

Media Release

Alberta places high in economic freedom rankings

For Immediate Release

VANCOUVER, BC, 29 JUNE 2005—Alberta places in the top five most economically free jurisdictions among the Canadian provinces and U.S. states; all other Canadian provinces, except Ontario, remain in the bottom 10, according to the *Economic Freedom of North America: 2005 Annual Report*, released today by The Fraser Institute.

The report measures the relative amount of economic freedom among the Canadian provinces and U.S. states. The Fraser Institute and the National Centre for Policy Analysis released the report in Canada and in the United States.

“Fact-based research shows that economic freedom is key to fostering prosperity,” said Fred McMahon, the study’s co-author. “Economic freedom is a powerful driver of growth and prosperity and those provinces and states that have low levels of economic freedom continue to leave their citizens poorer than they need or should be.”

Economic freedom, not resource wealth, explains almost three-quarters of the \$16,000 difference in per capita income between Alberta and the rest of Canada. Ontario, with middling resource wealth, but high levels of economic freedom by Canadian standards, has Canada’s second highest income. Saskatchewan, which has immense oil, gas, and other resource wealth, but limited economic freedom, has levels of prosperity well below these freer provinces.

Measuring Economic Freedom

The report constructs two measures of economic freedom: the all-government index, which captures the restrictions imposed by all levels of government (federal, provincial/state, and local); and the sub-national index which captures the restrictions imposed by provinces/states and local government.

Economic freedom measures the extent to which individuals control their own property without onerous taxation, are able to enter into voluntary transactions without having their freedom limited by government activities, and are able to enter freely into non-coercive agreements between potential employers and employees.

Economic Freedom among the Provinces

All provinces, except Alberta, are clustered at the bottom of the rankings and also have low relative levels of prosperity. Alberta is tied (with Indiana) for 13th in the sub-national index and for 4th in the all-government index (tied with Georgia and Texas).

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Alberta's strong ranking is because Ottawa's expenditures in Alberta are very low, much lower than the tax take from Alberta. This lower level of spending increases economic freedom by leaving more economic space for transactions to which individuals and firms voluntarily agree.

Canada's second freest province, Ontario, ranks 47th in the sub-national index and 45th in the all-government index, ahead of a handful of U.S. states. British Columbia is the only other Canadian province ahead of one state (West Virginia) in both of the indexes.

Econometric research shows that each additional point on the index's 10 point scale increases per capita income by almost \$4,700 in Canada.

The results show that, while economic freedom has a powerful impact in Canada, its impact on U.S. states is far greater. Each additional point increase in economic freedom among U.S. states has almost twice the positive impact it has in Canada.

"The difference is likely because of Canada's fiscal federalism which transfers money from rich to poor provinces," said McMahon. "Since economic freedom spurs prosperity and growth, fiscal federalism in effect transfers money from relatively free provinces to relatively unfree provinces. This transfer mutes the impact of economic freedom and perversely creates incentives for provincial politicians to limit economic freedom."

Generally, U.S. states have been able to realize the gains economic freedom generates while Canadian provinces have lost opportunities due to weak levels of economic freedom and the structure of Canadian federalism.

About the Index

Both the all-government and sub-national indexes contain three sub-indexes designed to measure restrictions on economic freedom: 1) Size of Government, 2) Takings and Discriminatory Taxation, and 3) Labour Market Freedom.

The North American index is an intellectual offshoot of the *Economic Freedom of the World* index, the result of two decades of work by more than 100 scholars including several Nobel Laureates.

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Established in 1974, The Fraser Institute is an independent public policy organization with offices in Vancouver, Calgary, and Toronto.

The media release and study (in pdf) can be viewed at www.fraserinstitute.ca and www.freetheworld.com.

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