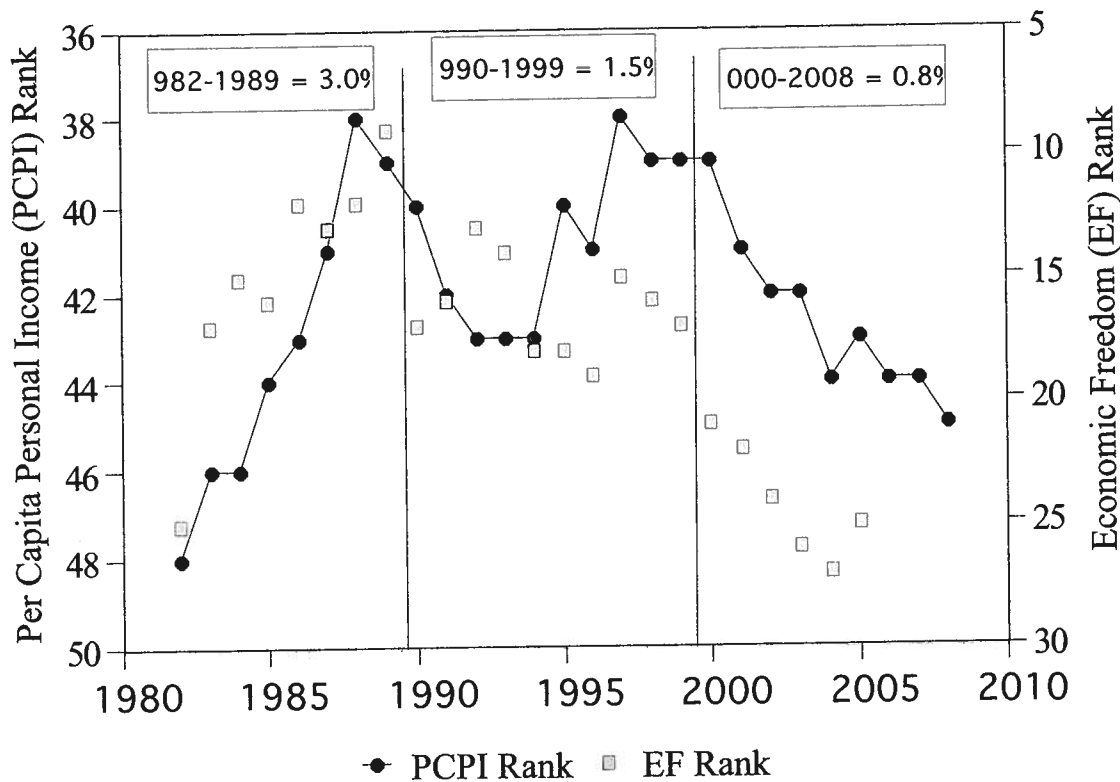


During the 1980s, South Carolina rose from 25th to 9th in the economic freedom ranking among U.S. states. In 1989 South Carolina's policies ranked among the top 10 most free market in the country. Since that time, and particularly since 1997, economic freedom has been on the decline in South Carolina, falling back to where it began in the early 1980s.

Does the 'market-friendliness' of South Carolina's policies help to explain its recent economic performance? Recall that Figure 1.2 from Chapter 1 showed South Carolina's per capita income ranking from 1929 forward, and that there was a large improvement in South Carolina's ranking in the 1980s followed by a subsequent decline. Figure 2.3 shows the remarkable correlation between South Carolina's economic freedom and per capita income rankings. Here, South Carolina's per capita income ranking is measured on the left y-axis, while its economic freedom ranking is on the right y-axis. Also shown in the figure in boxes at the top are the average growth rates during these three periods.

Figure 2.3: Economic Freedom vs. Prosperity in South Carolina



Source: Karabegovic and McMahon (2008) and Bureau of Economic Analysis (2009).

During the 1980s when South Carolina's economic freedom was improving, growth was rapid (3.0%), and the state rose 10 spots in the per capita income rankings. During the 1990s, economic freedom began receding and South Carolina's growth began to slow (1.5%). Beginning around 2000, South Carolina's economic freedom began dropping significantly, and it fell 6 places in the per capita income rankings due to its below average growth (0.8%).

The point should be obvious, for South Carolina to improve economic growth it must again move toward policies that embrace capitalism and free markets. If South Carolina