Henderson said. "Every time we lose a little bit of freedom, we lose some independence from government and it becomes harder for us to fight to keep the freedom we have left."

Stephen Moore, senior economics writer at the Wall Street Journal. Moore praised President Reagan for cutting top marginal rates from 70 percent to 28 percent, increasing the after-tax returns to investors. Asset values soared, and American wealth jumped from $16 trillion in 1982 to $57 trillion in 2009.

The rest of the story is even more amazing, Moore said. Even with the lower marginal rates, the share of federal income taxes paid by the richest 1 percent of households doubled to 40 percent. Reagan, like President Kennedy before him, understood how low taxes stimulate productive economic activity; today, no one in Washington seems to have a clue.

"We rely very heavily on Bill Gates, Warren Buffet, Britney Spears and people like that to pay the revenues," Moore said. "If we want more revenues, we've got to produce more rich people."

Higher taxes aren't Moore's only economic policy concern. Countering the recession left a massive bulge in the money supply that hasn't yet been withdrawn. "There's no inflation right now because people aren't spending," he said, "but if the economy picks, up I worry about a recurrence of inflation."

The third issue keeping Moore up at night is the rampant escalation of government spending. Taxing, borrowing and printing money, he said, don't create jobs—no matter how many times the Keynesians repeat their deficit-spending mantra.

Fred L. Smith, president and founder of the Competitive Enterprise Institute. The attack on capitalism that began in the Progressive era of the late 19th Century continues today, Smith said. Critics developed narratives that undermined the moral and intellectual foundations of a free society and prepared the way for expansion of government.

For the most part, businesses haven't responded effectively to the threat to their legitimacy. "Over and over again, they played into the hands of the statists by being passive," Smith said.

The biggest mistake lies in tacitly accepting the critics' judgment and promising to do better. Business hasn't crafted its own narratives describing what they do for society beyond providing quality goods and services at good prices.

"Business has a tremendous set of resources that it has never employed in an offensive game," Smith said.

Smith sees nothing less than a culture war between statists and advocates of freedom. Winning will involve a rousing defense of business and markets. "Stop apologizing for creating wealth and knowledge," he said. "In a world that is too poor and too ignorant, there is nothing more moral than producing wealth and knowledge. That's what capitalism does."

To view Cox's PBS, Fox and C-SPAN appearances and conference videos, go to: www.oneilcenter.org.

W. Michael Cox, Director, William J. O'Neil Center for Global Markets and Freedom

Albert W. Niemi Jr., Dean, SMU Cox School of Business

Michael Davis, SMU Cox School of Business

Dwight R. Lee, William J. O'Neil Endowed Chair in Global Markets and Freedom

Maria Minniti, Professor and Bobby B. Lyle Chair in Entrepreneurship

O'Neil Center in Print

Highlights from faculty writings in 2010

"The Dallas-Fort Worth area doesn't face the daunting burdens of a St. Louis or a Cleveland. Those cities' challenge lies in reversing long-term economic declines. Now at the top of its game, DFW needs to make sure it retains—and, if possible, enhances—the advantages that attract new residents, new jobs and new employers.

We already know how to keep a good thing going. It starts with embracing economic freedom. Keep taxes low and government small. Shun unions. Let new jobs and industries rise to replace those heading into decline."

—Cox and Alm, *"The Ascension of DFW,"* O'Neil Center 2009 Annual Report.

"Thoughtful people also recognize that politicians advertise themselves and their policy recommendations in biased and emotional ways. The question is not whether businessmen or politicians have the strongest moral commitment to truthfulness in advertising. Both will deviate from honesty when they expect that the benefits they realize from doing so will exceed the costs. The important question is, who can most easily mislead their customers with emotional statements, unrealistic promises, and biased information: businessmen or politicians?"

—Lee, "Why Businessmen Are More Honest than Preachers, Politicians,and Professors," *Independent Review,* Winter, 2010.

"America trails both China and Germany in sales of goods abroad, but ranks No. 1 in global services by a wide margin. And while trade deficits in goods have been enormous — $840 billion in 2008 — the country runs a large and growing surplus in services: we exported $144 billion more in services than we imported, dwarfing the surpluses of $75 billion in 2000 and $58 billion in 1992. Equally important, Commerce Department data show that the United States is a top-notch competitor in many of the high-value-added services that support well-paying jobs."

—Cox, "An Order of Prosperity to Go," *New York Times,* Feb. 17, 2010.

"And in the money war, the Yankees are fighting with one hand tied behind their back. Any player who signs with New York also signs up to pay a combined city and state income tax of 12.61%, almost twice the tax rate of any other big league city. That difference has already proven important this year in the bidding for pitcher Cliff Lee. Only Lee can know for sure why he spurned the Yankee's riches. But taxes must have had something to do with it. Lee's employment with the Phillies will reportedly pay him at least $100 million. If he cut the same deal with New York, he would have paid at least an extra $6 million in city and state taxes."

—Davis, "Will Tax Rates Show Up in Box Scores," *Investor's Business Daily,* Dec. 15, 2010.

"From 1998 to 2007, economic growth averaged 9.5 percent in China and 7 percent in India. When combined, these two Asian giants make up a market eight times larger than the U.S., growing three times faster and importing more every year.

Smart U.S. companies are already on the ground in these markets. To stimulate aspirational demand, the makers of Pepsi-Cola, Nike shoes and Apple computers turned to product placements in India's wildly popular Bollywood movies. Earlier this year, Yum! Brands opened its first Taco Bell in Bangalore, averaging 2,000 customers a day."

—Cox and Alm, "Today's New Capitalists Promise 3 Billion New Consumers Tomorrow," *Investor's Business Daily,* June 29, 2010.

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William J. O'Neil Center
for Global Markets and Freedom
PO Box 750333
Dallas, TX 75275-0333
www.oneilcenter.org