TENNESSEE

2019 RANK 4th

FISCAL
REGRULATORY
PERSONAL
OVERALL

PARTY CONTROL

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<th>2021</th>
<th>2019</th>
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<td>GOVERNOR</td>
<td>Lee</td>
<td>Lee</td>
<td>Haslam</td>
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<td>SENATE</td>
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<td>HOUSE OF REP.</td>
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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.

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

Tennessee has long been one of the economically freest states, largely because of its outstanding fiscal policies, but it also used to be one of the personally freest states in the South. That edge disappeared as it became a more stereotypical red state. As a result, Tennessee fell from third in overall freedom in 2001 to seventh in 2012. It has recovered some ground since and is now fourth overall in this year’s index.

The Volunteer State lacks an income tax, and both state and local tax collections fall well below the national average. We show state-level taxes falling from 5.1 percent of adjusted personal income in FY 2007 to 4.2 percent in FY 2014, then rising to 4.4 percent in FY 2017 and falling to a low of 4.1 percent in the latest data. This shift compares to a national average in FY 2020 of 5.7 percent. Local taxes were already below the national average of 3.7 percent in FY 2009, but they fell off a cliff to only 2.5 percent of income now. State and local debt is low at 14.3 percent of income. Government consumption and investment is low at 9.1 percent of income and has been falling for a decade. Government employment is only 10.2 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. The state put into place a law preventing employers from banning guns on certain company property in 2015. Tennessee is in the top 10 for labor-market freedom, with a right-to-work law, no minimum wage, and relaxed workers’ compensation rules. Unfortunately, E-Verify was mandated in 2011. The managed care model of health coverage has been effectively banned. Mandates are low. Cable and telecommunications have been liberalized. On the downside, the extent of occupational licensure looks rather high, though different indicators give different pictures. 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 but restrictions came back in 2018. The state has 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 been improving the past few years, though it still ranks outside the top 30. The crime-adjusted incarceration rate rose steadily from 2000 to 2011 but has been on a downward trend since. It is still above average, but the past two years have seen a good drop. Drug arrest rates and victimless crime arrest rates are also moving in the right direction. The latter is below average. Asset forfeiture is mostly unreformed, but equitable sharing revenue is going in the right direction. Cannabis laws are strict, though a very limited medical marijuana law was enacted in 2021. Tennessee is mediocre on gun rights in our index, but its passage of permitless handgun carry in 2021 has significantly expanded gun freedom in the state. The new Smith & Wesson presence will provide a positive interest group force in the state. Alcohol freedom is now above average because of blue law relaxation in 2017/18. Beer taxes remain excessive. The state has little gambling, though it now has sports betting as of 2019. Educational freedom is slightly below average, but a voucher program was passed in 2019. Private schools and homeschools face significant regulatory burdens. Tobacco freedom is a bit better than average, with relatively low taxes, but new regulations on internet purchase appeared in 2017.