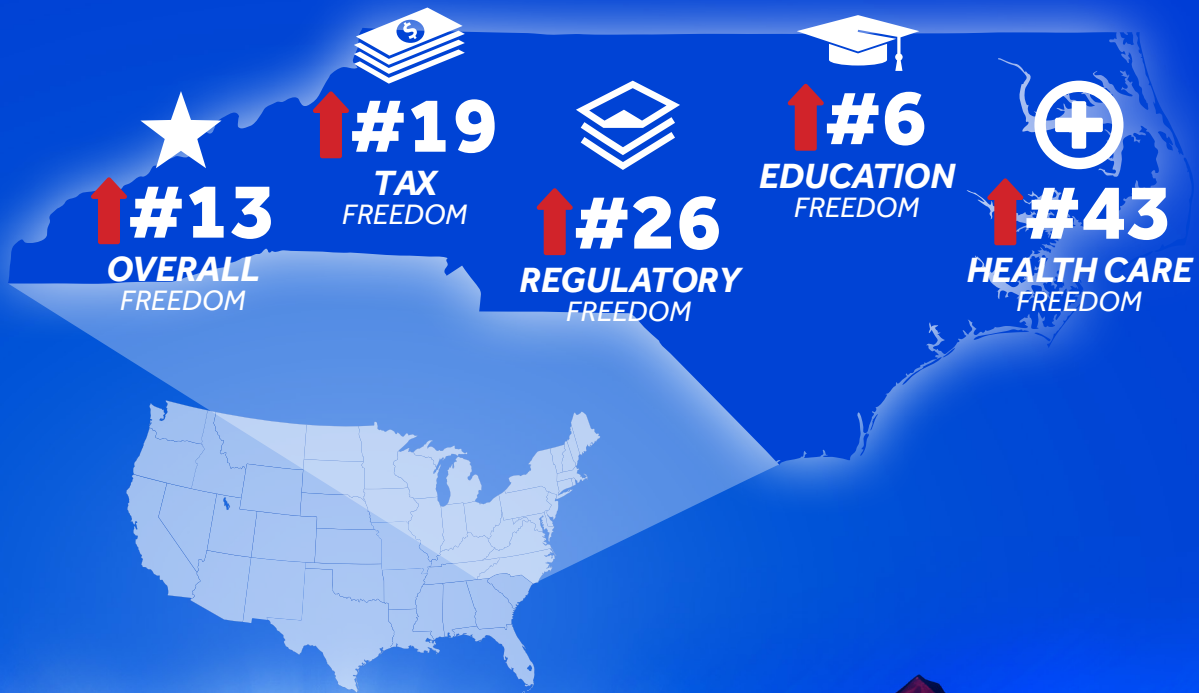


FREEDOM IN NORTH CAROLINA



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

The views expressed in this report are solely those of the author and do not necessarily reflect those of the staff or board of the John Locke Foundation.

For more information, call 919-828-3876 or visit www.JohnLocke.org



Introduction

The mission of the John Locke Foundation is to make North Carolina “First In Freedom” among the 50 states. These are not just words; our mission is clear and measurable. The John Locke Foundation focuses on vital, long-lasting ideas and policies – the kind of ideas and policies that can make our state the leader in freedom for generations to come.

Using established measures of economic freedom from the Cato Institute, the Tax Foundation, and the Fraser Institute, one can readily see that there has been much progress, but there remains much to improve. Achieving our goal of “First In Freedom” requires more action, a faster pace, and a greater impact. We must match our bold aspirations with bold action. Great ideas are necessary, but not sufficient, to expand economic freedom. It takes intentional actions to turn those ideas into measurable outcomes.

Heading into 2010, North Carolina ranked near the bottom on virtually all measures of economic freedom and especially on the measures we are concerned with in our Freedom Index – tax freedom, regulatory freedom, education freedom, health care freedom. The reforms enacted in 2011-2016, especially in tax, education, and regulatory policy, lifted North Carolina out of the bottom and into a more-friendly environment for economic freedom to expand.

This was especially true in tax freedom, where on the Tax Foundation’s broad measure of business tax climate, North Carolina catapulted from 41st in the nation to 11th. The area where North Carolina has not improved its measures is in health care freedom. This is largely because North Carolina continues to enforce one of the strictest certificate-of-need laws in the country. Certificate-of-need laws severely restrict competition in the medical services market, with little freedom for consumer choice.

This snapshot shows that, overall, North Carolina remains on a sure and steady path of expanding economic freedom for its citizens. If government overreaches, freedom must not only stand strong; it must advance.

The John Locke Foundation is leading the way.



OVERALL FREEDOM

The Fraser Institute's Economic Freedom of North America

Since 2010, North Carolina has become more free. That is according to leading indexes of freedom in the United States.

The Fraser Institute's Economic Freedom of North America is published annually and looks particularly, as the name implies, at economic freedom. The index considers three broad categories: government spending, taxes, and labor market freedom. The 2016 index uses 2014 data, as that is the most current available, and ranks North Carolina tied with four other states for 13th in the nation overall. That's an improvement from 20th in the 2012 data, and from 23rd in data from 2010.

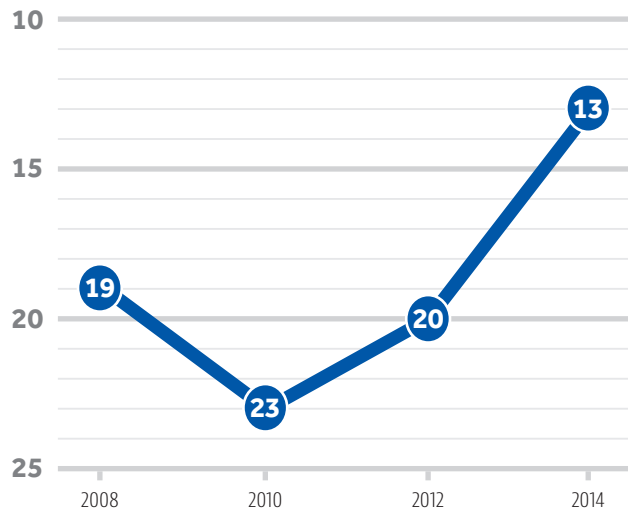
This should be welcome news for North Carolina residents and taxpayers.

Cato Institute's Freedom in the 50 States

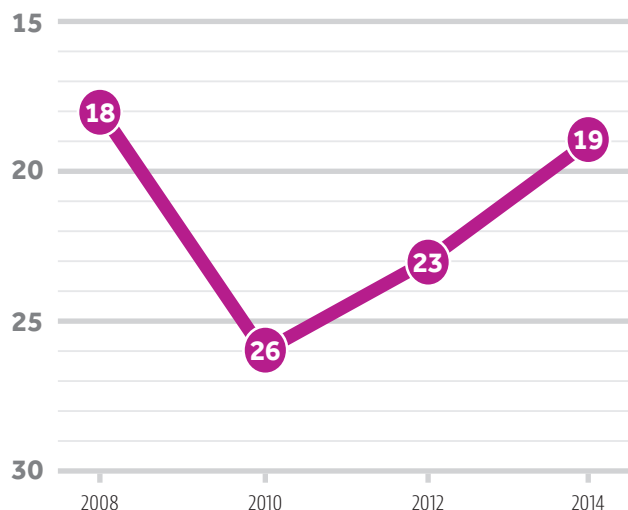
The Cato Institute's Freedom in the 50 States, previously published by the Mercatus Center, takes a slightly different approach than the Fraser Institute's Economic Freedom of North America by looking at freedom more generally. Their rankings are based not only on economic freedom, but also on various measures of personal freedom, such as incarcerations and arrests, gun rights, and alcohol freedom. Freedom in the 50 States ranked North Carolina overall at 19th, which is up from 23rd in 2012 and 26th in 2010.

Many states have very similar scores in Freedom in the 50 States and Economic Freedom of North America. In the latter index, North Carolina tied with four other states for 13th place. In the former, three other states had scores nearly identical to ours.

North Carolina's Freedom Ranking - Fraser Institute



North Carolina's Freedom Ranking - Cato Institute





Total number of exempting claims
Wages, salaries, tips, etc. Attach Form(s) 1042-S
Taxable interest. Attach Schedule B if required
Tax-exempt interest. Do not include on line 16a if required
Ordinary dividends
Qualified dividends
Taxable refunds, credits, or offsets of state and local income taxes
Alimony received
Business income or (loss). Attach Schedule C or
Capital gain or (loss). Attach Schedule D if required
Other gains or (losses). Attach Form 4797

- 14 IRA distributions 15a
- 15a Pensions and annuities 16a
- 16a Rental real estate, royalties, partnership income, or other income
- 17 Farm income or (loss). Attach Schedule F
- 18 Unemployment compensation 20a
- 19 Social security benefits
- 20a Other income. List type and amount
- 21 Combine the amounts in the far right column
- 22 Educator expenses
- 23 Certain business expenses of self-employed individuals
- 24 Self-employed health insurance for self
- 25 Self-employed health insurance for spouse
- 26 Self-employed health insurance for dependent
- 27 Self-employed health insurance for dependent
- 28 Self-employed health insurance for dependent
- 29 Self-employed health insurance for dependent
- 30 Self-employed health insurance for dependent

Adjusted
Gross
Income

TAX FREEDOM

Tax Freedom Day

After years of being ranked in the bottom half of states in key fiscal policy indexes published by the Tax Foundation, North Carolina has skyrocketed to among the best states in the nation for both individual and business taxpayers. Since enacting sweeping tax reform in 2013, North Carolina has gone from being among the 20 worst states in the country to the 20 best in both the “Tax Freedom Day” and “State Tax Business Climate” rankings.

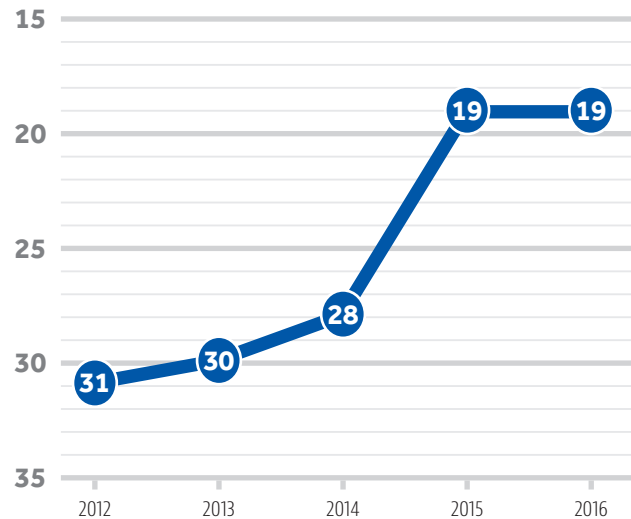
The Tax Foundation defines Tax Freedom Day as “the day when the nation earned enough money to pay its total tax bill [state, federal, and local] for the year.” After making this calculation for the nation, the Foundation breaks its finding down by state. Through 2014, North Carolina consistently ranked as being among the most heavily taxed, as measured by how many days of full-time work it took for the state’s citizens to pay their total tax bill. Between 2012 and 2014, North Carolina hovered around 30th in the nation. In 2015, the state shot up to number 19. Since federal taxes, which increased during this period, impact all states, across-the-board tax cuts implemented at the state level in 2014 are the only meaningful explanation for this improvement.

Business Tax Climate Index

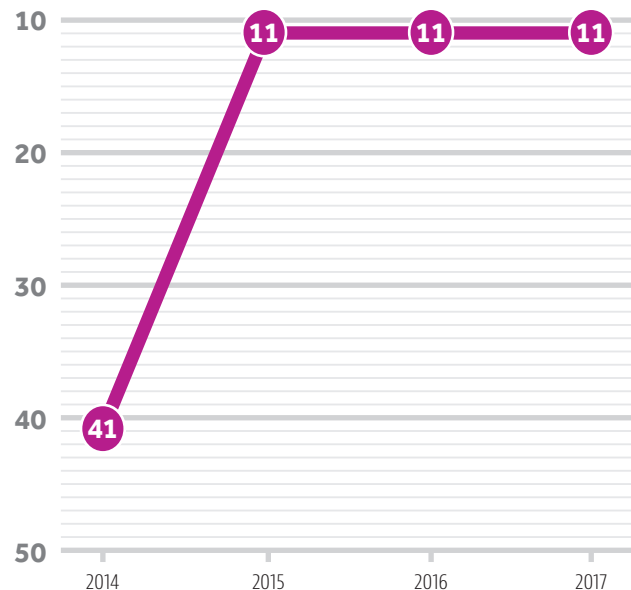
An even more dramatic improvement was seen in the Foundation’s Business Tax Climate Index. This index assesses the structure and rates of every major tax levied in the state, including personal and corporate income taxes and sales and property taxes. While it bills itself as assessing the business tax environment, it is actually a ranking of state tax policy more broadly.

As tax cuts have been phased in, North Carolina’s rankings have improved. Between the 2013 and most recent 2017 rankings, North Carolina went from 41st in 2014 to 11th in 2015, where it has stayed ever since.

North Carolina’s Tax Freedom Day Ranking - Tax Foundation



North Carolina’s Business Tax Climate Ranking - Tax Foundation





REGULATORY FREEDOM

Regulations

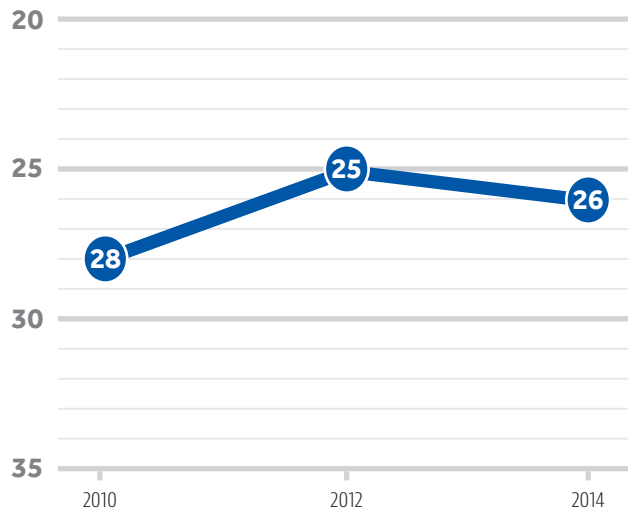
North Carolina's leaders have made impressive strides in regulatory reform since 2011. Highlights include sunset provisions with period review, tort reforms, and provisions barring state environmental rules from being stricter than federal rules.

From 2010 to 2014, North Carolina's ranking in regulatory freedom improved from 28th to 26th, according to the Cato Institute's Freedom in the 50 States. (Note: Those rankings don't yet reflect many of the state's reforms.) Nevertheless, some big obstacles block North Carolina from ranking higher in regulatory freedom.

One is its strict occupational licensing system. Over one-fifth (22 percent) of North Carolina's workforce is licensed by the state. A wide range of jobs falls under the purview of 57 licensing boards. Crossing the border into South Carolina reduces the number of licensed occupations by about two-thirds.

Another big obstacle is North Carolina's weak protection of private property against eminent domain abuse. Most states enacted protections against eminent domain abuse in the wake of the U.S. Supreme Court's 2005 ruling in *Kelo v. City of New London*. North Carolina didn't. Worse, North Carolina's is the only state constitution that doesn't directly address eminent domain. North Carolina needs an explicit protection of private property from government takings: Only for public use, with just compensation including ancillary costs, and not for transfers to another private party for the sake of economic development.

North Carolina's Regulatory Ranking - Cato Institute





EDUCATION FREEDOM

Charter School Laws

For the last five years, the North Carolina General Assembly has secured passage of legislation that authorizes and funds private school vouchers for low-income and special-needs children. They have advanced laws and policies that promote growth in charter schools, including the elimination of the 100-school cap, and greater allowances for enrollment growth and grade expansion. Finally, they have blocked attempts to expand regulations on home and private schools. These measures, and many more, have been indicative of North Carolina's revived commitment to educational freedom.

North Carolina's charter school law rose to 23rd best in the nation, advancing seven places since 2011, according to the Center for Education Reform. Much of that improvement was due to slight improvements in operational autonomy. Nevertheless, any further improvement will require significant revisions to the existing charter school law that would fundamentally change the charter approval or authorization process and reconfigure the charter school funding model.

Specifically, if the General Assembly allowed other entities to authorize charter schools, such as institutions of higher education, school districts, and nonprofit organizations, North Carolina's charter law ranking would improve substantially. Likewise, if the General Assembly established a revenue stream (or gave localities the option of creating one) for charter capital needs, North Carolina would have one of the nation's top charter laws.

Cato Institute

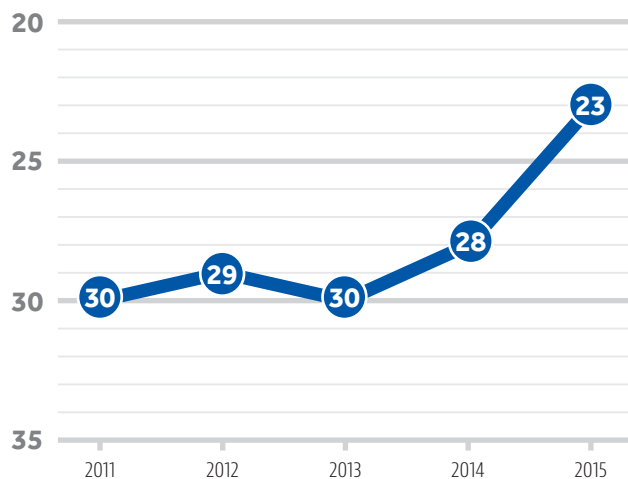
North Carolina rose from 22nd to 6th on the Cato Institute's biennial ranking of educational freedom. This school year, the Opportunity Scholarship and Disabilities Grant programs awarded approximately \$13.7 million in private school vouchers, allowing nearly 6,000 low-income and special-needs children to attend the school that best meets their needs. While enrollment and funding growth in both programs have been impressive, there is room for improvement. Eligibility changes and funding increases can help to address the unmet demand for private school scholarships.

One way to do both would be to approve Education Savings Accounts (ESAs) for North Carolina families. ESAs allow parents to make defined educational purchases on behalf of their children using state funds deposited into a

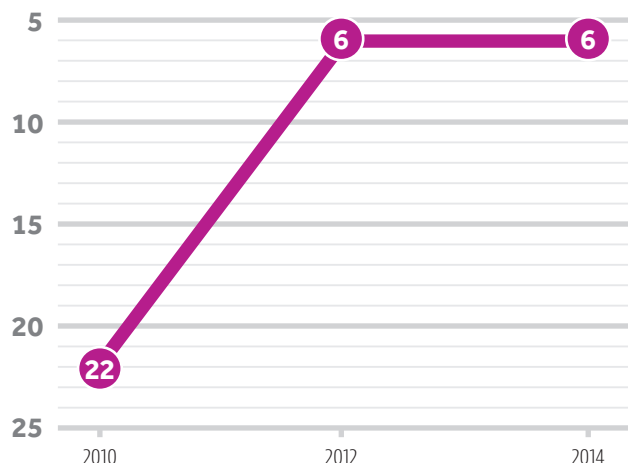
bank account that only they can access. ESAs would be a particularly effective means to break into the top five in the Cato ranking and, more importantly, expand educational options in the state.

In addition, results from the Cato ranking suggest that lawmakers should continue to keep private, homeschool, and voucher regulations in check. Parental choice, not rules and regulations, should serve as the primary means of accountability for nonpublic schools in North Carolina.

North Carolina's Charter School Law Ranking - Center for Education Reform



North Carolina's Education Freedom Ranking - Cato Institute





HEALTH CARE FREEDOM

The Healthcare Openness and Access Project

A free health care system is one in which health care suppliers, medical providers, and insurance companies respond to patient demands and preferences for an array of products and services. However, because the U.S. health care system is one of the most heavily regulated industries, a fluid exchange of such products and services between patients, insurance companies, and medical providers is overwhelmingly limited. That said, it is fortunate that states still do possess a degree of regulatory flexibility over the access and delivery of health care and health insurance.

The Healthcare Openness and Access Project, a 2016 study released by the Mercatus Center, examines each state's use of that regulatory flexibility across 10 health care categories. North Carolina cumulatively ranks 43rd. We have included rankings from this inaugural study to serve as a baseline for future editions of this report.

A few notable categories include health insurance laws and direct primary care.

North Carolina is tied with nine other states for 27th and ranks on par with the national average on selected health insurance laws. While the Affordable Care Act has narrowed states' regulatory flexibility when it comes to pricing insurance premiums based on age, tobacco use, and policyholder residence, North Carolina does not enforce these rules to a stronger level beyond minimal federal compliance standards.

North Carolina currently is tied with six other states for 24th in the direct primary care category. Although direct primary care in North Carolina is subject to minimal regulations, a higher ranking could be achieved if the state passed legislation clarifying that direct care physicians are not an insurance entity. To date, 17 states have passed similar legislation.

North Carolina's Health Care Rankings - Mercatus Center

- 43 OVERALL
- 25 Corporate Practice/Business
- 24 Direct Primary Care
- 27 Insurance
- 17 Medical Liability
- 47 Occupational Regulation
- 9 Pharmaceutical Access
- 44 Provider Regulation
- 1 Public Health
- 18 Taxation
- 45 Telemedicine



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