

How Jersey needs to fix economy

**COLUMN:
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The Wall Street meltdown, with the Dow hovering near its lowest level in years, has obscured a troubling reality. Economic growth in the northeast region has been stunted for a long time, for a simple reason.

Four states in particular — New York, New Jersey, Pennsylvania, and Rhode Island — are hostile to economic freedom and the growth that comes with it. Unless local lawmakers address this core deficiency, they have little hope of ensuring that their states recover quickly once the national economy turns the corner.

What is economic freedom? We have defined it as the right of individuals to pursue their interests through the voluntary exchange of private property under the rule of law. It translates into low taxes, few regulations, only essential government spending with limited redistribution, and a balanced tort system.

The Pacific Research Institute recently released three studies evaluating aspects of economic freedom and the business climate in all 50 states. New York, New Jersey, Pennsylvania, and Rhode Island rank at the bottom of the barrel in all three.

Measuring economic freedom is not an academic exercise. Expanded economic freedom guarantees that the economy and standards of living will grow. Low levels of economic freedom correlate with below-average economic growth. Last year, Rhode Island's economy grew just 0.1 percent. New Jersey's expanded a middling 1.1 percent. Both rates

are well below the national average of 2 percent.

So what can states do to aid their ailing economies? All three of our studies found that a state's tort system has a profound impact on economic growth. New York, New Jersey, Pennsylvania, and Rhode Island all have abysmal records in this area.

Tort systems are intended to give businesses the incentive to manufacture safe products and to compensate truly injured people when they don't. In the past few decades, unfortunately, tort law has spun out of control.

We have all heard of jackpot lawsuits in which a plaintiff is awarded millions for spilling hot coffee. It's not just the business sued that pays the price. We all do, in the form of higher prices for consumer products and insurance policies. Take a look at New York's health care sector, for example.

In New York, medical malpractice insurance rates are among the highest in the country. Because doctors are worried about potentially ruinous malpractice lawsuits, they practice "defensive medicine," ordering unnecessary — and costly — tests and procedures. This drives up the cost of health insurance in New York and makes insurance unaffordable to many.

Thanks in part to a lack of common-sense tort reforms, New York and New Jersey lead the nation in relative monetary tort losses. Rhode Island and Pennsylvania are not far behind. Because of this costly and risky climate, physicians are leaving these states for areas that

reformed their laws.

In 2003, for example, Texas capped monetary awards in malpractice lawsuits. New York doctors took notice. In 2006, 145 doctors from the Empire State sought licenses to practice in Texas — more than from any other state.

The same thing has happened across the country. A study by Fred Hellinger and William Encinosa conducted for the U.S. Department of Health and Human Services found that states with malpractice award caps had about 12 percent more physicians per capita than states without damage caps.

The "brain drain" of medical talent from New York is just one example of how a tort system affects businesses. Companies in other sectors are leaving states with dysfunctional tort systems in droves. Indeed, a recent survey of corporate executives of all stripes found that litigation risk was the second-most-important factor in determining where to locate a business.

Policy makers in northeastern states should be concerned about these migratory trends—particularly as they attempt to rebuild their economies. In 2005, for example, employment growth was an astonishing 216-percent higher in the 15 most economically free states than in the 15 least free states.

The congressional bailout is supposed to ease the financial crisis, but the current downturn shows little sign of letting up soon. Clearly, the economies of New York and its neighbors remain in deep trouble. If state leaders are serious about recovering from the economic crisis, they would be wise to expand economic freedom and enact much needed tort reform.

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