TENNESSEE

ANALYSIS

Tennessee has long been one of the economically freest states, largely because of its fiscal policies, but it also used to be one of the personally freest states in the South. No longer is that true. As a result, the state has fallen from second in overall freedom in 2001 to seventh today.

The Volunteer State lacks an income tax, and both state and local tax collections fall below the national average. We show state-level taxes falling from 5.1 percent of adjusted personal income in FY 2007 to 4.3 percent in FY 2014 and then back up to 4.5 percent in FY 2017. Local taxes have also fallen a bit since 2006, from about 3.7 to 3.3 percent of income. State and local debt is low, at 17.2 percent of income, and so is government consumption and investment, at 9.7 percent of income. Government employment is only 10.7 percent of private employment, a big drop since 2010 as the job market has recovered.

Tennessee’s land-use regulations are flexible, and the state has a regulatory takings law. However, eminent domain reform has not gone far. Tennessee is in the top 10 for labor-market freedom, with a right-to-work law, no minimum wage, relaxed workers’ compensation rules, and a federally consistent anti-discrimination law. Unfortunately, E-Verify was mandated in 2011. The managed care model of health coverage has been effectively banned. Cable and telecommunications have been liberalized. On the downside, the extent of occupational licensure looks rather high, though different indicators give different pictures (they agree on an increase in 2016, however). Nurse practitioners lost whatever independent scope of practice they had in 2010, but dental hygienists gained some in 2013. The state marginally loosened insurance rate regulation in 2009–10. There are general and gasoline-specific minimum markup laws, as well as an anti-price-gouging law, household mover licensing, and a certificate-of-need law for medical facilities. The civil liability system improved to above average with reforms in 2011 to punitive damages.

Tennessee’s criminal justice policies have deteriorated over time. The crime-adjusted incarceration rate has risen inexorably since 2000 and is now above average. Drug arrest rates have risen even more dramatically and are now well above the national average. Asset forfeiture is mostly unreformed. Cannabis laws are strict. Tennessee is one of the best states for gun rights, but the rules around open carry are fairly strict. The state improved here in 2016 with a cut in the cost of a lifetime carry permit. Alcohol freedom is below average because of the blue laws and very high beer taxes, which were raised in 2013 to $1.08 a gallon in 2008 dollars and then again to $1.17 in 2015. The state has little gambling. Educational freedom is low: there are no private or public school choice programs, and private schools and homeschools face significant regulatory burdens. Tobacco freedom is a bit better than average.

POLICY RECOMMENDATIONS

• Fiscal: Separate spending and tax committees in the legislature, a reform shown to correspond to lower spending over time. Sales taxes are high and could be cut.

• Regulatory: Repeal the price-gouging law and all minimum-markup laws. This reform could have raised Tennessee above South Carolina and Mississippi on regulatory policy.

• Personal: Deregulate private schools and homeschools by removing mandatory approval and teacher licensing for private schools and relaxing annual notification requirements for homeschoolers.

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