Economic Freedom of North America

2008 Annual Report (Canadian Edition)

Amela Karabegović & Fred McMahon

with Nathan J. Ashby & Russell S. Sobel

The Fraser Institute
2008

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Contents

About the Authors / iv

About the Contributors / v

Acknowledgments / vi

Executive Summary / vii

Chapter 1 Economic Freedom of Canada and the United States / 3

Economic Freedom in the District of Columbia / 21

Chapter 2 Economic Freedom, Entrepreneurship, and Economic Growth at the Subnational Level / 31

by Russell S. Sobel

Chapter 3 Detailed Tables of Economic Freedom in Canada and the United States / 49

Chapter 4 Economic Freedom in the United Mexican States / 69

by Nathan J. Ashby

Appendix A Methodology / 77

Appendix B Explanation of Components and Data Sources / 81

Appendix C Selected Publications Using Ratings from Economic Freedom of North America / 87

About this Publication / 90

About the Fraser Institute / 91

Editorial Advisory Board / 92

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Executive Summary

This is the fifth edition of the annual report, *Economic Freedom of North America*. The statistical results of this year's study persuasively confirm those published in the previous four editions: economic freedom is a powerful driver of growth and prosperity. Those provinces and states that have low levels of economic freedom continue to leave their citizens poorer than they need or should be.

Background

The index published in *Economic Freedom of North America* rates economic freedom on a 10-point scale at two levels, the subnational and the all-government. At the all-government level, the index captures the impact of restrictions on economic freedom by all levels of government (federal, state/provincial, and municipal/local). At the subnational level, it captures the impact of restrictions by state or provincial and local governments. *Economic Freedom of North America* employs 10 components in three areas: 1. Size of Government; 2. Takings and Discriminatory Taxation; and 3. Labor Market Freedom.

Not only is economic freedom important for the level of prosperity: growth in economic freedom spurs economic growth. As expected, the impact of economic freedom at the all-government level is greater than the impact at the subnational level since the first index captures a broader range of limitations on economic freedom than the second.

Economic Freedom and Prosperity

The econometric testing shows that a one-point improvement in economic freedom at the all-government level increases per-capita GDP by US$6,232 for US states and by US$4,474 (C$5,413, using a conversion rate of 1.21) [1] for Canadian provinces. At the subnational level, a one-point improvement in economic freedom increases per-capita GDP by US$4,825 for US states and by US$3,846 (C$4,654) for Canadian provinces.

A 1.00% increase in the growth rate of economic freedom at the all-government level (e.g., from 4.00% per year to 4.04% per year) will induce an increase of 1.08% in the growth rate of per-capita GDP for US states and an increase of 0.60% in the growth rate of per-capita GDP for Canadian provinces. A 1.00% increase in the growth rate of economic freedom at the subnational level will induce an increase

[1] This is the average exchange rate for 2005 (Sauder School of Business, UBC, 2008).

of 0.77% in the growth rate of per-capita GDP for US states and 0.57% increase in the growth rate for Canadian provinces.

The econometric results are stable and consistent through a number of sensitivity tests. The importance of these results is reinforced by their consistency with those in previous reports, despite the addition of data from two years (2004, 2005). The similarity of results regardless of the structure of the index or year of the tests is quite remarkable.

Canadian Headlines

There is an interesting contrast between Ontario and British Columbia. Between 1995 and 2000, economic freedom in British Columbia was growing at a slower pace than that in Ontario at both the all-government and subnational levels. During this period, British Columbia's economic growth was just 5%, compared to Ontario's 14%. British Columbia suffered from relatively weak economic freedom growth while Ontario benefited from relatively strong growth.

In the most recent five-year period, 2000 to 2005, economic freedom in British Columbia has increased while Ontario, which had escaped from the bottom 10, has now slipped back. As economic freedom grew in British Columbia, so did its economy, by 10%; in Ontario, economic freedom declined during this period and the economy grew at just over 2%, the lowest rate of growth of all Canadian provinces. Although Ontario remains slightly ahead of British Columbia in economic freedom, in considering economic growth, the rate of change is the key factor. If economic freedom in Ontario continues to show weak growth, the econometric testing here suggests the province will continue to lag in prosperity growth.

From 2000 to 2005, the province of Newfoundland & Labrador had the greatest increase in economic freedom at both the all-government and subnational levels, albeit from a low base. Newfoundland & Labrador has also had by far the fastest economic growth in Canada, 43%, during this period. However, the province has benefited from oil and gas development and it would be hazardous to draw any connection to economic freedom.

There is a clear connection between levels of economic freedom and prosperity throughout Canada: the five freest provinces had an average per-capita GDP for 2005 of US$39,233 compared to US$27,751 for the least-free provinces.

US Headlines

The states that have had the worst record for growth of economic freedom between 2000 and 2005 at the all-government level are New Mexico (the only state with negative growth), Arizona and, tied for third worst, Connecticut, Michigan, South Carolina, New York, and Ohio. The states with the best record in economic freedom are predominately western states. The fastest growth was achieved by North Dakota, Wyoming and Montana are tied for second, and South Dakota, Nevada, Nebraska, Iowa, and Florida are tied for fourth. Over that period, per-capita GDP in the United States grew by 9%, compared to 5% in the states with the worst growth record and 18% in the states with the best record.

Differences between Canada and the United States

The results show that, while economic freedom has a powerful impact in Canada, its impact on US states is far greater. This is likely because of Canada's fiscal federalism, which transfers money from rich to poor provinces. Since economic freedom spurs prosperity and growth, fiscal federalism in effect transfers money from relatively free provinces to relatively unfree provinces, muting the impact of economic freedom and perversely creating incentives for provincial politicians to limit economic freedom and, thus, economic growth since this increases the flow of federal transfers, which are directly controlled by these politicians. This enhances their power and their ability to reward friends and penalize enemies.

All provinces, except Alberta, are clustered at the bottom of the rankings for economic freedom at both the all-government and the subnational levels; they also have low levels of prosperity. Alberta is tied for 8th at the subnational level and for 2nd at the all-government level. The higher score in the latter index, which includes federal spending, is because Ottawa's expenditures in Alberta are very low, much lower than the federal 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.

The Evolution of Economic Freedom

The evolution of economic freedom in Canada and the United States follows an expected pattern. In the United States, at the all-government level, economic freedom increases through the 1980s, coinciding with the Reagan era. It then falls in the early 1990s, following tax increases under the first President Bush and the early administration of President Clinton, and then begins to rise again, particularly in the new century. At the subnational level, the pattern is similar but less pronounced, again as one might expect. Many states embarked upon Reagan-like government restructuring, but not all, and often not at the same level of intensity, or in the same time frame.

In Canada through the 1980s, economic freedom remained fairly constant at the subnational level, save for a significant decline at the beginning of the decade, while it increased somewhat at the all-government level, perhaps as a result of a change of federal government, and a resulting change in policy, in 1984. At both the all-government level and the subnational level, economic freedom falls in Canada in the early 1990s and then begins to rise. In early 1990s, federal, provincial, and municipal governments began to address their debts and deficits but more often through increased taxation than through lower spending. However, as debts and deficits were brought under control, governments began to reduce some tax rates through the mid-, and particularly the late, 1990s. Also in this period, fiscally conservative governments were elected in Canada's two richest provinces, Alberta and Ontario. In the early years of the new century, economic freedom rose in Canada at the all-government level while it remained fairly stable at the subnational level.

Overall patterns in Canada and the United States are similar. Both nations fought debts and deficits in the early 1990s with tax increases. However, Canada

raised taxes more aggressively, as can be seen from changes in economic freedom during this period. From 1981 to 2005, the gap between economic freedom in Canada and that in the United States at both the subnational and the all-government levels first widened and then narrowed again until 2000, and has been roughly stable since.

New Research

Economic freedom and entrepreneurship in the United States

In chapter 2, Russell S. Sobel, Professor of Economics at West Virginia University, discusses the theoretical reasons that economic freedom, rather than state intervention, should spur entrepreneurship. Holding other relevant factors constant, he undertakes statistical testing of the relationship, showing, for example, that a one-point increase in economic freedom results in

- an increase of US$32.13 in venture capital investment per capita
- an increase in the number of patents by 8.2 per 100,000 population
- and an increase of 4.2% in the growth of sole proprietorships

among other positive outcomes related to entrepreneurship. Another way of looking at the impact of economic freedom is to compare the records of the top five and bottom five states in economic freedom. The top five states average US$138.74 per capita in venture capital investment compared to just US$15.57 in the bottom states; the top five states generated 29.9 patents per 100,000 population compared to 8.8 among the bottom five states; and the growth rate of sole proprietorships is 4.2% among the top states compared to 2.8% among the bottom states.

The economic freedom of Mexico

The ultimate goal of this project is to include all three North American nations in the index. Problems with the comparability of Mexican data have limited the index to Canada and the United States. Chapter 4 by Nathan J. Ashley of the University of Texas at El Paso is a major step towards including Mexico in the index. He notes his results are preliminary and therefore subject to revision. Nonetheless, the data he gathered enabled him to construct components that demonstrate that variance in the well-being of Mexicans is strongly connected to differences in economic freedom. For example, the top quintile of economically free states in the preliminary index have an average income of MX$98,415 compared with MX$40,562 for the bottom quintile. He notes that the principal remaining hurdles to constructing an index of economic freedom for Mexico are finding or imputing reliable data for government employment at the state level, finding trustworthy data on total social security payments, and constructing comparable data for the Legal Structure and Property Rights in Canada and the United States.

Economic Freedom of North America

2008 Annual Report (Canadian Edition)

Chapter 1
Economic Freedom of Canada and the United States

Economic Freedom and the Index

Economic Freedom of North America is an attempt to gauge the extent of the restrictions on economic freedom imposed by governments in North America. The index published here measures economic freedom at two levels, the subnational and the all-government. At the subnational level, it measures the impact on economic freedom of provincial and municipal governments in Canada and of state and local governments in the United States. At the all-government level, it measures the impact of all levels of government—federal, provincial/state, and municipal/local—in Canada and the United States. All 10 provinces and 50 states are included. [1]

The study examines the impact of economic freedom on both the level of economic activity and the growth of economic activity. The econometric testing presented in this publication shows that in Canada and the United States economic freedom fosters prosperity and growth. Economic freedom increases the affluence of individuals. This finding is consistent with other studies of economic freedom. [2] The results are highly significant and remarkably stable through a number of different sensitivity tests.

The majority of US states have high levels of economic freedom and prosperity but Canadian provinces are poorly positioned to benefit from economic freedom. With the exception of Alberta, they are all clustered at the bottom of the economic freedom ratings. Figures 1.1 and 1.2 (pages 4 & 5) show scores for economic freedom and the large differences between the US states and the Canadian provinces.

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[1] *Economic Freedom of North America* examines only US states and Canadian provinces due to the limitations of the data available for the Mexican states. Our ultimate goal, however, is to include all three North American nations. Chapter 4 by Nathan J. Ashley (University of Texas at El Paso) is a major step towards this goal although the results are preliminary and subject to revision.

[2] See Easton and Walker, 1997; De Haan and Sturm, 2000; and related papers at <http://www.freetheworld.com>. For the latest summary of literature on economic freedom at an international level, see Doucouliagos and Ulubasoglu, 2006.

Figure 1.1: Summary of 2005 Ratings at the All-Government Level

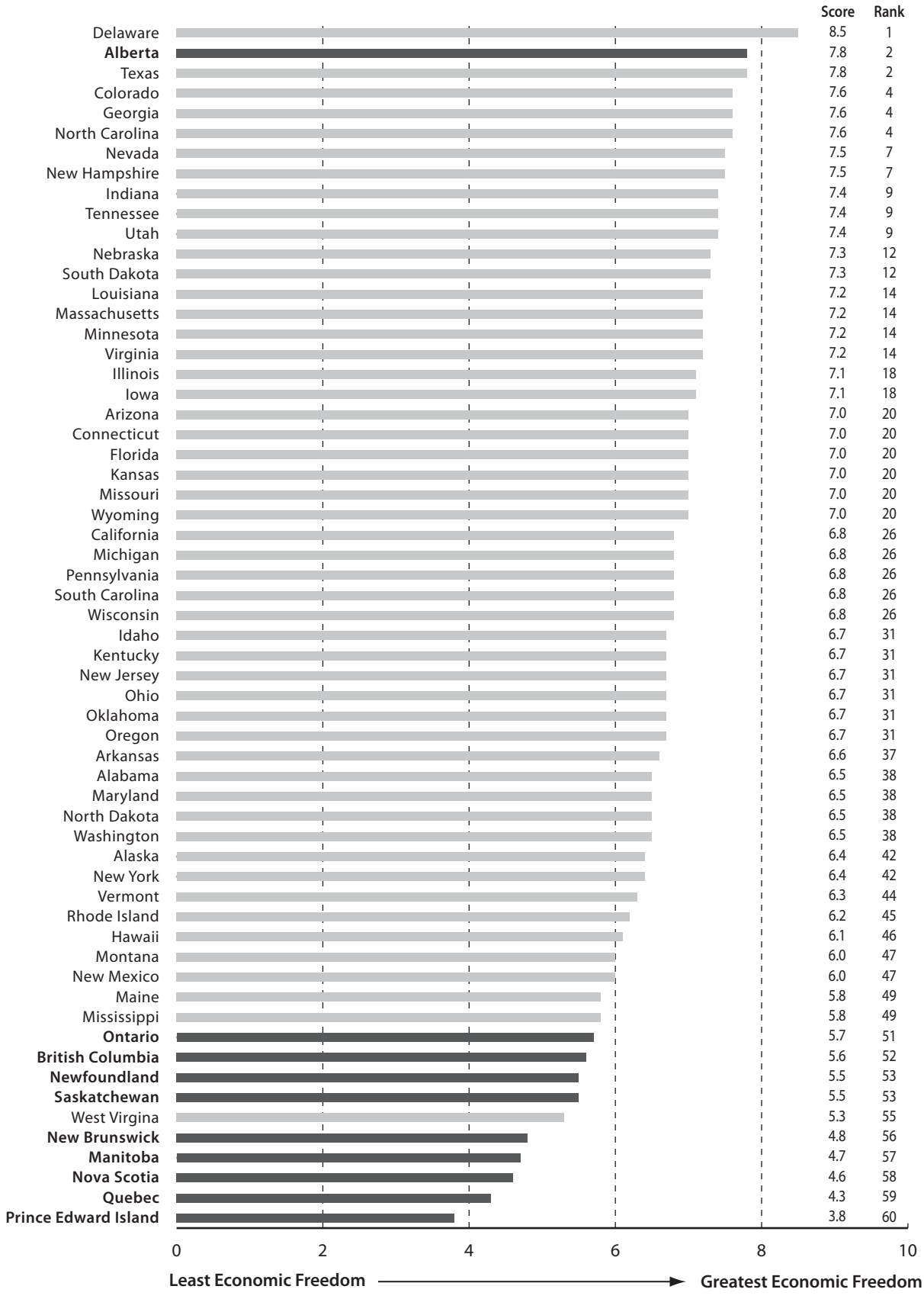
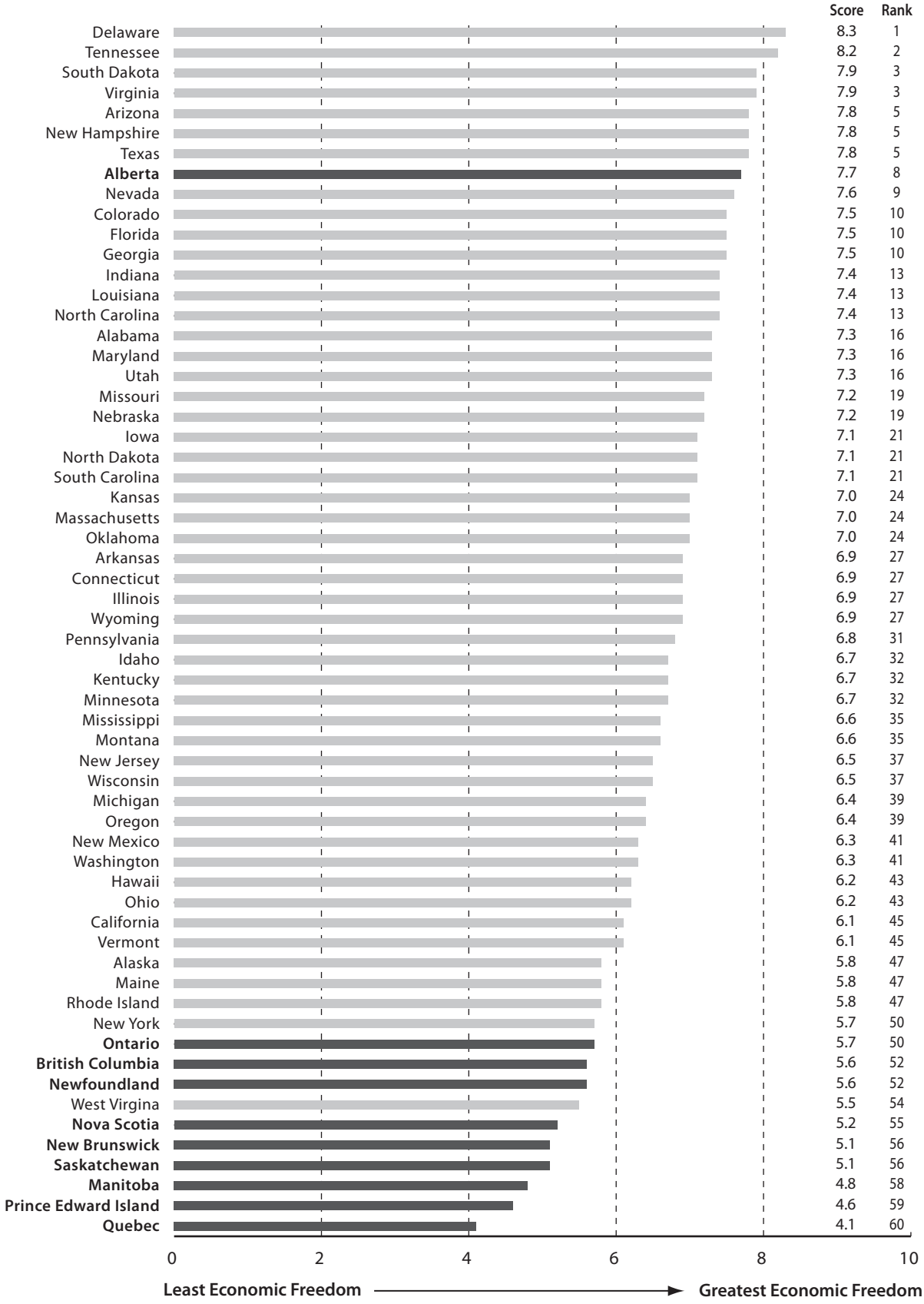


Figure 1.2: Summary of 2005 Ratings at the Subnational Level



What Is Economic Freedom?

Writing in *Economic Freedom of the World, 1975–1995,* James Gwartney and his co-authors defined economic freedom in the following way.

> Individuals have economic freedom when (a) property they acquire without the use of force, fraud, or theft is protected from physical invasions by others and (b) they are free to use, exchange, or give their property as long as their actions do not violate the identical rights of others. Thus, an index of economic freedom should measure the extent to which rightly acquired property is protected and individuals are engaged in voluntary transactions. (Gwartney, Lawson, and Block, 1996: 12)

The freest economies operate with minimal government interference, relying upon personal choice and markets to answer the basic economic questions such as what is to be produced, how it is to be produced, how much is produced, and for whom production is intended. As government imposes restrictions on these choices, there is less economic freedom.

The research flowing from the data generated by the annually published report, *Economic Freedom of the World*, [3] a project The Fraser Institute initiated over 20 years ago, shows that economic freedom is important to the well-being of a nation's citizens. This research has found that economic freedom is positively correlated with per-capita income, economic growth, greater life expectancy, lower child mortality, the development of democratic institutions, civil and political freedoms, and other desirable social and economic outcomes. Just as *Economic Freedom of the World* seeks to measure economic freedom on an international basis, *Economic Freedom of North America* has the goal of measuring differences in economic freedom among the Canadian provinces and US states.

In 1999, The Fraser Institute published *Provincial Economic Freedom in Canada: 1981–1998* (Arman, Samida, and Walker, 1999), a measure of economic freedom in 10 Canadian provinces. *Economic Freedom of North America* updates and, by including the 50 US states, expands this initial endeavor. This study looks at 10 Canadian provinces—excluding Yukon, the Northwest Territories, and Nunavut—and the 50 US states from 1981 to 2005. Each province and state is ranked on economic freedom at both the subnational and the all-government levels. This helps isolate the impact of different levels of government on economic freedom in Canada and the United States.

In extending the work on economic freedom, it would seem obvious to include the tried and tested measures used in *Economic Freedom of the World*. This is not as easy as it sounds. Some categories of the world index have too little variance from one jurisdiction to another in Canada and the United States to be measured

[3] A list of many of these articles and additional information can be found at <http://www.freetheworld.com>.

accurately. For example, the stability of the legal system (one of the areas used in *Economic Freedom of the World*) does not differ much among states and provinces. Components such as the private ownership of banks, avoidance of negative interest rates, monetary policy, freedom to own foreign currency, the right to international exchange, structure of capital markets, and black-market exchange rates are ineffective for an inquiry into the state of economic freedom within Canada and the United States, particularly at a subnational level.

However, economic freedom varies throughout Canada and the United States in three important aspects, which we attempt to capture in this index: size of government; takings and discriminatory taxation; and labor-market freedom. A fourth, potentially important, area of difference, restriction on the movement of goods within North America, had to be left out due to lack of data. This may be particularly important in the Canadian context, since Canada retains a number of internal trade barriers (Knox, 2002).

Data limitations also create difficulties in testing relationships between economic freedom and key economic components. For example, we are able to construct only a partial model of growth as data on investment for individual states, an important part of any growth model, are not available. Fortunately, as discussed later, the effect of omitting an investment component on the estimated economic-freedom coefficient is likely to be of little quantitative significance. High-school graduation rates are used as a proxy for human capital but in our testing this indicator often does not have the expected sign and is seldom significant in the regressions in which it is included.

Due to data limitations and revisions, some time periods are either not directly comparable or are not available. When necessary, we have used the data closest to the missing time period as an estimate for the missing data. If there have been changes in this component during this period, this procedure would introduce some amount of measurement error in the estimate of economic freedom for the particular data point. However, omitting the component in the cases when it is missing and basing the index score on the remaining components may create more bias in the estimate of overall economic freedom.

The theory of economic freedom [4] is no different at the subnational and all-government level than it is at the global level, although different proxies consistent with the theory of economic freedom must be found that suit subnational and all-government measures. The 10 components chosen fall into three areas: Size of Government, Takings and Discriminatory Taxation, and Labor Market Freedom. Most of the components we use are calculated as a ratio of gross domestic product (GDP) in each jurisdiction and thus do not require the use of exchange rates or purchasing power parities (PPP). The exception is component *2B, Top Marginal Income Tax Rate and the Income Threshold at Which It Applies*, where purchasing power parity is used to calculate equivalent top thresholds in Canada in US dollars.

[4] See Gwartney and Lawson, 2007. The website, <http://www.freetheworld.com>, has references to a number of important papers and books that explore the theory of economic freedom.

Description of Components

Using a simple mathematical formula to reduce subjective judgments, a scale from zero to 10 was constructed to represent the underlying distribution of the 10 components in the index. The highest possible score is 10, which indicates a high degree of economic freedom. [5] Thus, this index is a relative ranking. The rating formula is consistent across time to allow an examination of the evolution of economic freedom. To construct the overall index without imposing subjective judgments about the relative importance of the components, each area was equally weighted and each component within each area was equally weighted (see Appendix A: Methodology, page 77, for more details).

The index of economic freedom for Canada and the United States assigns a higher score when component *1A, General Consumption Expenditures by Government as a Percentage of GDP*, is smaller in one state or province relative to another. This would seem to contradict the theory of economic freedom, which does not predict that a government size of zero maximizes freedom. Indeed, important government functions, such as the enforcement of the rule of law, are necessary for economic freedom and freedom more broadly. However, all that the theory of economic freedom requires is that governments be large enough to undertake an adequate but minimal level of the "protective" and "productive" functions of government, discussed in the next section. It is unlikely that any government considered in this sample is too small to perform these functions at the minimum required level.

Area 1: Size of Government

1A: General Consumption Expenditures by Government as a Percentage of GDP

As the size of government expands, less room is available for private choice. While government can fulfill useful roles in society, there is a tendency for government to undertake superfluous activities as it expands: "there are two broad functions of government that are consistent with economic freedom: (1) protection of individuals against invasions by intruders, both domestic and foreign, and (2) provision of a few selected goods—what economists call public goods" (Gwartney et al., 1996: 22). These two broad functions of government are often called the "protective" and "productive" functions of government. Once government moves beyond these two functions into the provision of private goods, goods that can be produced by private firms and individuals, it restricts consumer choice and, thus, economic freedom (Gwartney et al., 1996). In other words, government spending, independent of taxation, by itself reduces economic freedom once this spending exceeds what is necessary to provide a minimal level of protective and productive functions. Thus, as the size of government consumption grows, a jurisdiction receives a lower score in this component.

[5] Due to the way scores for economic freedom are calculated, a mini-max procedure discussed in Appendix A: Methodology (page 77), 10 is not indicative of perfect economic freedom.

1B: Transfers and Subsidies as a Percentage of GDP

When the government taxes one person in order to give money to another, it separates individuals from the full benefits of their labor and reduces the real returns of such activity (Gwartney et al., 1996). These transfers represent the removal of property without providing a compensating benefit and are, thus, an infringement on economic freedom. Put another way, when governments take from one group in order to give to another, they are violating the same property rights they are supposed to protect. The greater the level of transfers and subsidies, the lower the score a jurisdiction receives.

1C: Social Security Payments as a Percentage of GDP

When private, voluntary arrangements for retirement, disability insurance, and so on are replaced by mandatory government programs, economic freedom is diminished.

Area 2: Takings and Discriminatory Taxation

2A: Total Tax Revenue as a Percentage of GDP

2B: Top Marginal Income Tax Rate [6] *and the Income Threshold at Which It Applies*

2C: Indirect Tax Revenue as a Percentage of GDP

2D: Sales Taxes Collected as a Percentage of GDP

Some form of government funding is necessary to support the functions of government but, as the tax burden grows, the restrictions on private choice increase and thus economic freedom declines. Taxes that have a discriminatory impact and bear little reference to services received infringe on economic freedom even more: "High marginal tax rates discriminate against productive citizens and deny them the fruits of their labor" (Gwartney et al., 1996: 30). In each of components except 2B, a higher ratio lowers a jurisdiction's score in this component. Top personal income-tax rates are rated by the income thresholds at which they apply. Higher thresholds result in a better score.

Examining the separate sources of government revenue gives the reader more information than just examining a single tax source or overall taxes. Nonetheless, total tax revenue is included to pick up the impact of taxes, particularly various corporate and capital taxes, not included in the other three components.

In examining the two areas above, it may seem that Areas 1 and 2 create a double counting, in that they capture the two sides of the government ledger sheet, revenues and expenditures, which presumably should balance over time. However, in examining subnational jurisdictions, this situation does not hold. In the United States, and even more so in Canada, a number of intergovernmental transfers break the link between taxation and spending at the subnational level. [7] The break between

[6] See Appendix A: Methodology (page 77) for further discussion of how the rating for the top marginal tax rate and its threshold was derived.

[7] Most governments have revenue sources other than taxation and national governments also have international financial obligations so that the relation between taxation and spending will not be exactly one to one, even at the national level. Nevertheless, over time, the relationship will be close for most national governments, except those receiving large amounts of foreign aid.

revenues and spending is even more pronounced at the all-government level, which includes the federal government. Obviously, what the federal government spends in a state or a province does not necessarily bear a strong relationship to the amount of money it raises in that jurisdiction. Thus, to take examples from both Canada and the United States, the respective federal governments spend more in Newfoundland and West Virginia than they raise through taxation in these jurisdictions while the opposite pattern occurs for Alberta and Connecticut.

As discussed above, both taxation and spending can suppress economic freedom. Since the link between the two is broken when examining subnational jurisdictions, it is necessary to examine both sides of the government's balance sheet.

Area 3: Labor Market Freedom

3A: Minimum Wage Legislation

High minimum wages restrict the ability of employees and employers to negotiate contracts to their liking. In particular, minimum wage legislation restricts the ability of low-skilled workers and new entrants to the workforce to negotiate for employment they might otherwise accept and, thus, restricts the economic freedom of these workers and the employers who might have hired them.

This component measures the annual income earned by someone working at the minimum wage as a ratio of per-capita GDP. Since per-capita GDP is a proxy for the average productivity in a jurisdiction, this ratio takes into account differences in the ability to pay wages across jurisdictions. As the minimum wage grows relative to productivity, thus narrowing the range of employment contracts that can be freely negotiated, there are further reductions in economic freedom, resulting in a lower score for the jurisdiction. For example, minimum wage legislation set at 0.1% of average productivity is likely to have little impact on economic freedom; set at 50% of average productivity, the legislation would limit the freedom of workers and firms to negotiate employment to a much greater extent. Put another way, a minimum wage requirement of $2 an hour for New York will have little impact but, for a third-world nation, it might remove most potential workers from the effective workforce. The same idea holds, though in a narrower range, for jurisdictions within Canada and the United States.

3B: Government Employment as a Percentage of Total State/Provincial Employment

Economic freedom decreases for several reasons as government employment increases beyond what is necessary for government's productive and protective functions. Government, in effect, is using expropriated money to take an amount of labor out of the labor market. This restricts the ability of individuals and organizations to contract freely for labor services since potential employers have to bid against their own tax dollars in attempting to obtain labor. High levels of government employment may also indicate that government is attempting to supply goods and services that individuals contracting freely with each other could provide on their own. It may also be that the government is attempting to provide goods and services that individuals would not care to obtain if able to contract freely. It may

also indicate that government is engaging in regulatory and other activities that restrict the freedom of citizens. Finally, high levels of government employment suggest government is directly undertaking work that could be contracted privately. When government, instead of funding private providers, decides to provide a good or service directly, it reduces economic freedom by limiting choice and by typically creating a governmental quasi-monopoly in provision of services. For instance, the creation of school vouchers may not decrease government expenditures but it will reduce government employment, eroding government's monopoly on the provision of publicly funded education services while creating more choice for parents and students and, thus, enhancing economic freedom.

3C: Union Density

Workers should have the right to form and join unions, or not to do so, as they choose. However, laws and regulations governing the labor market often force workers to join unions when they would rather not, permit unionization drives where coercion can be employed (particularly when there are undemocratic provisions such as union certification without a vote by secret ballot), and may make decertification difficult even when a majority of workers would favor it. On the other hand, with rare exceptions, a majority of workers can always unionize a workplace and workers are free to join an existing or newly formed union.

To this point in time, there is no reliable compilation of historical data about labor-market laws and regulations that would permit comparisons across jurisdictions. In this report, therefore, we attempt to provide a proxy for this component. We begin with union density, that is, the percentage of unionized workers in a state or province. However, a number of factors affect union density: laws and regulations, size of government employment, and manufacturing density. In measuring economic freedom, our goal is to capture the impact of policy factors, laws and regulations, and so on, not other factors. We also wish to exclude government employment—although it is a policy factor that is highly correlated with levels of unionization—since government employment is captured in component 3B above.

Thus, we ran statistical tests to determine how significant an effect government employment had on unionization—a highly significant effect—and held this factor constant in calculating the component. We also ran tests to determine if the size of the manufacturing sector was significant. It was not and, therefore, we did not correct for this factor in calculating the component. It may also be that the size of the rural population has an impact on unionization. Unfortunately, consistent data from Canada and the United States are not available. Despite this limitation, the authors believe this proxy component is the best available at the moment. Its results are consistent with the published information that is available (see, for example, Godin, Palacios, Clemens, Veldhuis, and Karabegović, 2006).

Most of the components above exist for both the subnational and the all-government levels. Total revenue from own sources, for example, is calculated first for local/municipal and provincial/state governments, and then again counting all levels of government that capture revenue from individuals living in a given province or state.

Overview of the Results

Following are some graphs that demonstrate dramatically the important links between prosperity and economic freedom, links that are more fully explored in the section on econometric testing, Economic Freedom and Economic Well-Being (page 30). Figure 1.3 breaks economic freedom into quintiles at the all-government level. For example, the category on the far left of the chart, "Least Free," represents the jurisdictions that score in the lowest fifth of the economic freedom ratings, the 12 lowest of the 60 Canadian and American jurisdictions. Nine of these are Canadian provinces—all except Alberta. The jurisdictions in this least free quintile have an average per-capita GDP of just US$30,786 (CA$37,251). [8] This compares to an average per-capita GDP of US$44,159 (CA$53,433) for the 12 top-ranked jurisdictions. Figure 1.4 is the same type of chart as Figure 1.3 but shows economic freedom at the subnational level. Here, the least free quintile has an average per-capita GDP of US$34,759 (CA$42,058) compared to the most free quintile, which has an average per-capita GDP of US$44,651 (CA$54,028).

Another useful way to review economic freedom is through deviation from the mean. This examines the impact on economic activity of a jurisdiction's being above or below the average ranking of other national jurisdictions, comparing Canadian provinces with the Canadian average and US states with the US average. Here scatter charts help illustrate the point, though a quick visual inspection will show these diagrams could easily be translated into column graphs like Figures 1.3 and 1.4. Figures 1.5 and 1.6 relate prosperity to economic freedom, with economic freedom plotted along the horizontal axis and per-capita GDP plotted along the vertical axis. Once again these charts illustrate the connection between economic freedom and prosperity. As one might expect, the subnational relationship is weaker than the all-government one because only at the all-government level are all government restrictions on economic freedom captured.

Finally, in this illustrative section, we look at the relationship between the growth of economic freedom and the growth of a jurisdiction's economy, another topic more fully explored in the section on econometric testing. In Figures 1.7 and 1.8, growth in economic freedom is plotted along the horizontal axis while growth in GDP per capita is plotted along the vertical axis. Again, the expected relationships are found, with economic growth strongly linked to growth in economic freedom.

Comparing the All-Government Level and the Subnational Level

In general, rankings at an all-government level are not drastically different from rankings at a subnational level when US states, as a group, are compared with Canadian provinces, as a group. This is partly due to the way the subnational component is constructed. Subnational responsibilities in Canada and the United

[8] The most recent data available are from 2005. Note that an exchange rate of 1.21 was used throughout the study, based on the 2005 average exchange rate (Sauder School of Business, 2008).

Figure 1.3: Economic Freedom at the All-Government Level and GDP per Capita, 2005

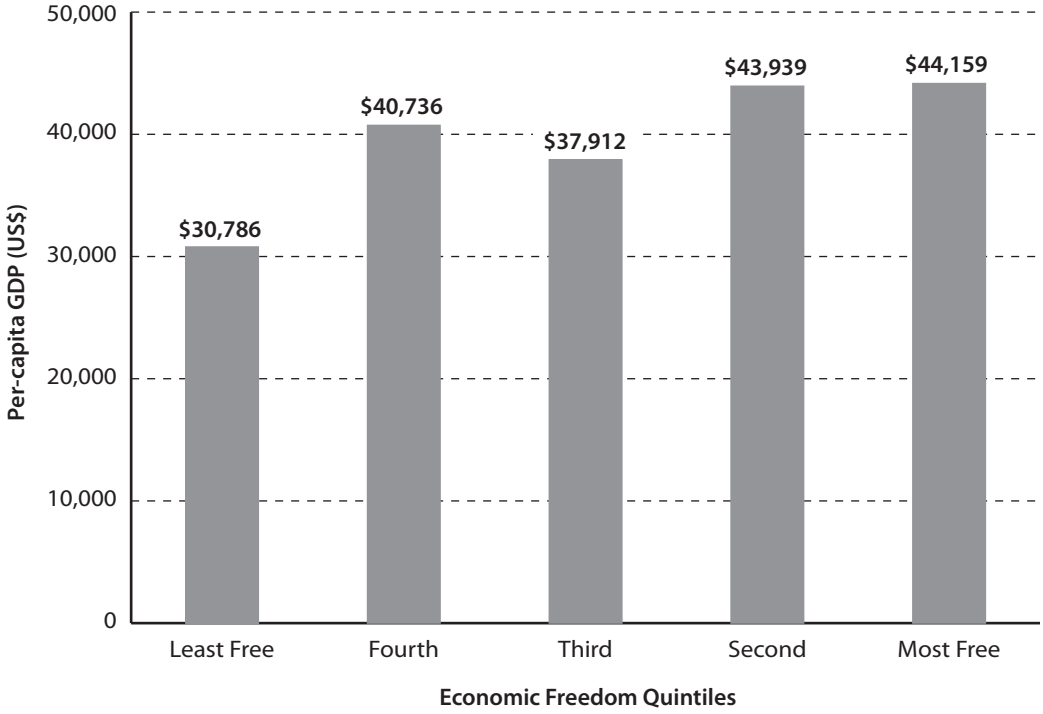


Figure 1.4: Economic Freedom at the Subnational Level and GDP per Capita, 2005

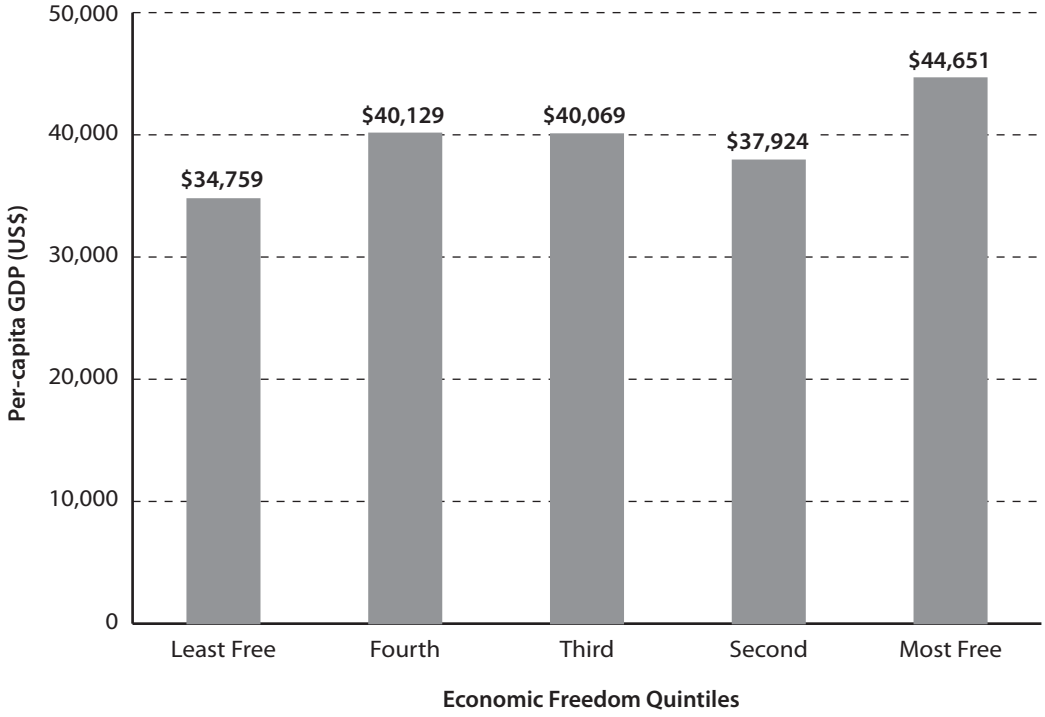


Figure 1.5: Average GDP per Capita and Average Economic Freedom at the All-Government Level, 1981–2005

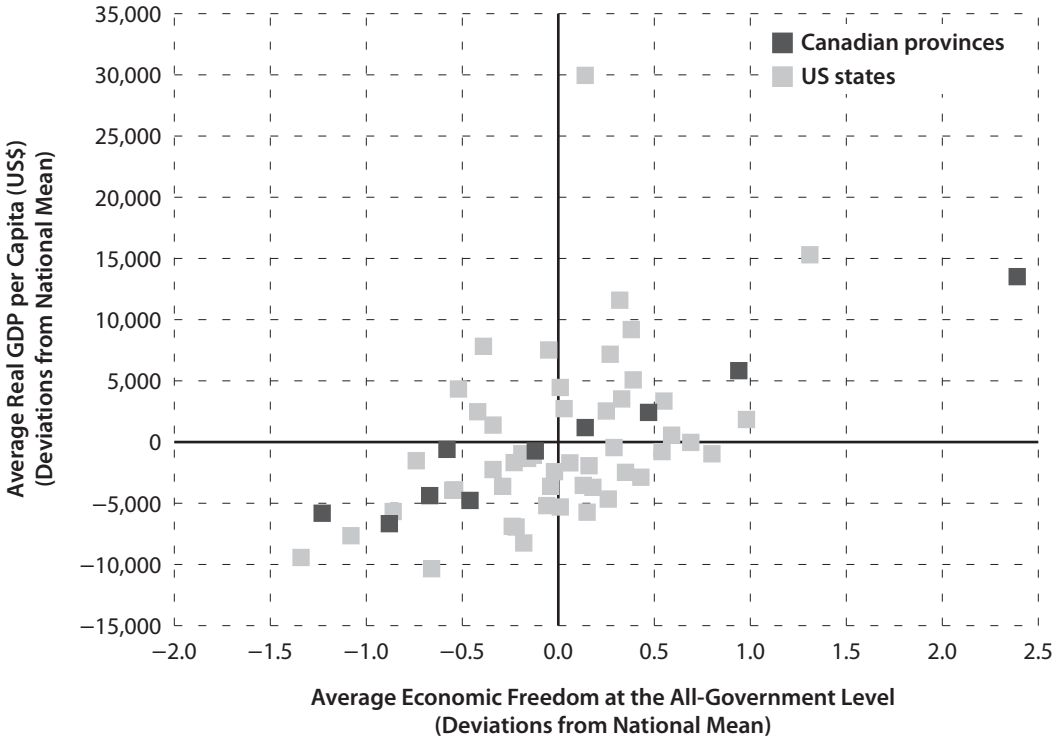


Figure 1.6: Average GDP per Capita and Average Economic Freedom at the Subnational Level, 1981–2005

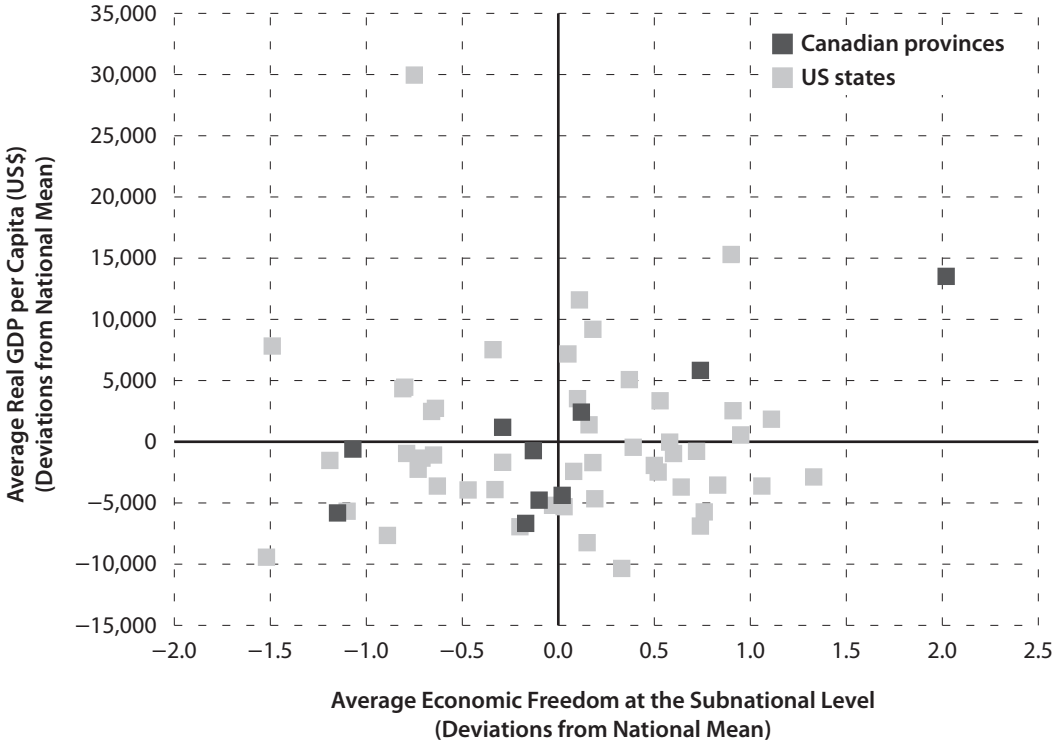


Figure 1.7: Average Growth in GDP per Capita and Average Growth in Economic Freedom at the All-Government Level, 1982–2005

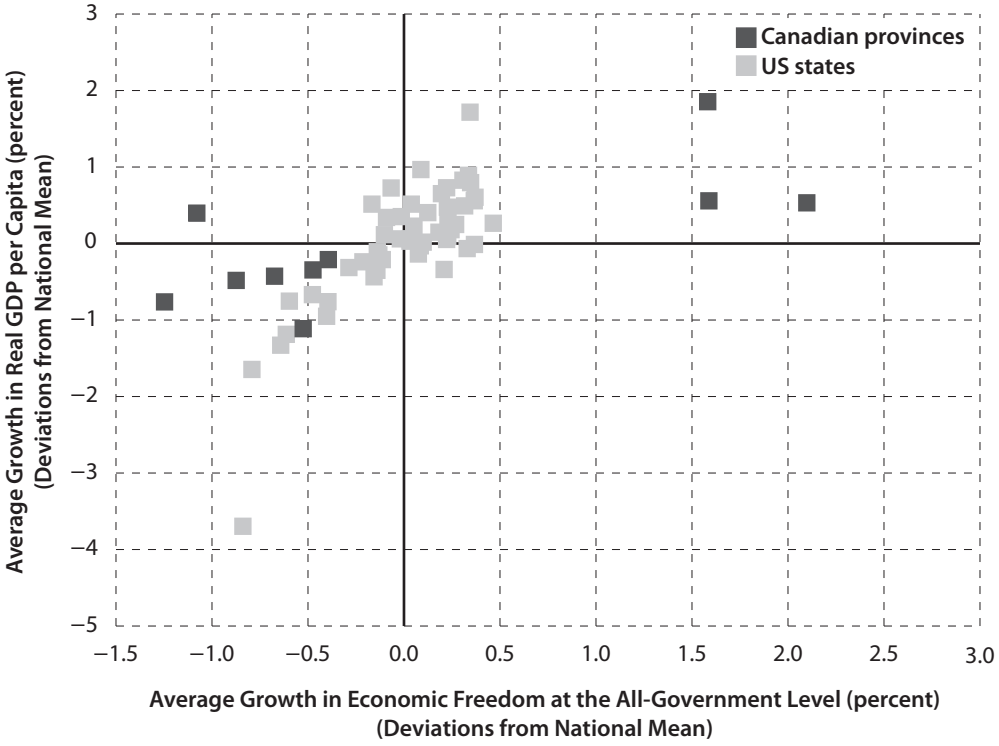
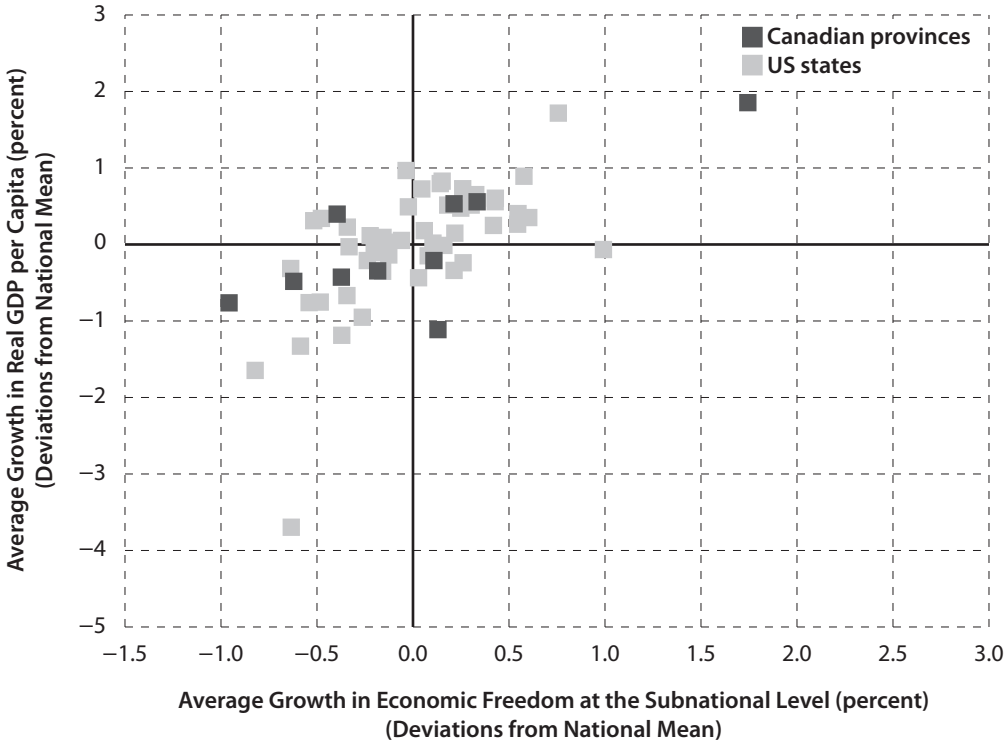


Figure 1.8: Average Growth in GDP per Capita and Average Growth in Economic Freedom at the Subnational Level, 1982–2005



States differ. Thus, government spending and taxation patterns cannot be directly compared. Instead, we use an "adjustment factor" (see Appendix A: Methodology, page 77). The rankings at both the all-government level and the subnational level are very similar, with correlation matrixes of 0.91 for the scores at both levels and 0.88 for the ranks at both levels in 2005. (Correlation between two identical data streams is 1.00.)

The Evolution of Economic Freedom in Canada and the United States

As can be seen from Tables 1.1 and 1.2, the evolution of economic freedom in Canada and the United States follows an expected pattern. In the United States, at the all-government level, economic freedom increases through the 1980s, coinciding with the Reagan era. It then falls in the early 1990s, following tax increases under the first President Bush and the early administration of President Clinton, and then begins to rise again, particularly in the new century. At the subnational level, the pattern is similar but less pronounced, again as one might expect. Many states embarked upon Reagan-like government restructuring, but not all, and often not at the same level of intensity, or in the same time frame. [9]

In Canada through the 1980s, economic freedom remained fairly constant at the subnational level, save for a significant decline at the beginning of the decade, while it increased somewhat at the all-government level, perhaps as a result of a change of federal government, and a resulting change in policy, in 1984. At both the all-government level and the subnational level, economic freedom falls in Canada in the early 1990s and then begins to rise. In early 1990s, federal, provincial, and municipal governments began to address their debts and deficits but more often through increased taxation than through lower spending. However, as debts and deficits were brought under control, governments began to reduce some tax rates through the mid-, and particularly the late, 1990s. Also in this period, fiscally conservative governments were elected in Canada's two richest provinces, Alberta and Ontario. In the early years of the new century, economic freedom rose in Canada at the all-government level while it remained fairly stable at the subnational level.

Overall patterns in Canada and the United States are similar. Both nations fought debts and deficits in the early 1990s with tax increases. However, Canada raised taxes more aggressively, as can be seen from changes in economic freedom during this period. From 1981 to 2005, the gap between economic freedom in Canada and that in the United States at both the subnational and the all-government levels first widened and then narrowed again until 2000, and has been roughly stable since.

[9] Gwartney and Lawson (2007) show rising scores for Canada and the United States from 1980 to 2000. This is because of components such as price levels that can only be examined at the national level. Obviously, states and provinces do not have an independent monetary policy their own.

Table 1.1: Average Economic Freedom Scores at the All-Government Level

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Canada	4.5	4.6	4.6	4.7	4.6	4.6	4.6	4.9	4.9	4.7	4.2	4.0	4.1	4.3	4.4	4.5	4.5	4.6	4.8	5.0	5.0	5.0	5.1	5.2	5.2
United States	5.9	6.0	6.1	6.3	6.3	6.3	6.6	7.0	7.0	7.0	6.7	6.6	6.5	6.5	6.5	6.6	6.6	6.6	6.6	6.6	6.6	6.6	6.7	6.8	6.9
Difference	1.3	1.4	1.5	1.7	1.7	1.7	2.0	2.1	2.1	2.3	2.5	2.6	2.4	2.2	2.1	2.1	2.0	1.9	1.8	1.6	1.6	1.5	1.7	1.7	1.6

Table 1.2: Average Economic Freedom Scores at the Subnational Level

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Canada	5.2	4.9	4.8	4.9	4.9	4.9	4.9	5.0	5.0	4.8	4.6	4.3	4.3	4.6	4.7	4.8	4.9	5.0	5.3	5.4	5.3	5.3	5.3	5.3	5.3
United States	7.1	6.9	6.9	7.1	7.1	7.1	7.1	7.2	7.2	7.1	6.9	6.8	6.7	6.8	6.8	6.9	7.0	7.0	7.0	7.0	6.9	6.9	6.9	6.9	6.9
Difference	1.9	2.0	2.1	2.3	2.2	2.2	2.2	2.2	2.1	2.3	2.3	2.5	2.4	2.2	2.1	2.1	2.1	2.0	1.8	1.6	1.6	1.6	1.6	1.6	1.6

Overview of the Results for the United States

Most US states have maintained a high degree of economic freedom and only a handful have consistently not done so. West Virginia has the worst record but Hawaii, Maine, Montana, New Mexico, North Dakota, and Rhode Island also have consistently low levels of economic freedom at both the all-government and subnational levels. Their average per-capita GDP was over US$4,300 below the US average in 2005 and their total growth from 1981 to 2005 is 10 percentage points below the US average of 45% total growth in real terms. This is particularly remarkable because poorer states under normal conditions will grow faster than rich states due to the well-known and empirically verified "convergence" effect. (See Barro and Sala-I-Martin, 1995 for US and other international results on convergence.)

The states that have consistently strong records at both the all-government level and the subnational level are Colorado, Georgia, Delaware, North Carolina, New Hampshire, Tennessee, and Texas. Their GDP per capita was over US$4,300 above the US average in 2005 and their growth from 1981 to 2005 nearly 20 percentage points higher, a remarkable achievement given that economic theory and evidence show that richer states should grow more slowly than poorer states due to the convergence effect noted above.

Another way to look at economic freedom is through changes in economic freedom. The states that have had the worst record for growth in economic freedom between 2000 and 2005 at the all-government level are New Mexico (the only state with negative growth), Arizona and, tied for third worst, Connecticut, Michigan, South Carolina, New York, and Ohio. The states with the best record in economic freedom are predominately western states. The fastest growth was achieved by North Dakota, Wyoming and Montana are tied for second, and South

Dakota, Nevada, Nebraska, Iowa, and Florida are tied for fourth. Over that period, per-capita GDP in the United States grew by 9%, compared to 5% in the states with the worst growth record and 18% in the states with the best record.

It should be emphasized that this index measures economic freedom, not growth factors. The examples discussed here are for illustrative purposes, providing only a snapshot in time. The econometric testing is far more reliable and, as discussed in this report, shows a powerful, consistent, and robust relationship between economic freedom and growth.

Overview of the Results for Canada

Canadian provinces consistently have lower scores than US states and thus are clustered near the bottom of the ranking. Alberta is the only province that has consistently done better than at least some states. It ranked 2nd at the all-government level and 8th at the subnational level in 2005. Although Alberta's economic freedom declined through the 1980s and early 1990s before recovering after the mid-1990s, in all years it has remained ahead of at least one state, usually West Virginia, in the rankings at both the all-government and the subnational levels.

Ontario placed ahead of several states at the all-government level in 1981. However, in the late 1980s and early 1990s, Ontario's economic freedom declined sharply. Economic freedom recovered through the mid- and late 1990s but only the scores in 2000 show Ontario regaining the degree of economic freedom it had in 1981. Over the same period, average scores in the United States also rose, leaving Ontario further behind the US average than it was two decades ago. Ontario is now behind most of the states at both the all-government level and the subnational levels.

There is an interesting contrast between Ontario and British Columbia. Between 1995 and 2000, economic freedom in British Columbia was growing at a slower pace than that in Ontario at both the all-government and subnational levels. During this period, British Columbia's economic growth was just 5%, compared to Ontario's 14%. British Columbia suffered from relatively weak economic freedom growth while Ontario benefited from relatively strong growth.

In the most recent five-year period, 2000 to 2005, economic freedom in British Columbia has increased while Ontario, which had escaped from the bottom 10, has now slipped back. As economic freedom grew in British Columbia, so did its economy, by 10%; in Ontario, economic freedom declined during this period and the economy grew at just over 2%, the lowest rate of growth of all Canadian provinces. Although Ontario remains slightly ahead of British Columbia in economic freedom, in considering economic growth, the rate of change is the key factor. If economic freedom in Ontario continues to show weak growth, the econometric testing here suggests the province will continue to lag in prosperity growth.

From 2000 to 2005, the province of Newfoundland & Labrador had the greatest increase in economic freedom at both the all-government and subnational levels, albeit from a low base. Newfoundland & Labrador has also had by far the fastest growth in Canada, 43%, during this period. However, the province has benefited

from oil and gas development and it would be hazardous to draw any connection to economic freedom. In any event, as noted above, these comparisons are simply snapshots in time.

There is a clear connection between levels of economic freedom and prosperity throughout Canada: the five freest provinces had an average per-capita GDP for 2005 of US$39,233 compared to US$27,751 for the least-free provinces.

Canadian Fiscal Federalism

The Government of Canada may well be unique in the amount of money it transfers among provinces and regions. [10] For example, in Canada's Atlantic Provinces, the nation's most economically depressed region, *net* federal spending—the difference between federal revenues raised in the region and the amount of federal spending—typically equaled between 20% and 40% of regional GDP during the period under consideration. Although transfers between levels of government occur within the United States, the magnitude of these transfers is much smaller than in Canada.

Inter-regional transfers in Canada create a fiscal drain on "have" regions. This is obvious at the federal level where tax revenues are, in effect, transferred from "have" to "have-not" provinces but transfers also occur at the provincial level. The burden of federal taxation reduces room for provincial taxation in all provinces. This is a significant problem for "have" provinces but not for "have-not" provinces since a considerable portion of federal transfers to "have-not" regions go directly to provincial governments, which are thus more than compensated for the loss of taxation room.

Nonetheless, one would expect—and, indeed, the data confirm—that most of the negative impact of fiscal federalism would be found at the all-government level, which directly includes the impact of federal taxation and transfers. This is unfortunate because it is at the all-government level, where the impact of all governments on economic freedom is calculated, that the effects of economic freedom are strongest.

Explaining a Puzzle

Canadian fiscal federalism may help explain a puzzle found in the following discussion of the econometric results. The beneficial effect of economic freedom upon Canadian provinces is considerably weaker than it is upon US states at both the all-government and subnational levels. This may be because of the interaction between Canada's fiscal structure, economic freedom, and economic growth.

To understand the impact of Canada's fiscal federalism, consider a province that reduces economic freedom by, for example, increasing taxes. This will likely have a negative effect on the provincial economy, as both the following results and international testing show. However, the weaker provincial economy means the

[10] A discussion of fiscal federalism can be found in McMahon, 2000b: chapter 3. The US fiscal structure is discussed in McMahon, 2000a: chapter 4.

province will receive an increase in federal payouts (or a reduction in the fiscal outflow if the province in question is a "have" province). The greater the reduction in economic freedom, the greater the negative impact on the economy and the greater the amount of money the province will receive from the federal government. This inflow of funds will, at least in the short term, partly offset the negative impact on GDP and mute the effect of economic freedom, or its loss, on the economy. (In the longer term, the inflow of funds will also weaken the economy but this effect is likely beyond the time horizon of the tests conducted here.)

On the other hand, if a province increases economic freedom, for example by reducing taxes, and its economy grows, the result is an increased outflow of government revenues to other jurisdictions and a heavier tax burden, given the progressivity of Canadian taxes, which in turn suppresses increases in economic freedom and economic growth. In other words, fiscal federalism mutes the effect of economic freedom in Canada. However, despite the problems created by Canada's fiscal structure, overall, economic freedom still proves to be a powerful stimulant for increasing prosperity in Canada.

Impact of Fiscal Federalism

Unfortunately, Canada's fiscal federalism seems to harm both rich and poor provinces. The discussion above shows how fiscal federalism frustrates the ability of some provinces to improve their economic freedom and, thus, their prosperity. However, the effects are at least as unfortunate in the poorer provinces, where a rich menu of government spending pushes out other economic activity and politicizes the economy. As a result, the rate of convergence of Canada's poorer regions is about a third to a half of the rate of convergence of poor regions in the United States, Europe, and Japan (McMahon, 2000a).

The incentives created by fiscal federalism are also damaging. Because fiscal federalism hinders movement towards economic freedom in the provinces and thus weakens the positive impact of economic freedom, the incentive for provinces to increase the freedom of their economies weakens.

Even worse, the elites in "have-not" provinces have incentives to limit economic freedom. Low levels of economic freedom reduce economic activity and increase the flow of federal transfers. These transfers are predominately captured by the political and business elites, meaning they face incentives to keep economic growth low. As well, Canada's system of Employment Insurance (EI) alters the incentives facing many voters, since they can benefit from the structure of the EI system, which also weakens economic growth by removing large segments of the population from the year-round workforce so long as economic activity remains weak.

Economic Freedom in the District of Columbia

This year, we attempted to measure economic freedom in the District of Columbia. We collected the data back to 1981 but were not able to include the District in the formal rankings since it has only two levels of government, federal and local, unlike the Canadian provinces and US states, where there are three levels of government—federal, provincial/state, and local/municipal. Perhaps more importantly, even though the District of Columbia is governed by a municipal government, Congress has final authority over the District's budget and laws (Council of the District of Columbia, 2008; District of Columbia, 2008). These two factors make it impossible for us to compute a score for economic freedom at the subnational level that would be comparable to those of the Canadian provinces and US states.

We have computed the District of Columbia's score for economic freedom at the all-government level—federal and local—but the challenges still remain because of the atypical characteristics of the District. For instance, one of our components, 3B, measures government employment as a percentage of total employment. Government employment at the all-government level consists of employment by federal, provincial/state, and local/municipal governments including health and social service institutions, universities, colleges, vocational and trade institutions, local school boards, and government business enterprises (GBEs). Military employment is excluded. Our data indicates that this figure is close to 79% for the District in 2005. When compared to the Canadian provinces and US states, where the highest value is 27.4%, the District is clearly an outlier. However, given that the US federal government is located in the District, this is not surprising.

The District's overall score for economic freedom and scores for Areas 1, 2, and 3 are presented in table 1.DC. It received a score of 7.0 in 2005, the most recent year for which the data are available, which would place it in a tie with Arizona, Connecticut, Florida, Kansas, Missouri, and Wyoming for the 20th place. Readers should use caution, however, when comparing the scores of the District with those of the Canadian provinces and the US states because of its atypical characteristics.

References

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District of Columbia (2008). *DC Voting Rights and Representation*. <http://about.dc.gov/statehood.asp?portal_link=hr> (January 4, 2008).

Table 1.DC: Economic Freedom in the District of Columbia, 1981–2005—Scores at the Federal and Local Level

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Overall Scores	6.2	6.2	6.3	6.3	6.4	6.4	6.6	7.1	7.2	7.1	6.9	6.9	6.9	6.7	6.7	6.7	6.7	6.7	6.6	6.7	6.7	6.8	6.9	7.0	7.0
Scores for Area 1: Size of Government	5.3	5.3	5.3	5.2	5.4	5.4	5.7	5.9	6.2	5.8	5.4	5.6	5.7	5.5	5.5	5.4	5.5	5.5	5.3	5.5	5.5	5.5	5.6	5.7	5.7
Scores for Area 2: Takings and Discriminatory Taxation	7.1	7.1	7.1	7.1	7.1	7.1	7.8	8.9	8.9	8.9	8.6	8.6	8.4	8.0	7.9	8.0	8.0	7.9	7.9	7.9	8.0	8.3	8.5	8.5	8.5
Scores for Area 3: Labor Market Freedom	6.2	6.3	6.4	6.5	6.5	6.6	6.4	6.5	6.6	6.7	6.7	6.7	6.7	6.7	6.7	6.7	6.7	6.7	6.7	6.7	6.7	6.7	6.7	6.7	6.7

Sources: Same data sources as for US states; see Appendix B.

Economic Freedom and Economic Well-Being

A number of studies have linked levels of economic freedom, as measured by the index published annually in *Economic Freedom of the World*, with higher levels of economic growth and income. For example, Easton and Walker (1997) found that changes in economic freedom have a significant impact on the steady-state level of income even after the level of technology, the level of education of the workforce, and the level of investment are taken into account. The results of this study imply that economic freedom is a separate determinant of the level of income. The Fraser Institute's series, *Economic Freedom of the World*, also shows a positive relationship between economic freedom and both the level of per-capita GDP and its growth rate.

Similarly, De Haan and Sturm (2000) show that positive and negative changes in economic freedom lead to positive and negative changes in rates of economic growth. Using the index of economic freedom from Gwartney et al. (1996) and per-capita GDP data for 80 countries, their results indicate that, after accounting for education level, investment, and population growth, changes in economic freedom have a significant impact on economic growth. [11]

The calculation of the index of the economic freedom of Canadian provinces and US states allows us to investigate, via econometric testing, the relationship between economic freedom and prosperity within North America. [12] To test whether or not there is a positive relationship between economic growth and economic freedom, we use annual observations on each of the components from 1981 to 2005. We run separate regressions for Canada and the United States to determine if economic freedom has different effects in the two nations. As the data for all US states and all Canadian provinces were used, the study is one of a defined population rather than a random sample of states and provinces, implying that the appropriate estimation technique is the fixed-effects, rather than the random-effects, model. Tables 1.3 and 1.4 show the regression results of the semi-growth models. Please note that the results of the regressions are in US dollars.

Average investment share of GDP is missing from the model because investment data for separate US states are not available. [13] The proxy component for

[11] For a sample of empirical papers investigating the impact of economic freedom, as measured by the index published annually in *Economic Freedom of the World*, and economic prosperity, see <http://www.freetheworld.com>. For the latest summary of literature on the impact of economic freedom at an international level, see Doucouliagos and Ulubasoglu, 2006.

[12] Since the publication of the first edition of *Economic Freedom of North America* in 2002, academic articles exploring the relationship between our measure of economic freedom and other indicators such as economic growth and entrepreneurial activity have appeared. For a summary of those studies, see Appendix C (page 87).

[13] As already mentioned, the omission of the measure of investment does not seriously affect the coefficients on economic freedom. We tested the impact of the exclusion of the measure of investment from the model of Mankiw, Romer, and Weil (1992) enhanced by a measure of economic freedom from *Economic Freedom of the World*. The exclusion does not change the estimated coefficients on economic freedom nor their standard errors significantly.

human capital in our model is not statistically significant. Since the investment component is missing from the model and the proxy component for human capital is not significant, the data have to be adjusted. The fixed-effects model captures the unobserved or ignorance effects. It does not, however, account for missing relevant components from a model.

To provide some adjustment for missing relevant components, the data are transformed into deviations from their national means. In other words, the national mean is subtracted from each of the components. Although this transformation does not adjust for the omission of the relevant components completely, to the extent that jurisdictions within a national context are similarly affected by the same economic factors, the transformation—which reveals how each jurisdiction performs in relation to the national average—helps adjust for the impact of the missing relevant components on other explanatory components in the model.

The results from the regression analysis in Table 1.3 indicate that the degree of economic freedom has a substantial impact on per-capita GDP at a subnational and all-government level. As mentioned before, the high-school component is not significant. The reader should also note the relatively small standard errors for the economic freedom variable, both in the regression results reported here and for those reported in the section on Sensitivity Analysis (see page 25). On the whole, the US results are more statistically significant than the Canadian results, though even the Canadian results typically have a *p*-value well below 1%, meaning that the results, roughly speaking, are statistically significant more than 99 times out of 100.

Table 1.3: Level of Economic Freedom and GDP per Capita

Regressions at All-Government Level (ALLG)
Dependent Variable: Real GDP per Capita (1981–2005)
Method: Pooled Least Squares

Canada

Variable	Coefficient	Std. Error	t-Statistic	Prob.
HG	−66.72	70.06	−0.95	0.34
ALLG	4473.74	589.40	7.59	0.00
		Adjusted R^2: 0.98		

United States

Variable	Coefficient	Std. Error	t-Statistic	Prob.
HG	14.17	31.03	0.46	0.65
ALLG	6231.61	628.57	9.91	0.00
		Adjusted R^2: 0.98		

Regressions at Subnational Level (SUBN)
Dependent Variable: Real GDP per Capita (1981–2005)
Method: Pooled Least Squares

Canada

Variable	Coefficient	Std. Error	t-Statistic	Prob.
HG	−26.00	72.49	−0.36	0.72
SUBN	3846.08	643.76	5.97	0.00
		Adjusted R^2: 0.98		

United States

Variable	Coefficient	Std. Error	t-Statistic	Prob.
HG	0.56	29.65	0.02	0.99
SUBN	4824.84	664.67	7.26	0.00
		Adjusted R^2: 0.98		

Note: HG is the number of high-school graduates 25 years and older as a percentage of total population 25 years and older from 1981 to 2005; ALLG is an economic freedom index at an all government level from 1981 to 2005; SUBN is an economic freedom index at a subnational level from 1981 to 2005.

Somewhat lower statistical significance on the Canadian tests may reflect both the nature of Canada's fiscal federalism, which mutes the effects of economic freedom, and the fact there are obviously more data points for 50 states than 10 provinces.

At an all-government level, holding other components constant, an increase of one point in economic freedom in a US state will increase that state's per-capita income by US$6,232. An increase of one point in economic freedom in a Canadian province will increase its per-capita GDP by US$4,474 (CA$5,413). [14] At a subnational level, an increase of one point in economic freedom in a US state will increase its per-capita GDP by US$4,825, whereas an increase of one point in economic freedom in a Canadian province will increase its per-capita GDP by US$3,846 (CA$4,654). Canada's fiscal federalism—and the negative impact this has on the effects of economic freedom—is a key reason why the effects are stronger in the United States.

For both Canada and the United States, the impact of economic freedom on per-capita GDP is higher at an all-government level than it is at a subnational level. This is the expected result, since the all-government component captures the impact of restrictions on economic freedom imposed at both the subnational and all-government levels.

While the coefficients may appear quite large, it should be noted that the overall index varies much less than its individual components, so that a one-point overall increase in economic freedom may not be as easy to achieve as it might appear at first glance. The difference in scores between the highest and lowest rated state over the full period is only 3.40 points at the all-government level. Thus, a US state would have to improve its score by roughly one third within this range in order to achieve the one-point increase required to realize the US$6,232 per-capita gain in income. In Canada, at the all-government level, the range is 5.0. At the subnational level, the range in Canada is 4.4; in the United States, it is 4.0.

Table 1.4 summarizes the results of the regression analysis used to determine the relationship between growth in economic freedom and growth in per-capita GDP at the subnational and all-government levels. The main conclusion of the regression analysis is that growth in economic freedom has a significant impact on the growth in per-capita GDP.

A 1.00% increase in the growth rate of economic freedom at the all-government level (e.g., from 4.00% per year to 4.04% per year) will induce an increase of 1.08% in the growth rate of per-capita GDP for US states and an increase of 0.60% in the growth rate of per-capita GDP for Canadian provinces. A 1.00% increase in the growth rate of economic freedom at the subnational level will induce an increase of 0.77% in the growth rate of per-capita GDP for US states and 0.57% increase in the growth rate for Canadian provinces.

[14] The most recently available data for this report is from 2005. The exchange rate used is $1.21, the average rate in 2005.

Table 1.4: Growth in Economic Freedom and Growth in GDP per Capita

Regressions at All-Government Level (ALLG)					Regressions at Subnational Level (SUBN)				
Dependent Variable: Growth in Real GDP per Capita (1982–2005)					Dependent Variable: Growth in Real GDP per Capita (1982–2005)				
Method: Pooled Least Squares					Method: Pooled Least Squares				
Canada									
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**	**Variable**	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
HGG	0.02	0.11	0.16	0.88	HGG	0.16	0.11	1.39	0.17
POPG	0.66	0.42	1.59	0.11	POPG	0.65	0.39	1.68	0.09
ALLGG	0.60	0.07	8.96	0.00	SUBNG	0.57	0.07	8.01	0.00
Adjusted R^2: 0.46					Adjusted R^2: 0.37				
United States									
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**	**Variable**	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
HGG	0.01	0.04	0.14	0.89	HGG	0.01	0.04	0.14	0.89
POPG	−0.49	0.18	−2.72	0.01	POPG	−0.05	0.22	−0.21	0.83
ALLGG	1.08	0.07	15.32	0.00	SUBNG	0.77	0.07	11.57	0.00
Adjusted R^2: 0.44					Adjusted R^2: 0.36				

Note: HGG is growth in the number of high-school graduates 25 years and older as a percentage of total population 25 years and older from 1982 to 2005; POPG is growth in population from 1982 to 2005; ALLGG is growth in economic freedom at an all government level from 1982 to 2005; SUBNG is growth in economic freedom at a subnational level from 1982 to 2005.

Sensitivity Analysis

In order to determine the stability of the regression results in the Tables 1.3 and 1.4, further testing was done using moving averages rather than annual data. These results can be found below. The use of moving averages (reported in Tables 1.5 and 1.6) is important. Annual data in regression analysis may lead to misleading results because, depending on the period of study, business cycles may inflate or deflate the estimated coefficients. The data used in the regression analyses in Tables 1.5 and 1.6 are smoothed out through use of a moving average, minimizing the impact of business cycles. The components are the same as before and significance levels remain high. The results are interesting in themselves in that they throw further light on the impact of fiscal federalism and the impact of economic freedom over time.

Results—Level of Economic Freedom and GDP per Capita

The results of the regression in Table 1.5 indicate that the degree of economic freedom has a strong impact on per-capita GDP, regardless of period used for calculating the moving averages. Further, the significance of the coefficient stays extremely high, regardless of the number of periods in the moving average, at both subnational and all-government levels. The results are also consistent with the earlier finding that the degree of economic freedom has a stronger impact on US states than on the Canadian provinces.

Table 1.5: Level of Economic Freedom and GDP per Capita (Moving Averages)

Dependent Variable: Real GDP per Capita (1981–2005)

Method: Pooled Least Squares

	2-period backward moving average		3-period backward moving average		4-period backward moving average		5-period backward moving average		6-period backward moving average	
Canada at the All-Government Level										
Variable	**Coefficient**	**t-Statistic**	**Coefficient**	**t-Statistic**	**Coefficient**	**t-Statistic**	**Coefficient**	**t-Statistic**	**Coefficient**	**t-Statistic**
HG	−95.04	−1.34	36.89	0.73	−64.40	−0.93	126.41	2.64	39.08	0.72
ALLG	4738.76	9.81	3355.01	8.93	4127.72	8.76	3941.67	9.33	3926.03	7.87
Canada at the Subnational Level										
Variable	**Coefficient**	**t-Statistic**	**Coefficient**	**t-Statistic**	**Coefficient**	**t-Statistic**	**Coefficient**	**t-Statistic**	**Coefficient**	**t-Statistic**
HG	−82.82	−1.22	48.83	0.78	−97.88	−1.50	97.15	1.62	98.42	1.72
SUBN	4227.54	8.83	2683.17	7.75	3988.87	8.17	3506.43	8.49	3157.21	7.15
United States at the All-Government Level										
Variable	**Coefficient**	**t-Statistic**	**Coefficient**	**t-Statistic**	**Coefficient**	**t-Statistic**	**Coefficient**	**t-Statistic**	**Coefficient**	**t-Statistic**
HG	6.54	0.32	39.57	0.84	−6.65	−0.15	59.26	1.61	−36.86	−0.81
ALLG	5812.28	11.61	6419.45	9.15	7195.38	10.24	5729.27	14.49	6181.89	8.20
United States at the Subnational Level										
Variable	**Coefficient**	**t-Statistic**	**Coefficient**	**t-Statistic**	**Coefficient**	**t-Statistic**	**Coefficient**	**t-Statistic**	**Coefficient**	**t-Statistic**
HG	1.04	0.05	36.08	0.84	−34.78	−0.80	56.51	1.57	−54.47	−1.17
SUBN	4824.93	9.23	5254.71	6.80	5886.92	7.15	4234.98	10.47	4698.40	7.20

Note: HG is the number of high-school graduates 25 years and older as a percentage of total population 25 years and older from 1981 to 2005; ALLG is an economic freedom index at an all government level from 1981 to 2005; SUBN is an economic freedom index at a subnational level from 1981 to 2005.

Results—Growth in Economic Freedom and Growth in GDP per Capita

Finally, the pattern differentiating all-government testing from subnational testing remains consistent regardless of period. For both Canada and the United States, the impact of economic freedom at the all-government level is greater than the impact at the subnational level throughout the period under consideration. The regression results in Table 1.6 indicate that the estimated coefficients on the growth in economic freedom using moving average data are very similar to the regression results using annual data.

Table 1.6: Growth in Economic Freedom and Growth in GDP per Capita (Moving Averages)

Dependent Variable: Growth in GDP per Capita GDP (1982–2005)

Method: Pooled Least Squares

	2-period backward moving average		3-period backward moving average		4-period backward moving average		5-period backward moving average		6-period backward moving average	
Canada at the All-Government Level										
Variable	**Coefficient**	**t-Statistic**	**Coefficient**	**t-Statistic**	**Coefficient**	**t-Statistic**	**Coefficient**	**t-Statistic**	**Coefficient**	**t-Statistic**
HGG	−0.02	−0.19	0.07	0.70	−0.06	−0.52	0.16	1.52	0.06	0.62
POPG	1.12	2.20	0.38	0.80	0.84	1.47	0.66	1.40	0.64	1.27
ALLGG	0.64	8.89	0.49	9.32	0.55	8.08	0.57	8.49	0.54	8.56
Canada at the Subnational Level										
Variable	**Coefficient**	**t-Statistic**	**Coefficient**	**t-Statistic**	**Coefficient**	**t-Statistic**	**Coefficient**	**t-Statistic**	**Coefficient**	**t-Statistic**
HGG	0.23	2.12	0.13	1.16	−0.15	−1.27	0.17	1.52	0.19	1.77
POPG	0.24	0.74	0.10	0.20	1.28	2.48	0.83	2.50	0.77	2.06
SUBNG	0.60	8.80	0.47	8.48	0.54	7.91	0.48	9.03	0.8	8.17
United States at the All-Government Level										
Variable	**Coefficient**	**t-Statistic**	**Coefficient**	**t-Statistic**	**Coefficient**	**t-Statistic**	**Coefficient**	**t-Statistic**	**Coefficient**	**t-Statistic**
HGG	0.00	0.05	0.03	0.50	−0.06	−1.10	0.07	1.36	−0.04	−0.77
POPG	−0.37	−1.56	0.00	−0.01	−0.23	−1.08	0.07	0.44	−0.06	−0.39
ALLGG	0.94	16.68	1.02	16.65	1.18	14.83	0.97	18.69	0.98	15.83
United States at the Subnational Level										
Variable	**Coefficient**	**t-Statistic**	**Coefficient**	**t-Statistic**	**Coefficient**	**t-Statistic**	**Coefficient**	**t-Statistic**	**Coefficient**	**t-Statistic**
HGG	0.01	0.25	0.04	0.81	−0.08	−1.44	0.08	1.53	−0.05	−0.97
POPG	0.09	0.36	0.49	2.91	0.36	2.04	0.56	3.42	0.46	3.22
SUBNG	0.71	12.21	0.72	12.70	0.81	10.42	0.65	12.79	0.65	12.05

Note: HGG is growth in the number of high-school graduates 25 years and older as a percentage of total population 25 years and older from 1982 to 2005; POPG is growth in population from 1982 to 2005; ALLGG is growth in economic freedom at an all government level from 1982 to 2005; SUBNG is growth in economic freedom at a subnational level from 1982 to 2005.

The Importance of Economic Freedom

In this publication, we have focused on the measurement of economic freedom and on empirical testing of the impact of economic freedom. However, the reader may wonder why economic freedom is so clearly related to growth and prosperity, a finding not just of this paper but also of many other empirical explorations of economic freedom.

In many ways, this debate goes back to the beginnings of modern economics when Adam Smith famously argued that each of us, freely pursuing our own ends, create the wealth of nations and of the individual citizens. However, during the twentieth century there was continuous debate about whether planned or free economies produce the best outcomes. The results of the experiments of the twentieth century should now be clear: free economies produce the greatest prosperity in human history for their citizens. Even poverty in these economically free nations would have been considered luxury in unfree economies. This lesson was reinforced by the collapse of centrally planned states and, following this, the consistent refusal of their citizens to return to central planning, regardless of the hardships on the road to freedom. Among developing nations, those that adopted the centrally planned model have only produced lives of misery for their citizens. Those that adopted the economics of competitive markets have begun to share with their citizens the prosperity of advanced market economies.

While these comparisons are extreme examples, from opposite ends of the spectrum of economic freedom, a considerable body of research shows that the relationship between prosperity and economic freedom holds in narrower ranges of the spectrum. While sophisticated econometric testing backs up this relationship, examples are also interesting. So, taking for example two peripheral European nations, the relatively free Ireland does much better than the relatively unfree Greece. In the United States, the relatively free Georgia does much better than the relatively unfree West Virginia. In Canada, British Columbia, where economic freedom has been increasing in recent years, has been experiencing considerably greater growth on a per-capita basis than Ontario, where economic freedom has been decreasing in recent years. In contrast, during the latter half of the 1990s, economic freedom in Ontario increased at a much faster pace than in British Columbia. During that period, Ontario's economic growth outpaced that of British Columbia. As with anything in the real world, exceptions can be found but overall the strength of the statistical fit of this relationship is remarkable.

While this is hardly the place to review several centuries of economic debate, the mechanics of economic freedom are easy to understand. Any transaction freely entered into must benefit both parties; any transaction that does not benefit both parties would be rejected by the party that would come up short. This has consequences throughout the economy. Consumers who are free to choose will only be attracted by superior quality and price. Producers must constantly improve the price and quality of their products to meet customers' demands or customers will

not freely enter into transactions with them. Many billions of mutually beneficial transactions occur every day, powering the dynamic that spurs increased productivity and wealth throughout the economy.

Restrictions on freedom prevent people from making mutually beneficial transactions. Such free transactions are replaced by government action. This is marked by coercion in collecting taxes and lack of choice in accepting services: instead of gains for both parties arising from each transaction, citizens must pay whatever bill is demanded in taxes and accept whatever service is offered in return. Moreover, while the incentives of producers in a competitive market revolve around providing superior goods and services in order to attract consumers, the public sector faces no such incentives. Instead, as public-choice theory reveals, incentives in the public sector often focus on rewarding interest groups, seeking political advantage, or even penalizing unpopular groups. This is far different from mutually beneficial exchange although, as noted earlier, government does have essential protective and productive functions.

In some ways it is surprising the debate still rages because the evidence and theory favoring economic freedom match intuition: it makes sense that the drive and ingenuity of individuals will produce better outcomes through the mechanism of mutually beneficial exchange than the designs of a small coterie of government planners, who can hardly have knowledge of everyone's values and who, being human, are likely to consider first their own well-being and that of the constituencies they must please when making decisions for all of us.

Conclusion

The worldwide evidence on economic freedom suggests that the Canadian provinces are poorly positioned to take advantage of economic opportunity. The provinces are clustered near the bottom of the rankings in all three areas, indicating that their governments have consumed and transferred more resources, imposed higher tax rates, and created more rigid labor markets than the governments of US states.

The regression analyses indicate that growth in economic freedom and the degree of economic freedom have a significant impact on the growth in per-capita GDP and the level of per-capita GDP. Since Canadian provinces have relatively low levels of economic freedom, Canadians are likely to continue to experience lower standards of living relative to American states. Only one province, Alberta, has a high degree of economic freedom compared to other Canadian provinces, and its residents have seen the benefits of this.

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Chapter 2
Economic Freedom, Entrepreneurship, and Economic Growth at the Subnational Level

by Russell S. Sobel

What key factors explain why some countries grow rich while others remain poor? This question has been at the heart of economic inquiry since the publication of Adam Smith's *An Inquiry into the Nature and Causes of the Wealth of Nations* in 1776. Smith concluded that "[l]ittle else is requisite to carry a state to the highest degree of opulence from the lowest barbarism, but peace, easy taxes, and a tolerable administration of justice; all the rest being brought about by the natural course of things" (Smith [1776] 1904: I.56). [1] Despite Adam Smith's conclusions, the literature on international economic development by the mid- to late 1900s was dominated by theories based on neoclassical growth and input-output models that attributed prosperity primarily to factors such as the abundance of resources, geographic location, and the availability of human and physical capital. [2]

Over the past few decades, however, the pioneering work of authors such as P.T. Bauer and Douglass North has led to a resurgence in the idea that a country's "institutions" rather than its factor endowments or location are primarily responsible for economic prosperity. According to Bauer, "Poor people can generate or secure sufficient funds to start on the road to progress if they are motivated to improve their material condition and are not inhibited by government policy or lack of public security" (2000: 45).

Within this literature, "institutions" are broadly defined as the formal and informal "rules of the game" governing action and interaction among individuals, and the enforcement of those rules (North, 1990, 1991). Simply put, making economic activity analogous to the board game Monopoly®, the behavior of the agents is influenced in predictable ways by the structure of the rules under which the game is played. Imagine, for example, that a new rule was created making it legitimate to steal the property cards of other players if they were not looking. The

[1] This quote was first attributed to Smith in 1755 by Stewart (1793).

[2] See, for examples, Gallup, Sachs and Mellinger, 1999; Sachs and Warner, 2001; Sachs, 2003.

play and outcomes from a game of Monopoly® would be significantly different under these different institutional rules as players would respond to them by altering their behavior. Not only would this rule change increase the rate of theft among players, it would also result in fewer properties being purchased, less investment (houses or hotels) on the properties, and more resources being devoted to trying to protect their property cards from being stolen (and more effort into trying to steal the property of other players).

Researchers have now unquestionably demonstrated the empirical link between prosperity and institutions at the international level, using multiple measures of both economic outcomes and institutions. [3] While this literature has blossomed in the international arena with applications to transition and less-developed economies, only recently has this logic been applied to explain *subnational* differences in economic prosperity, for example among the US states. Do differences in economic institutions also explain the differences in prosperity among these subnational areas as well?

From an empirical standpoint, the publication of *Economic Freedom of North America* is what made this question possible to address. Indeed, it is this index that provides the critical measure of institutional quality at the state and provincial level required for this type of analysis. Recent literature using this index has consistently demonstrated that, indeed, while the variance in institutional quality is significantly smaller among subnational regions when compared with cross-country differentials, the differences are still large enough to create significant differences in economic growth and prosperity. [4]

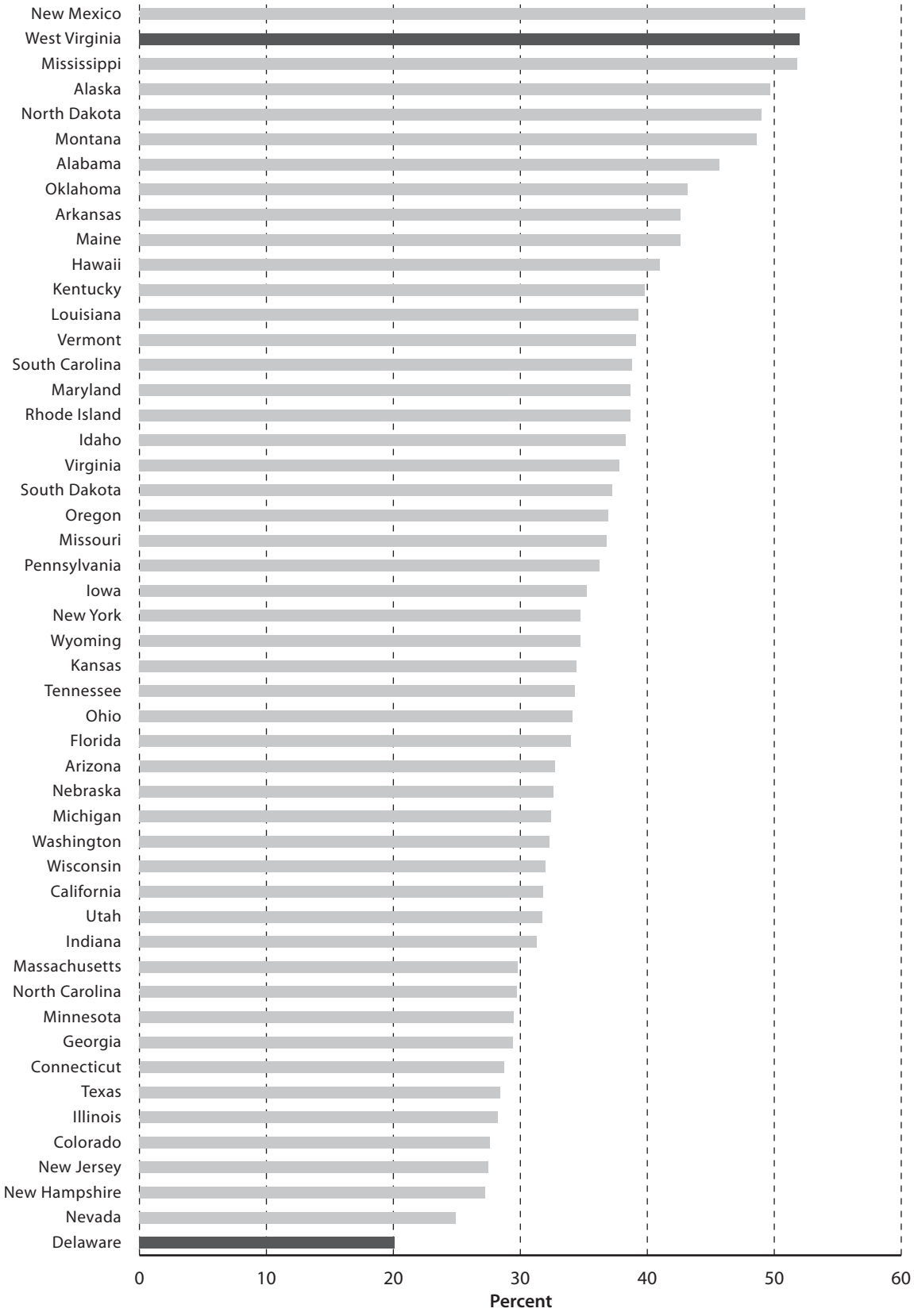
Subnational Differences in Institutional Quality

How large are the differences in institutional quality across US states? To help illustrate it is worthwhile to examine one of the major components of the index published in *Economic Freedom of North America*, government spending as a share of the state economy (figure 2.1). Government spending is, of course, only one component of the overall index of economic freedom, which also includes measures of government regulations, transfers, and relative tax rates. However, even looking at spending alone, there is substantial variation among the US states. In West Virginia (the upper dark grey bar in the figure), for example, 52% of all spending in the state is controlled by the government sector, more than twice the size of the government sector in states at the other end of the spectrum such as Delaware (the lower dark

[3] See, for examples, Acemoglu, Johnson, and Robinson, 2001, 2002; Glaeser, La Porta, Lopez-de-Silanes, and Shleifer, 2004; Rodrik, 2004; Acemoglu and Johnson, 2005; Farr, Lord, and Wolfenbarger, 1998; Gwartney, Lawson, and Holcombe, 1999; Cole, 2003; Powell, 2003; Ovaska and Sobel, 2005; and Sobel, Clark, and Lee, 2007.

[4] See Sobel, 2007; Kreft and Sobel, 2005; Sobel, forthcoming; Hall and Sobel, forthcoming.

Figure 2.1: All-Government Spending as a Percentage of GDP, by State



Source: Karabegović and McMahon, 2006.

grey bar in the figure), where government controls only 20% of the economy. [5] Once regulations and other forms of government control are included, far less than half of some US state economies are left in the hands of the private sector.

Perhaps the most striking example of the relevance of institutional economics to the subnational level is the state that has consistently scored in this report as having the worst institutional quality in the United States—West Virginia. Because of its poor institutional quality, it has gone from being a middle-income state in the early 1900s to one of the poorest, and slowest growing, US states (see Sobel, 2007). In essence, West Virginia has impoverished itself by failing to adopt policies consistent with economic freedom. At the other end of the spectrum, states at the top of the index, such as Delaware, consistently have the best economic records.

Chapter 1 of this report shows how the economic freedom scores correlate with measures of prosperity across the entire sample of states and provinces but it is worthwhile to revisit this relationship using specific states as examples. Table 2.1 shows a comparison between the economic performance of the five top-ranked, and the five bottom-ranked, US states. The bottom rows of the table show the averages for each group as well as the difference between them.

The states listed in the top of the table, those with the best institutions, are uniformly more prosperous than the states with the worst economic institutions. The differences in economic outcomes are striking. Looking at the averages given in the bottom of the table, average per-capita personal income is $6,016 higher, and the poverty rate is 3.2 percentage points lower, on average, in those states with the best economic institutions.

Despite the clear evidence on the relationship between prosperity and institutions consistent with economic freedom, state and local economic development policy instead remains focused on trying to promote economic growth through increased government spending on education and roads; use of eminent domain for economic revitalization; new government programs (such as state-run venture funds to invest in new businesses); and the use of selective tax credits and subsidies to attract new business firms. Unfortunately, these types of policies are inconsistent with the basic principles of economic freedom and actually bring about a deterioration in economic institutions, which in turn leads to worse economic outcomes. The challenge over the coming decades is to create a change in thinking about state and local economic development analogous to what has happened in the international development literature. To do so requires a clear understanding of the process of economic growth, to which we now turn our attention.

[5] The data in figure 2.1 include all federal, state, and local government spending. Given that West Virginia's ability to secure federal pork barrel spending is better than average, it is worthwhile also to examine the data once federal spending is excluded. Even when excluding the federal government, state and local government control of the economy in West Virginia amounts to almost one-fourth of the state economy, again the second-highest level of government control in the nation. For comparison, Delaware's state and local share is 10%.

Table 2.1: Do Institutions Matter at the Subnational Level?

	Economic Freedom Index			Economic Performance Measures	
	Score	Overall Rank	Rank (among US states only)	Personal Income per Capita (2006)	Poverty Rate (2005)
			Top 5 States		
Delaware	8.5	1	1	$39,131	10.3%
Texas	7.8	2	2	$35,166	17.5%
Colorado	7.6	4 (tie)	3 (tie)	$39,491	10.9%
Georgia	7.6	4 (tie)	3 (tie)	$32,095	14.5%
North Carolina	7.6	4 (tie)	3 (tie)	$32,247	14.9%
			Bottom 5 States		
Montana	6.0	47 (tie)	46 (tie)	$30,790	14.6%
New Mexico	6.0	47 (tie)	46 (tie)	$29,929	18.4%
Maine	5.8	49 (tie)	48 (tie)	$32,095	12.3%
Mississippi	5.8	49 (tie)	48 (tie)	$27,028	21.0%
West Virginia	5.3	55	50	$28,206	18.0%
			Averages and Difference		
top 5 states				$35,626	13.6%
bottom 5 states				$29,610	16.9%
Difference				$6,016	–3.2%

Note: Economic freedom is measured on a scale from zero to 10; a higher score indicates a higher level of economic freedom.
Sources for economic data: Bureau of Economic Analysis, 2007; US Census Bureau, 2007.

The Process of Economic Growth

To understand economic growth and the best way for state and local government policy to promote it, we must delve deeper into the relationship between economic inputs, institutions, and outcomes. An economy is a *process* by which economic inputs and resources, such as skilled labor, capital, and funding for new businesses, are converted (by entrepreneurs) into economic outcomes (e.g., wage growth, job creation, and new businesses). This is illustrated in figure 2.2. As the large arrow in the middle of the figure shows, the economic outcomes generated from any specific set of economic inputs depend on the "institutions"—the political and economic "rules of the game"—under which an economy operates.

Current policy for state and local economic development focuses only on the relationship between inputs and outcomes, essentially ignoring the "rules of

Figure 2.2: The Process of Economic Growth—Inputs, Institutions, and Outcomes

the game." Governments repeatedly attempt to promote better economic outcomes with programs aimed at subsidizing or expanding entrepreneurial inputs, such as financing through government loans and education programs. The fact that these types of programs have shown little or no success in actually promoting prosperity demonstrates why the more appropriate focus of policy is on improving institutions. Increasing inputs will have little, if any, impact on outcomes when the rules of the game are "poor." It's analogous to baking cakes with the ingredients being the inputs, the oven being the institutions, and the final cakes being the economic outcomes—throwing more ingredients into the oven won't produce more cakes unless the oven is working properly.

Our model, on the other hand, makes it clear that by improving institutions, or the rules of the game under which a state economy operates, it is possible to change economic outcomes for the better. When institutions are weak, even places with abundant natural resources or other inputs have difficulty

becoming prosperous. West Virginia (and similarly the countries of Argentina and Venezuela) fit into this category of resource-rich areas that have not been able to sustain economic growth because, despite their abundance of inputs, institutions are weak.

The important point is that our daily economic lives are played out under a set of rules that are to a large extent determined by government-enacted laws and policies. These political and legal institutions are what create the incentive structures within the state economies. Good institutions create an environment where entrepreneurs can innovate and individuals can exchange, while weak institutions create an environment where these same innovations and exchanges either fail to take place or are used in an unproductive manner.

Entrepreneurship and Discovery

At any given point in time, a state's inputs could be used to produce a variety of different final goods and services. The key to prosperity is having a process in place that helps a state's resources *discover* which of these different goods or services have the highest value added in the marketplace. It is important to remember that this target is an ever shifting one, with new opportunities arising and others dwindling every day. One important reason that good institutions generate prosperity is that, with these institutions in place, a state's resources do a better job at chasing this ever-moving target through the continuous process of entrepreneurship and discovery. Kirzner (1973, 1997) stressed this process of entrepreneurial discovery, one in which previously unnoticed profit opportunities are discovered and acted upon by entrepreneurs, as an important factor in promoting growth and prosperity.

Sifting through these many, possible entrepreneurial combinations is a difficult task because the number of possible combinations of society's resources is almost limitless. As an illustration, think for a moment about the typical automobile license plate. Many have three letters, a space, and three numbers. There is a formula for calculating the total number of "combinations"—the total number of possible different license plates—that could be created using these three letters and three numbers. The answer may be more than you might think: 17,576,000. [6] Now, returning to the economy, there are more than just three letters and numbers to work with. Indeed there are thousands of different resources that could be combined into final products. With this many inputs to work with, the number of possible, different combinations of final products that could be produced is almost infinite.

[6] Some states limit the number of combinations by, for example, using the first digit of the standard license plate to indicate the month in which the plate expires each year. With only 12 possibilities for the first digit, the number of possible combinations is reduced by more than half, to 8,112,000. This provides a good illustration of why restrictions on trade and use of resources greatly diminish economic productivity—because they limit the inputs and drastically reduce the number of combinations.

Entrepreneurship is important because it is the competitive behavior of entrepreneurs that drives this search for new possible combinations of resources that create more value. A vibrant entrepreneurial climate is one that maximizes the number of new combinations attempted. Some of these new combinations will be more valuable than existing combinations and some will not. In competitive markets, it is the profit-and-loss system that is used to sort through these new resource combinations discovered by entrepreneurs, discarding bad ideas through losses and rewarding good ones through profits. A growing, vibrant economy depends not only on entrepreneurs discovering, evaluating, and exploiting opportunities to create new goods and services, but also on the speed at which ideas are labeled as failures or successes by the profit and loss system.

From an economic standpoint, then, business failure has a positive side: it gets rid of bad ideas, freeing up resources to be used in other endeavors. A vibrant economy will have both a large number of new business start-ups *and* a large number of business failures. *Minimizing business failures should not be a goal of public policy.* The goal instead should be to maximize the number of new combinations attempted, which implies having a lot of failures. When entrepreneurs are free to try new ideas, even those marginal ideas with only a small chance at succeeding, the business-failure rate will be high. Business failures are a natural result of the uncertainty involved in knowing whether a new idea will meet the "market test." From an economic perspective, it is better to try 100 new ideas and have 60 fail than to try only 50 and have 30 fail. By doing so, we end up with 20 additional new businesses.

Noted Austrian economist Joseph Schumpeter (1934 [1911]) stressed the role of the entrepreneur as an innovator who carries out new combinations of resources to create products that did not previously exist. The result of these new combinations is entirely new industries that open considerable opportunities for economic advancement. In Schumpeter's view, the entrepreneur is a disruptive but positive force in an economy because the introduction of these new combinations leads to the obsolescence of others, a process he termed "creative destruction." The introduction of the compact disc, and the corresponding disappearance of the vinyl record, is just one of many examples of this process. Cars, electricity, aircraft, and personal computers are others. Each significantly advanced our way of life but, in the process of doing so, caused other industries to die or shrink considerably. Economists today accept Schumpeter's insight that this process of creative destruction is an essential part of economic progress and prosperity and that economic freedom is uniquely suited to foster it.

The Market Test

It is much better to have a decentralized profit-and-loss system sorting through these new combinations of resources than a government-appointed board because the incentives facing public officials can be very different from the incentives facing venture capitalists and entrepreneurs. While each venture capitalist and

entrepreneur brings different motivations to the table, ultimately their success or failure is determined by whether their idea generates wealth. [7] This is the "market test." The same is not true for public officials in charge of handing out tax incentives or low-interest loans. They may have other concerns beyond creating wealth. For example, officials may be concerned about *where* a new business is located in order to maximize political support among voters. But there is no reason to think that this decision corresponds with the most economically advantageous one.

In addition, there is no individual, or group of individuals, that could be in charge of this discovery process. There is nobody, not even those seemingly in the best position to know, who can predict which business opportunities are the most viable in advance. For example, Ken Olson, president, chairman, and founder of Digital Equipment Corporation, who was at the forefront of computer technology in 1977, stated: "There is no reason anyone would want a computer in their home." Today his remark sounds funny because we all have computers in our homes. But, at the time, even those in the infant computer industry did not see this coming. An even better example might be the story of Fred Smith, the founder of Federal Express Corporation. He actually wrote the business plan for FedEx® as his senior project for his strategic management class at Yale. While we all know in retrospect that FedEx® was a successful business idea, Smith's professor at Yale, one of the leading experts on business strategy, wrote on his paper in red ink: "The concept is interesting and well-formed, but in order to earn better than a C the idea must be feasible."

Even smart professors, business leaders, and government officials cannot possibly pre-evaluate business ideas and identify those that will be most successful and those that will fail. A thriving economy is created when individual entrepreneurs have the economic freedom to try new ideas, risking their own assets, or the assets of their private investors, and the profit-and-loss system is used to decide their fate. Successful entrepreneurship expands the overall economic pie, generating more wealth and prosperity.

[7] It is important to recognize that from society's perspective the profits earned by entrepreneurs represent gains to society as a whole. Because entrepreneurs must bid resources away from alternative uses, production costs reflect the value of those resources to society in their alternative uses. Thus, profit is only earned when an entrepreneur takes a set of resources and produces something worth more to consumers than the other goods that could have been produced with those resources. A loss happens when an entrepreneur produces something that consumers do not value as highly as the other goods that could have been produced with those same resources. For example, an entrepreneur who takes the resources necessary to produce a fleece blanket sold for $50 and instead turns them into a pullover that sells for $60 has earned a $10 profit. Since the price of the resources used by entrepreneurs reflect the opportunity cost of their employment in other uses, the $10 profit generated by the entrepreneur reflects the amount by which they have increased the value of those resources. By increasing the value created by our limited resources, entrepreneurs increase overall wealth in a society.

The Evidence

Now, let's examine the evidence. Earlier, table 2.1 illustrated the large differential in economic prosperity between the five states that score the best and the five states that score the worst in the index in *Economic Freedom of North America*. We now examine the underlying source of this differential, these states' records on promoting productive entrepreneurial activity. Table 2.2 shows how these same two groups of states differ on five measures of entrepreneurial activity: venture capital investments per capita, patents per capita, the growth rate of sole proprietorships, and the establishment birth rates for all firms and large firms only.

The data shown in the table clearly illustrate that the states with the most economic freedom have higher rates of entrepreneurial activity. Relative to the states with the least economic freedom, those with the most have venture capital investment of US$123 higher per capita, an annual average rate of patents 21 higher per 100,000 residents, a growth rate of sole proprietorships 1.4% higher, an establishment birth rate almost 2% higher, and a birth rate of large establishments 2.4% higher.

Table 2.2: Economic Freedom and Entrepreneurial Activity

	Economic Freedom Index			Measures of Entrepreneurial Activity (annual averages)				
	Score	Overall Rank	Rank (among US states only)	Venture Capital Investment per Capita	Patents per Capita (per 100,000)	Growth Rate of Sole Proprietorships	Establishment Birth Rate	Establishment Birth Rate (Large Firms Only)
Top 5 States								
Delaware	8.5	1	1	$60.97	52.6	5.5%	13.1%	14.2%
Texas	7.8	2	2	$113.29	25.9	3.3%	12.8%	12.0%
Colorado	7.6	4 (tie)	3 (tie)	$333.22	37.1	4.6%	14.2%	13.0%
Georgia	7.6	4 (tie)	3 (tie)	$103.63	14.6	4.0%	13.5%	11.7%
North Carolina	7.6	4 (tie)	3 (tie)	$82.57	19.5	3.5%	11.7%	10.3%
Bottom 5 States								
Montana	6.0	47 (tie)	46 (tie)	$14.30	12.6	1.9%	12.0%	10.7%
New Mexico	6.0	47 (tie)	46 (tie)	$10.08	16.3	2.7%	12.1%	10.8%
Maine	5.8	49 (tie)	48 (tie)	$34.96	9.3	3.0%	11.2%	9.5%
Mississippi	5.8	49 (tie)	48 (tie)	$18.53	5.6	3.4%	11.1%	9.7%
West Virginia	5.3	55	50	$0.00	0.0	2.8%	9.5%	8.6%
Averages and Difference								
top 5 states				$138.74	29.9	4.2%	13.1%	12.2%
bottom 5 states				$15.57	8.8	2.8%	11.2%	9.9%
Difference				$123.16	21.2	1.4%	1.9%	2.4%

Note: For data descriptions and sources, see Sobel, forthcoming.

Table 2.3: Economic Freedom and Productive Entrepreneurship: Regression Results

	Dependent Variable				
	Venture Capital Investment per Capita	Patents per Capita (per 100,000)	Growth Rate of Sole Proprietorships	Establishment Birth Rate	Establishment Birth Rate (Large Firms Only)
Independent Variable					
Constant	−836.182	−64.462	86.924	64.003***	46.180***
	(1.124)	(0.382)	(1.327)	(2.782)	(3.076)
Economic Freedom Score	32.127**	8.178**	4.206**	0.838*	0.873***
	(2.041)	(2.348)	(2.999)	(1.823)	(2.717)
Median Age	−1.251	−0.398	−0.266	−0.320	−0.146*
	(0.298)	(0.425)	(0.712)	(2.653)	(1.713)
Population Density	−0.0125	0.0201**	−0.0003	0.0012	0.0030***
	(0.308)	(2.268)	(0.089)	(0.998)	(3.688)
Percent College Degree	11.908***	1.246***	−0.252	0.009	0.042
	(6.024)	(2.896)	(1.443)	(0.145)	(1.048)
Percent Male	8.836	0.222	−1.741	−0.928**	−0.736
	(0.621)	(0.069)	(1.376)	(2.079)	(2.538)
Observations	48	48	48	48	48
R-squared	0.875	0.659	0.347	0.504	0.571

Notes: Absolute t-statistics in parentheses; asterisks indicate significance as follows: ***=1%, **=5%, *=10%. For details, sources, and notes on the estimation procedures, see Sobel (forthcoming).

While table 2.2 shows this comparison for two selected groups of states, readers might wonder whether this relationship holds among all states, especially after controlling for other factors that may affect entrepreneurial activity. Table 2.3 shows regression results, from Sobel (forthcoming), that do indeed show that economic freedom is a statistically significant determinant of all of these measures of entrepreneurial activity, even after controlling for other factors, across the entire sample of US states. [8]

The ordinary least squares (OLS) regression results shown in table 2.3 show how economic freedom is related to each measure of productive entrepreneurial activity, holding constant the other factors listed in the table. These control variables include the percentage of the state's population that is male, the percent with a college degree, the state's population density, and median age. The coefficients can be interpreted as the impact of a one-unit change in economic freedom on the dependent variable; so, for example, a state with a one-unit higher score on the economic freedom index has $32.13 higher venture capital investments per capita.

[8] For additional evidence on the relationship between economic freedom and entrepreneurial activity, see Kreft and Sobel (2005) and Sobel (forthcoming).

Institutions and the Productivity of Entrepreneurial Activity

Baumol's (1990) theory of productive and unproductive entrepreneurship explains why good institutions promote growth while bad institutions do not. In stressing the role of entrepreneurship in an economy, Baumol notes that entrepreneurial individuals have a choice to devote their labor efforts toward either private-sector wealth creation or toward securing wealth redistribution through the political and legal processes (e.g., lobbying and lawsuits). [9] This decision is influenced by the corresponding rates of return—or profit rates—of these alternative activities. Institutions consistent with economic freedom—those providing for secure property rights, a fair and balanced judicial system, contract enforcement, and effective limits on government's ability to transfer wealth through taxation and regulation—reduce the profitability of unproductive political and legal entrepreneurship. Under this incentive structure, creative individuals are more likely to engage in the creation of new wealth through productive market entrepreneurship.

In areas with weak institutions, these same individuals are instead more likely to engage in attempts to manipulate the political or legal process to capture transfers of existing wealth through unproductive political and legal entrepreneurship—activities that destroy overall wealth. [10] This reallocation of effort occurs because the institutional structure largely determines the relative personal and financial rewards to investing entrepreneurial energies into productive market activities rather than investing those same energies into unproductive political and legal activities. For example, a steel entrepreneur might react to competition by trying either to find a better way of producing steel (productive entrepreneurship) or by lobbying for subsidies, tariff protection, or filing legal anti-trust actions (unproductive entrepreneurship).

To understand this distinction better, consider the difference between positive-sum, zero-sum, and negative-sum economic activities. Activities are positive sum when net gains are created to society. Activites in the private market are positive sum because both parties gain in voluntary transactions. When you purchase a car, you value the car more than the money you pay for it and the car dealer values the money he receives more than the car he sells you. Government actions that simply transfer wealth from one person to another are instead zero-sum activities. One party's gain (e.g., the subsidy) is offset exactly by another party's loss (e.g., the taxes). However, because the zero-sum transfer requires an investment of resources in lobbying to secure, their overall impact on the economy is negative. Magnifying this is the fact that others will devote resources to political lobbying on the "defensive side" of transfers to protect their wealth from being seized. The resources

[9] Spending effort and resources to secure wealth through political redistribution is what economists call "rent-seeking." See, for instance, Tullock, 1967 and Tollison, 1982.

[10] In poor institutional environments, entrepreneurial activities are also devoted toward what Coyne and Leeson (2004) term "evasive entrepreneurship" whereby resources are devoted to evading taxes and regulations.

devoted toward securing (and fighting against) zero-sum political transfers have a cost; we have more lobbying firms and fewer DVD manufacturers.

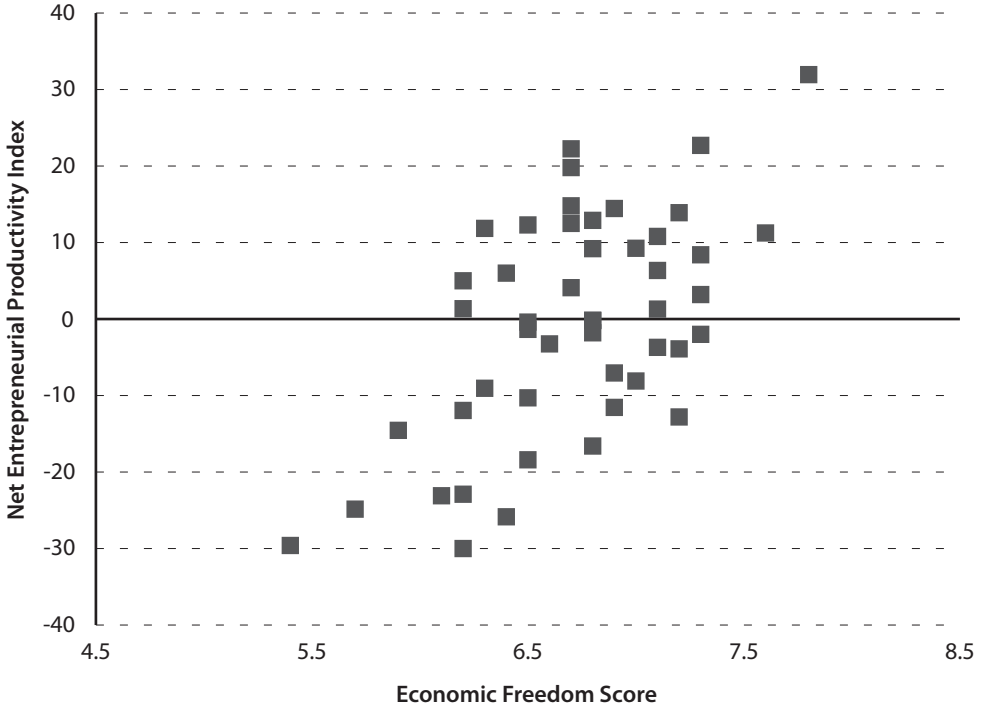
Unproductive entrepreneurship is unproductive precisely because it uses up resources in the process of capturing zero-sum transfers and these resources have other, productive uses. Baumol's theory is founded in the idea that entrepreneurs exploit profit opportunities not only within private markets but also within the political and legal arenas. Thus, differences in measured rates of *private-sector* entrepreneurship, like those shown in tables 2.2 and 2.3, are partially the result of the different directions entrepreneurial energies are channeled by prevailing economic and political institutions through the rewards and incentive structures they create for entrepreneurial individuals.

In places like West Virginia with weak institutions, where lawsuits are unusually profitable for lawyers and their clients and state government's large influence over spending encourages individuals to fight over obtaining state government funds, there is a high level of unproductive entrepreneurship. As a result, there is less productive private-sector entrepreneurship and lower economic growth. In contrast, in states such as Delaware, with good institutions, productive entrepreneurship flourishes at the expense of unproductive entrepreneurship. Thus, while policies consistent with economic freedom clearly promote higher levels of productive entrepreneurial activity, they also tend to discourage unproductive entrepreneurial endeavors, such as lobbying and abuse of lawsuits.

Sobel (forthcoming) provides a ranking of the "net entrepreneurial productivity" of each US state, in which productive entrepreneurship is measured relative to unproductive political and legal entrepreneurship. This index was constructed by ranking each state on each of the five measures of productive entrepreneurship shown earlier. These rankings are then averaged to get each state's average ranking for productive entrepreneurship. By using the rankings, it avoids problems associated with trying to average the underlying measures that have different scales. Then, four measures of lobbying and abuse of lawsuits are similarly ranked and averaged. The average rankings are then subtracted to get a measure of the net entrepreneurial activity in each state. As an example, if a state had an average ranking of 3rd highest on the productive entrepreneurship measures, and ranked 40th on the measures of unproductive entrepreneurship, they would receive a +37 score in the index. The relationship between this index of net entrepreneurial productivity and economic freedom, shown in figure 2.3, is striking.

The data suggest that good institutions promote prosperity not only because they promote productive activities but also because they discourage unproductive, wealth-destroying activities. Despite the good intentions behind government policies that attempt to increase prosperity through increased government spending, the bottom line is that these policies tend to encourage entrepreneurial individuals to spend their time seeking government funding or favors rather than producing wealth. In a nutshell, states with poor institutions end up having too many lawyers and lobbyists and too few scientists and engineers.

Figure 2.3: Institutional Quality and Entrepreneurial Productivity



Source: Sobel, forthcoming.

This helps to highlight the difference between what economists consider good institutions and what some might consider "business-friendly policies." When government gives subsidies or tax breaks to specific firms or industry groups but not to others, this is at odds with the policy structure, or rules of the game, consistent with prosperity. When it becomes more profitable for companies and industries to invest time and resources into lobbying the political process for favors, or into initiating lawsuits against others, we end up with more of these types of destructive activities and less productive activity. Firms begin competing over obtaining government tax breaks rather than with each other in the marketplace. They spend time lobbying rather than producing.

Conclusion

As the evidence presented here makes clear, states with policies consistent with economic freedom encourage higher levels of productive entrepreneurial activity. By unleashing their entrepreneurial energies, these states grow faster and secure a higher level of prosperity. Thereby, entrepreneurship serves as the conduit between economic freedom and economic prosperity. That is, economic freedom is correlated with income and growth *because* economic freedom promotes productive entrepreneurship, which is the underlying source of economic growth.

Equally important is how policies consistent with economic freedom divert resources away from unproductive uses—those that serve only to plunder wealth through political and legal channels. By lowering the rewards to plunder and increasing the returns to wealth creation, economic freedom promotes prosperity.

Unfortunately, despite the recent growing emphasis on institutions in the international literature about economic development, this idea has not equally infiltrated modern thinking about policies for state and local economic development. To grow and prosper, most well-intended state and local policies are now currently aimed at providing selective taxes and subsidies and introducing new government programs and regulations. But, because these policies actually lower economic freedom, they are destined to produce unintended consequences and result in lower economic prosperity.

While the policies consistent with economic freedom are fairly clear conceptually, there is a challenge in that, in practice, *specific* recommendations are needed for policy makers. For example, states wishing to promote lending to small businesses often first think of solving this problem by establishing new government loan funds. In this case, rather than looking toward government to solve these problems, we need to ask how we could remove current government banking regulations that stand as barriers to private lenders making these loans. Using the principles embodied in *Economic Freedom of North America* and its index, the challenge for academics is now to provide useful, and readable, guides to specific policy reforms that increase economic freedom at the state and local level.

In West Virginia, for example, the Public Policy Foundation of West Virginia released in March 2007 our book, *Unleashing Capitalism: Why Prosperity Stops at the West Virginia Border and How to Fix It*, a 250-page guide to the specific laws, policies, regulations, and taxes that should be changed to increase economic freedom in West Virginia, the US state with the lowest level of economic freedom. A similar study is now being undertaken in Kentucky. With more than 4,000 copies sold, and over 75 public presentations, including to the state's governor and legislature, we have found a clear hunger for analysis specific to a state and its policies—even in a state that has traditionally rejected these ideas. Citizens and policy-makers alike share a common goal of promoting prosperity and now more than ever need to hear the evidence and theories from the development literature that point them in the right direction. With the concept of economic freedom now making headlines and being debated on the floor of the legislature in West Virginia, we have shown it is possible to bring the ideals of economic freedom and the logic of institutional development economics to the state policy level. An example of reforms like those of Ireland that promote economic freedom and create prosperity is desperately needed at the state or provincial level, to serve as an example for others to follow.

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Chapter 3
Detailed Tables of Economic Freedom in Canada and the United States

The following tables provide more information on economic freedom in the provinces and states as measured by the index of economic freedom in North America at the all-government and the subnational levels. At the all-government level, the index measures the impact of all levels of government—federal, provincial/state, and municipal/local—in Canada and the United States. At the subnational level, it measures the impact of provincial and municipal governments on economic freedom in Canada and state and local governments in the United States.

The first two tables provide a detailed summary of the scores for 2005. The remaining tables provide historical information both for the overall index and for each of Area 1: Size of Government; Area 2: Takings and Discriminatory Taxation; and Area 3: Labor Market Freedom. Economic freedom is measured on a scale from zero to 10, where a higher value indicates a higher level of economic freedom. See page 68 for a list of the Areas and their Components. All the data included in this report are available on our website, <http://www.freetheworld.com>.

List of Tables

Table 3.1 Scores at the Federal, State/Provincial, and Local/Municipal Levels, 2005

Table 3.2 Scores at the State/Provincial, and Local/Municipal Levels, 2005

Table 3.3 Overall Scores at the Federal, State/Provincial, and Local/Municipal Levels, 1981–2005

Table 3.4 Overall Scores at the State/Provincial, and Local/Municipal Levels, 1981–2005

Table 3.5 Scores for Size of Government at the Federal, State/Provincial, and Local/Municipal Levels, 1981–2005

Table 3.6 Scores for Size of Government at the State/Provincial, and Local/Municipal Levels, 1981–2005

Table 3.7 Scores for Takings and Discriminatory Taxation at the Federal, State/Provincial, and Local/Municipal Levels, 1981–2005

Table 3.8 Scores for Takings and Discriminatory Taxation at the State/Provincial, and Local/Municipal Levels, 1981–2005

Table 3.9 Scores for Labor Market Freedom at the Federal, State/Provincial, and Local/Municipal Levels, 1981–2005

Table 3.10 Scores for Labor Market Freedom at the State/Provincial, and Local/Municipal Levels, 1981–2005

Table 3.1: Scores at the Federal, State/Provincial, and Local/Municipal Levels, 2005

	Overall Index	Area 1	Area 2	Area 3	1A	1B	1C	2A	2B	2C	2D	3A	3B	3C
Alberta	7.8	9.2	7.5	6.8	9.2	8.8	9.6	7.0	5.5	10.0	7.5	9.4	7.9	3.2
British Columbia	5.6	7.7	4.5	4.8	7.3	7.5	8.2	3.5	4.5	6.6	3.4	5.8	7.5	1.1
Manitoba	4.7	6.4	3.8	3.9	5.6	5.6	8.0	3.1	3.5	5.3	3.4	5.8	3.1	2.7
New Brunswick	4.8	5.7	3.8	4.9	4.4	6.6	6.2	3.1	3.5	5.7	2.7	6.0	4.8	3.9
Newfoundland	5.5	6.6	5.4	4.4	6.0	7.5	6.4	6.3	2.5	9.0	3.9	7.6	3.0	2.7
Nova Scotia	4.6	5.8	3.4	4.7	3.7	7.0	6.6	2.8	2.5	6.0	2.4	6.0	3.7	4.3
Ontario	5.7	7.9	3.8	5.4	7.3	7.9	8.4	2.2	3.5	5.7	3.7	6.7	7.3	2.2
Prince Edward Island	3.8	4.6	2.8	4.1	3.1	5.8	4.8	1.4	3.5	5.6	0.7	4.9	3.8	3.6
Quebec	4.3	6.7	2.5	3.8	6.2	6.2	7.5	0.7	2.5	4.1	2.8	5.5	5.8	0.1
Saskatchewan	5.5	7.1	4.9	4.4	7.0	6.0	8.4	4.9	4.5	6.0	4.4	7.4	2.1	3.8
Alabama	6.5	5.7	6.8	7.1	5.5	7.9	3.8	7.5	7.0	5.6	7.0	7.3	6.9	7.0
Alaska	6.4	5.8	7.6	6.0	4.8	6.2	6.3	8.5	8.0	4.5	9.2	8.5	3.6	5.8
Arizona	7.0	7.1	6.4	7.7	7.1	8.5	5.6	6.8	6.0	6.7	6.1	7.7	8.4	7.1
Arkansas	6.6	6.1	6.0	7.6	7.0	7.5	3.9	7.0	5.0	6.0	5.8	7.0	7.8	7.9
California	6.8	7.6	5.9	6.8	7.4	8.8	6.5	5.9	4.0	6.6	7.2	7.5	8.4	4.4
Colorado	7.6	8.0	7.0	7.9	8.2	9.3	6.7	7.2	6.0	7.3	7.4	8.7	8.1	6.8
Connecticut	7.0	7.9	6.0	7.1	7.7	9.2	6.9	5.0	6.0	5.1	7.8	8.2	8.4	4.6
Delaware	8.5	9.0	8.6	7.9	9.8	9.5	7.6	10.0	6.0	8.4	9.9	9.4	8.5	5.6
Florida	7.0	7.1	6.0	7.9	7.4	9.0	4.8	5.4	8.0	3.9	6.5	7.9	9.2	6.7
Georgia	7.6	7.8	7.1	8.0	8.0	8.8	6.6	7.8	6.0	7.7	7.1	8.1	8.1	7.7
Hawaii	6.1	6.6	6.0	5.7	5.7	8.6	5.6	6.9	5.0	6.3	5.5	7.6	6.0	3.6
Idaho	6.7	6.7	5.9	7.5	6.9	8.2	5.1	6.4	5.0	4.6	7.4	7.1	7.4	8.1
Illinois	7.1	7.9	6.6	6.8	8.4	9.0	6.3	6.5	7.0	5.0	8.0	7.5	8.8	4.2
Indiana	7.4	7.7	7.1	7.4	7.9	9.0	6.2	7.5	7.0	6.1	7.8	7.9	8.8	5.4
Iowa	7.1	7.4	6.6	7.3	8.0	8.3	5.8	7.6	6.0	5.2	7.5	8.2	7.8	5.9
Kansas	7.0	7.2	6.3	7.4	7.4	8.5	5.7	6.6	6.0	5.7	6.9	8.0	6.4	7.9
Kentucky	6.7	6.2	6.5	7.2	6.6	8.0	4.2	7.0	6.0	5.4	7.7	7.3	7.6	6.8
Louisiana	7.2	7.0	6.9	7.7	7.1	8.1	5.6	8.6	7.0	6.3	5.8	8.2	6.3	8.5
Maine	5.8	5.7	5.1	6.7	5.4	7.5	4.3	5.5	5.0	2.6	7.1	6.3	8.0	5.8
Maryland	6.5	6.4	5.9	7.2	4.8	8.8	5.7	5.2	6.0	4.1	8.3	8.6	7.1	5.9
Massachusetts	7.2	7.6	6.8	7.3	7.7	8.6	6.5	5.8	6.0	6.9	8.4	8.0	9.2	4.7
Michigan	6.8	7.1	6.6	6.6	7.2	8.8	5.3	6.2	7.0	5.8	7.2	7.8	8.6	3.3
Minnesota	7.2	8.0	6.2	7.3	8.4	8.9	6.7	6.6	5.0	5.6	7.7	8.7	8.7	4.6
Mississippi	5.8	5.0	5.7	6.7	4.7	7.0	3.3	6.7	6.0	4.1	5.9	6.2	5.7	8.3
Missouri	7.0	6.9	6.9	7.3	7.0	8.4	5.2	7.2	7.0	6.2	7.3	7.9	8.0	6.0
Montana	6.0	5.5	5.7	6.9	6.2	6.6	3.8	6.1	6.0	0.9	9.7	7.1	6.6	7.0
Nebraska	7.3	7.6	6.6	7.6	8.1	8.3	6.3	7.1	6.0	5.8	7.4	8.3	7.4	7.3
Nevada	7.5	8.4	6.4	7.6	9.1	9.6	6.7	6.3	8.0	4.4	6.8	8.7	9.6	4.3
New Hampshire	7.5	7.9	6.9	7.7	8.4	8.9	6.4	6.1	8.0	3.9	9.6	8.3	9.4	5.4
New Jersey	6.7	8.0	5.4	6.8	8.2	9.3	6.4	5.2	5.0	3.5	8.0	8.8	8.3	3.4
New Mexico	6.0	5.4	5.8	7.0	4.2	7.0	4.8	7.6	6.0	3.5	6.1	7.7	4.1	9.1
New York	6.4	7.2	5.8	6.1	7.4	7.9	6.2	5.5	5.0	5.2	7.5	8.5	7.6	2.3
North Carolina	7.6	7.5	7.0	8.1	8.1	8.7	5.8	7.8	5.0	7.4	8.0	8.2	7.5	8.7
North Dakota	6.5	6.1	6.0	7.4	6.5	5.9	5.8	7.0	6.0	3.3	7.5	8.1	5.6	8.5
Ohio	6.7	6.9	6.0	7.0	7.5	8.6	4.8	6.5	5.0	5.1	7.6	8.0	8.4	4.5
Oklahoma	6.7	6.4	6.2	7.5	6.6	8.2	4.4	6.8	6.0	5.1	6.8	7.5	6.2	8.8
Oregon	6.7	7.1	6.7	6.5	8.0	8.7	4.6	6.7	6.0	4.3	9.7	6.3	7.9	5.3
Pennsylvania	6.8	6.7	6.3	7.3	6.9	8.6	4.7	6.0	7.0	4.6	7.8	8.1	9.2	4.6
Rhode Island	6.2	6.6	5.1	6.8	6.9	7.9	5.0	5.5	5.0	2.7	7.4	7.0	9.4	4.0
South Carolina	6.8	6.3	6.2	7.8	6.4	8.2	4.2	6.9	5.0	5.4	7.5	7.3	7.2	9.0
South Dakota	7.3	7.0	7.3	7.7	8.0	7.1	6.0	8.1	8.0	6.2	7.0	8.1	6.9	7.9
Tennessee	7.4	7.1	7.2	7.9	7.2	8.3	5.7	7.9	8.0	6.6	6.4	7.9	8.2	7.5
Texas	7.8	8.1	7.2	8.1	8.3	9.1	6.9	7.9	8.0	5.6	7.2	8.5	7.9	7.8
Utah	7.4	7.6	6.9	7.7	7.4	8.8	6.6	7.7	6.0	7.2	6.8	7.7	7.3	8.2
Vermont	6.3	6.5	5.5	6.7	6.3	7.4	5.9	5.9	5.0	2.7	8.4	6.2	8.1	5.8
Virginia	7.2	6.8	6.8	8.0	5.1	9.4	5.9	7.1	6.0	5.8	8.5	8.8	6.7	8.6
Washington	6.5	7.3	6.2	6.2	7.5	8.8	5.6	5.9	8.0	5.4	5.3	6.8	7.2	4.5
West Virginia	5.3	4.5	5.0	6.4	5.3	7.0	1.3	5.5	6.0	1.0	7.4	6.6	6.3	6.3
Wisconsin	6.8	7.4	6.1	7.0	7.8	8.8	5.6	6.3	6.0	4.7	7.4	8.0	8.6	4.4
Wyoming	7.0	7.1	6.4	7.6	7.4	7.5	6.4	6.9	8.0	4.0	6.6	9.3	4.2	9.3

Table 3.2: Scores at the State/Provincial and Local/Municipal Levels, 2005

	Overall Index	Area 1	Area 2	Area 3	1A	1B	1C	2A	2B	2C	2D	3A	3B	3C
Alberta	7.7	8.5	8.7	6.0	7.7	8.6	9.2	8.6	7.0	9.9	9.5	7.5	7.2	3.2
British Columbia	5.6	6.7	5.9	4.2	5.5	7.4	7.3	4.4	5.5	8.3	5.4	4.7	6.8	1.1
Manitoba	4.8	6.3	5.1	3.1	3.6	7.0	8.3	2.7	5.5	7.6	4.6	4.6	1.8	2.7
New Brunswick	5.1	5.9	5.1	4.3	2.7	7.3	7.8	3.4	4.5	8.3	4.1	4.8	4.2	3.9
Newfoundland	5.6	7.1	6.1	3.6	4.1	8.4	8.7	5.8	4.0	9.7	4.7	6.1	1.9	2.7
Nova Scotia	5.2	6.5	4.8	4.1	3.7	8.0	8.0	2.8	4.5	8.2	3.7	4.8	3.3	4.3
Ontario	5.7	6.9	5.2	4.9	5.7	7.5	7.3	2.7	5.5	7.6	5.2	5.4	7.1	2.2
Prince Edward Island	4.6	5.6	4.4	3.9	1.5	6.8	8.5	2.6	4.5	8.7	1.7	3.9	4.2	3.6
Quebec	4.1	5.4	3.7	3.1	4.6	5.3	6.4	0.2	4.0	6.7	4.1	4.4	4.9	0.1
Saskatchewan	5.1	6.7	5.4	3.2	4.7	7.8	7.6	3.7	5.5	7.1	5.3	5.9	0.0	3.8
Alabama	7.3	6.1	7.9	7.8	4.9	6.1	7.2	7.9	8.0	9.3	6.3	10.0	6.5	7.0
Alaska	5.8	3.8	8.1	5.6	2.9	6.8	1.6	7.5	10.0	6.1	9.0	6.8	4.1	5.8
Arizona	7.8	7.8	7.1	8.4	6.7	9.2	7.5	6.8	8.0	8.7	4.7	10.0	8.2	7.1
Arkansas	6.9	7.0	6.7	6.9	5.1	8.6	7.3	6.7	6.0	9.7	4.4	5.6	7.2	7.9
California	6.1	6.0	6.1	6.1	5.7	7.5	4.9	5.5	5.0	7.5	6.4	6.0	8.0	4.4
Colorado	7.5	7.8	7.5	7.3	7.3	9.7	6.3	7.6	7.0	8.7	6.8	7.0	8.0	6.8
Connecticut	6.9	7.5	6.9	6.3	7.2	8.9	6.4	6.1	7.0	7.4	7.2	6.6	7.7	4.6
Delaware	8.3	8.7	9.1	7.0	8.2	9.4	8.4	9.8	7.5	9.2	9.8	7.6	7.9	5.6
Florida	7.5	7.6	7.2	7.6	6.3	8.7	7.8	6.6	10.0	6.8	5.2	7.1	9.1	6.7
Georgia	7.5	7.7	7.5	7.4	6.8	8.5	7.8	7.9	6.0	9.4	6.6	6.5	8.0	7.7
Hawaii	6.2	7.0	6.1	5.6	5.4	8.9	6.6	6.1	5.0	9.4	3.9	6.1	7.1	3.6
Idaho	6.7	6.9	6.2	6.9	5.4	8.5	6.8	5.9	5.0	7.7	6.1	5.7	6.9	8.1
Illinois	6.9	7.1	7.3	6.2	6.8	8.9	5.6	6.7	8.0	6.9	7.5	6.0	8.4	4.2
Indiana	7.4	8.0	7.7	6.7	6.2	9.2	8.4	7.4	8.0	8.8	6.6	6.4	8.2	5.4
Iowa	7.1	7.5	7.4	6.5	5.9	8.9	7.5	7.2	7.5	8.0	7.1	6.6	6.9	5.9
Kansas	7.0	7.4	6.4	7.2	6.1	8.6	7.6	6.1	6.0	7.8	5.9	8.2	5.5	7.9
Kentucky	6.7	6.4	7.1	6.6	5.6	7.9	5.7	6.5	6.5	8.5	7.1	5.9	7.1	6.8
Louisiana	7.4	6.9	7.4	7.9	5.8	8.5	6.4	7.3	8.0	9.2	4.9	10.0	5.3	8.5
Maine	5.8	5.9	5.4	6.2	3.3	7.5	7.0	4.1	5.0	6.1	6.4	5.0	7.7	5.8
Maryland	7.3	7.4	7.2	7.2	6.5	8.6	7.0	5.8	7.0	7.9	8.0	6.9	8.9	5.9
Massachusetts	7.0	7.1	7.3	6.7	6.5	9.0	5.9	6.3	7.0	7.9	8.0	6.4	9.0	4.7
Michigan	6.4	6.4	7.0	5.9	4.7	8.7	5.6	6.0	8.0	7.6	6.2	6.3	8.0	3.3
Minnesota	6.7	6.8	6.8	6.6	6.1	8.0	6.2	6.5	5.5	8.2	7.0	7.0	8.1	4.6
Mississippi	6.6	5.9	6.3	7.7	2.6	9.1	6.0	5.8	7.0	7.7	4.9	10.0	4.7	8.3
Missouri	7.2	7.3	7.6	6.7	6.6	8.5	6.8	7.3	8.0	8.7	6.5	6.3	7.7	6.0
Montana	6.6	6.2	7.2	6.4	4.3	8.5	5.6	5.9	8.0	5.4	9.7	5.7	6.4	7.0
Nebraska	7.2	8.1	6.6	6.9	6.4	9.2	8.8	6.4	6.0	8.1	5.9	6.7	6.7	7.3
Nevada	7.6	8.5	7.4	6.9	7.7	9.7	8.0	7.0	10.0	6.6	6.0	7.0	9.5	4.3
New Hampshire	7.8	8.1	8.2	7.0	6.7	9.1	8.6	7.6	10.0	5.7	9.7	6.7	9.0	5.4
New Jersey	6.5	7.0	6.4	6.1	6.4	9.3	5.4	5.6	6.0	6.5	7.4	7.1	7.7	3.4
New Mexico	6.3	5.9	6.8	6.2	4.2	7.2	6.5	6.6	7.0	8.6	5.1	6.2	3.4	9.1
New York	5.7	5.7	6.0	5.3	4.6	8.1	4.3	4.3	6.0	7.3	6.5	6.8	6.9	2.3
North Carolina	7.4	7.5	7.5	7.3	6.6	8.6	7.4	7.6	6.0	9.1	7.1	6.6	6.7	8.7
North Dakota	7.1	7.4	7.1	6.7	5.1	9.2	7.9	6.6	8.0	6.7	7.0	6.5	5.2	8.5
Ohio	6.2	5.5	6.6	6.5	5.4	8.0	3.1	5.2	7.0	7.5	6.5	7.1	7.9	4.5
Oklahoma	7.0	7.3	6.7	6.9	5.8	9.3	6.9	6.6	6.0	8.3	6.0	6.0	5.8	8.8
Oregon	6.4	5.7	7.5	5.9	5.8	8.8	2.5	6.2	7.0	6.8	9.8	5.1	7.4	5.3
Pennsylvania	6.8	6.5	7.1	6.8	5.4	8.7	5.4	5.9	8.0	7.4	7.0	6.5	9.1	4.6
Rhode Island	5.8	5.4	5.6	6.4	4.7	7.4	4.2	4.8	5.0	6.0	6.7	5.6	9.4	4.0
South Carolina	7.1	6.0	6.7	8.4	4.8	7.2	6.1	6.6	6.0	7.8	6.5	10.0	6.3	9.0
South Dakota	7.9	8.3	8.2	7.1	7.3	9.5	8.2	8.5	10.0	8.5	5.7	6.5	6.8	7.9
Tennessee	8.2	7.8	8.2	8.4	6.4	8.8	8.2	8.5	10.0	9.5	4.7	10.0	7.8	7.5
Texas	7.8	8.1	7.9	7.3	7.5	9.4	7.5	7.9	10.0	7.2	6.6	6.8	7.4	7.8
Utah	7.3	7.2	7.4	7.3	5.9	7.9	7.6	7.3	7.0	9.1	6.1	6.1	7.4	8.2
Vermont	6.1	6.3	5.9	6.2	3.8	7.0	8.2	5.2	5.0	5.7	7.8	5.0	7.8	5.8
Virginia	7.9	8.0	7.9	7.7	7.5	8.2	8.3	7.8	7.0	8.6	8.1	7.0	7.5	8.6
Washington	6.3	6.4	6.8	5.6	6.4	7.8	5.1	6.3	10.0	7.3	3.7	5.5	6.9	4.5
West Virginia	5.5	5.2	5.5	5.9	3.4	8.4	3.8	3.8	6.5	5.2	6.5	5.3	6.1	6.3
Wisconsin	6.5	6.4	6.7	6.3	5.3	8.6	5.2	5.7	7.0	7.5	6.7	6.5	7.9	4.4
Wyoming	6.9	7.0	7.0	6.6	5.0	9.4	6.6	6.2	10.0	5.7	6.0	7.4	3.1	9.3

Table 3.3: Overall Scores at the Federal, State/Provincial, and Local/Municipal Levels, 1981–2005

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Alberta	7.1	7.0	6.7	6.6	6.9	6.5	6.3	6.6	6.5	6.5	6.1	6.0
British Columbia	5.2	5.0	4.9	5.0	5.2	5.1	5.4	5.7	5.7	5.4	4.9	4.8
Manitoba	5.1	4.7	4.5	4.9	4.7	4.5	4.3	4.6	4.7	4.6	4.1	4.1
New Brunswick	2.7	3.5	3.9	4.0	4.0	4.2	4.4	4.7	4.6	4.3	3.7	3.7
Newfoundland	3.5	3.5	3.2	3.3	3.3	3.3	3.4	3.7	3.6	3.3	2.8	2.3
Nova Scotia	2.8	3.5	3.8	3.9	3.7	4.0	4.2	4.4	4.4	4.2	3.9	3.7
Ontario	5.7	5.7	5.8	5.8	5.8	5.6	5.7	5.9	5.9	5.4	5.1	4.9
Prince Edward Island	4.1	4.0	4.3	4.0	3.8	4.0	4.0	4.3	4.2	3.9	3.4	3.4
Quebec	4.2	3.9	4.1	4.2	4.2	4.2	4.3	4.5	4.5	4.3	3.8	3.6
Saskatchewan	5.1	5.0	4.9	4.9	4.9	4.6	4.4	4.5	4.8	4.7	4.2	3.9
Alabama	5.5	5.7	5.9	6.1	6.1	6.1	6.6	7.0	6.9	6.8	6.5	6.5
Alaska	6.8	7.0	7.1	7.2	7.4	6.7	7.5	7.5	7.5	7.4	6.6	6.7
Arizona	5.9	6.0	6.2	6.4	6.3	6.4	6.7	7.0	6.9	6.8	6.5	6.6
Arkansas	5.7	5.8	5.9	6.3	6.0	6.1	6.4	6.9	6.9	6.9	6.6	6.6
California	5.9	6.0	6.1	6.3	6.4	6.4	6.8	7.1	7.1	7.2	6.8	6.7
Colorado	6.4	6.5	6.7	6.9	6.9	6.7	6.9	7.2	7.2	7.2	6.9	6.9
Connecticut	5.8	6.2	6.4	6.6	6.7	6.8	7.1	7.5	7.4	7.6	7.3	7.0
Delaware	6.6	6.8	6.9	7.2	7.3	7.3	7.6	8.0	8.2	8.3	8.0	7.9
Florida	5.7	5.9	6.2	6.4	6.4	6.4	6.8	7.1	7.1	7.0	6.6	6.5
Georgia	6.2	6.3	6.5	6.8	6.9	7.0	7.3	7.7	7.7	7.6	7.3	7.3
Hawaii	5.5	5.5	5.7	5.8	5.8	6.0	6.2	6.6	6.6	6.8	6.6	6.6
Idaho	5.9	5.9	6.1	6.3	6.1	5.9	6.1	6.6	6.7	6.7	6.3	6.3
Illinois	5.9	6.1	6.2	6.6	6.6	6.6	6.9	7.4	7.4	7.4	7.1	7.1
Indiana	5.9	6.0	6.2	6.4	6.4	6.6	6.9	7.3	7.3	7.3	6.9	7.0
Iowa	5.9	5.9	6.0	6.3	6.2	6.1	6.4	6.7	6.8	6.8	6.6	6.6
Kansas	6.1	6.2	6.3	6.5	6.4	6.4	6.6	6.9	7.0	7.0	6.7	6.7
Kentucky	5.9	6.0	6.1	6.4	6.5	6.3	6.8	7.1	7.1	7.1	6.6	6.8
Louisiana	7.2	7.2	7.2	7.5	7.4	7.1	7.3	7.8	7.7	7.8	7.3	6.9
Maine	5.0	5.1	5.2	5.5	5.5	5.7	5.9	6.6	6.5	6.4	5.9	5.8
Maryland	5.1	5.3	5.5	5.8	5.9	6.0	6.5	6.9	6.9	6.9	6.5	6.3
Massachusetts	5.7	5.9	6.1	6.4	6.6	6.7	7.0	7.5	7.4	7.4	7.0	6.9
Michigan	5.3	5.4	5.7	6.0	6.1	6.0	6.3	6.8	6.8	6.7	6.3	6.3
Minnesota	5.9	6.0	6.1	6.4	6.3	6.3	6.5	6.9	6.9	6.9	6.5	6.5
Mississippi	5.3	5.4	5.5	5.8	5.9	5.8	6.3	6.6	6.5	6.5	6.1	6.0
Missouri	5.7	5.9	6.1	6.3	6.3	6.5	6.8	7.3	7.3	7.3	7.0	6.9
Montana	5.7	5.7	5.8	5.7	5.3	5.3	5.6	5.7	5.8	5.6	5.6	5.3
Nebraska	6.2	6.2	6.3	6.6	6.6	6.5	6.7	7.0	7.1	7.2	7.0	7.0
Nevada	6.1	6.3	6.4	6.5	6.5	6.6	7.0	7.5	7.5	7.5	7.1	7.0
New Hampshire	5.9	6.2	6.4	6.8	7.0	7.1	7.5	7.9	7.7	7.7	7.3	7.0
New Jersey	5.5	5.7	5.9	6.2	6.2	6.4	6.6	7.2	7.2	7.2	6.8	6.5
New Mexico	6.0	6.0	6.1	6.1	6.1	5.8	6.0	6.1	6.2	6.1	6.1	6.0
New York	5.5	5.5	5.6	5.8	5.9	6.0	6.3	6.8	6.7	6.8	6.4	6.3
North Carolina	6.5	6.6	6.8	7.0	7.1	7.1	7.4	7.9	7.9	7.8	7.5	7.5
North Dakota	6.3	6.3	6.3	6.3	6.1	5.7	5.7	5.8	6.0	6.1	5.8	6.0
Ohio	5.6	5.8	5.9	6.2	6.2	6.2	6.4	6.9	6.9	6.9	6.5	6.5
Oklahoma	6.6	6.7	6.7	6.9	6.8	6.4	6.7	7.0	6.9	6.8	6.5	6.5
Oregon	5.4	5.4	5.6	5.7	5.7	5.8	6.0	6.5	6.4	6.4	6.1	6.2
Pennsylvania	5.2	5.3	5.5	5.9	6.0	6.1	6.4	6.9	6.8	6.9	6.6	6.5
Rhode Island	5.1	5.1	5.3	5.5	5.7	5.8	6.0	6.6	6.6	6.6	6.0	5.7
South Carolina	5.9	5.9	6.2	6.5	6.5	6.6	6.9	7.4	7.4	7.2	6.9	6.9
South Dakota	5.7	5.9	6.1	6.4	6.3	6.3	6.6	6.9	6.9	7.0	6.8	6.9
Tennessee	5.9	6.1	6.3	6.6	6.7	6.6	7.1	7.5	7.4	7.3	7.1	7.2
Texas	7.3	7.5	7.5	7.6	7.6	7.3	7.6	7.9	7.8	7.9	7.6	7.5
Utah	5.8	6.0	6.1	6.3	6.4	6.3	6.4	6.8	6.8	6.9	6.8	6.8
Vermont	5.6	5.6	5.8	5.9	6.0	6.1	6.4	7.0	7.1	7.1	6.6	6.6
Virginia	5.7	5.8	6.0	6.4	6.5	6.6	6.9	7.2	7.3	7.3	7.0	6.9
Washington	5.3	5.6	5.7	5.9	5.8	5.8	6.1	6.5	6.5	6.5	6.3	6.3
West Virginia	4.7	4.8	4.7	5.0	5.1	5.2	5.4	6.0	6.1	5.9	5.3	5.4
Wisconsin	5.6	5.6	5.7	5.9	6.0	6.0	6.3	6.8	6.7	6.8	6.5	6.6
Wyoming	7.3	7.3	7.2	7.1	7.0	6.7	7.0	7.4	7.4	7.5	7.2	7.1

* Rank out of 60 for 2005.

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	Rank*
6.2	6.6	6.7	6.8	6.9	6.8	7.0	7.4	7.3	7.2	7.5	7.6	7.8	2
4.7	4.8	4.7	4.7	4.7	4.7	4.9	5.0	5.2	5.2	5.3	5.5	5.6	52
4.0	4.2	4.3	4.5	4.6	4.7	4.6	4.7	4.8	4.8	4.6	4.7	4.7	57
3.9	3.9	4.3	4.3	4.3	4.5	4.8	4.8	4.8	4.7	4.8	4.8	4.8	56
2.4	2.7	3.0	2.9	3.0	3.3	3.7	4.3	4.2	4.7	4.9	5.1	5.5	53
3.6	3.6	3.9	4.0	4.1	4.1	4.3	4.5	4.6	4.6	4.7	4.6	4.6	58
4.9	5.0	5.1	5.1	5.2	5.4	5.6	5.8	5.7	5.8	5.7	5.8	5.7	51
3.5	3.6	3.8	3.9	3.6	3.9	3.9	3.9	3.8	4.0	3.9	3.9	3.8	60
3.7	3.9	3.9	3.9	4.0	4.0	4.2	4.4	4.3	4.4	4.2	4.3	4.3	59
4.1	4.5	4.7	5.0	4.9	4.9	5.0	5.2	5.0	5.0	5.0	5.3	5.5	53
6.4	6.2	6.3	6.4	6.4	6.4	6.3	6.2	6.2	6.2	6.4	6.5	6.5	38
6.5	6.5	6.4	6.7	6.3	6.0	6.2	6.2	6.1	6.1	6.2	6.4	6.4	42
6.4	6.5	6.6	6.7	6.9	7.1	7.1	7.0	7.0	7.0	7.1	7.0	7.0	20
6.4	6.4	6.4	6.5	6.5	6.5	6.5	6.4	6.3	6.2	6.4	6.5	6.6	37
6.5	6.5	6.5	6.5	6.5	6.5	6.6	6.5	6.5	6.6	6.7	6.8	6.8	26
6.9	6.9	7.0	7.1	7.3	7.4	7.4	7.4	7.4	7.5	7.6	7.6	7.6	4
6.8	6.8	6.8	6.9	6.8	6.8	6.9	6.9	6.9	6.8	6.9	7.0	7.0	20
7.8	7.9	7.9	7.8	8.2	8.2	8.2	8.1	8.2	8.3	8.4	8.4	8.5	1
6.4	6.2	6.3	6.3	6.3	6.4	6.5	6.5	6.6	6.8	6.9	6.9	7.0	20
7.3	7.1	7.2	7.2	7.4	7.4	7.5	7.4	7.4	7.4	7.5	7.6	7.6	4
6.2	6.0	6.1	6.0	5.9	5.8	5.9	5.8	5.9	5.9	6.0	6.1	6.1	46
6.4	6.5	6.6	6.5	6.3	6.3	6.4	6.4	6.3	6.3	6.5	6.6	6.7	31
7.0	6.9	6.8	6.9	7.0	7.0	7.0	6.9	6.9	7.0	7.1	7.2	7.1	18
6.9	6.8	7.0	7.1	7.1	7.1	7.1	7.1	7.0	7.0	7.3	7.4	7.4	9
6.5	6.5	6.5	6.7	6.7	6.6	6.6	6.6	6.7	6.7	6.9	7.1	7.1	18
6.5	6.4	6.5	6.6	6.7	6.7	6.6	6.7	6.6	6.6	6.8	6.9	7.0	20
6.7	6.7	6.5	6.6	6.7	6.6	6.7	6.3	6.4	6.5	6.5	6.6	6.7	31
6.7	6.9	6.9	7.0	6.7	6.6	6.8	6.9	6.7	6.5	6.9	7.0	7.2	14
5.7	5.6	5.7	5.7	5.7	5.5	5.6	5.5	5.7	5.7	5.7	5.8	5.8	49
6.3	6.0	6.1	6.3	6.2	6.3	6.4	6.3	6.3	6.4	6.5	6.6	6.5	38
6.8	6.8	6.7	6.8	6.8	6.9	7.0	6.8	6.9	7.0	7.1	7.2	7.2	14
6.2	6.3	6.3	6.4	6.7	6.8	6.8	6.7	6.6	6.6	6.6	6.7	6.8	26
6.4	6.4	6.4	6.5	6.6	6.7	6.8	6.8	6.8	6.9	7.0	7.1	7.2	14
6.1	6.1	6.1	6.0	6.0	5.9	5.9	5.6	5.6	5.5	5.8	5.9	5.8	49
6.7	6.7	6.7	6.7	6.9	6.8	6.8	6.8	6.7	6.7	6.9	7.0	7.0	20
5.3	5.2	5.3	5.3	5.4	5.3	5.1	5.3	5.3	5.4	5.6	5.9	6.0	47
6.8	7.0	6.9	7.1	6.9	6.9	6.9	6.8	6.8	6.8	7.1	7.2	7.3	12
7.0	6.9	6.8	6.8	6.8	7.0	7.0	7.0	7.0	7.2	7.3	7.5	7.5	7
7.0	7.0	7.1	7.3	7.2	7.2	7.2	7.1	7.2	7.4	7.5	7.5	7.5	7
6.4	6.4	6.4	6.4	6.6	6.5	6.6	6.5	6.6	6.7	6.7	6.7	6.7	31
6.2	6.3	6.1	6.1	6.2	5.8	6.0	6.1	5.8	5.5	5.7	6.0	6.0	47
6.1	6.0	6.1	6.2	6.1	6.2	6.4	6.3	6.3	6.3	6.4	6.4	6.4	42
7.3	7.2	7.3	7.3	7.4	7.4	7.6	7.4	7.4	7.4	7.5	7.5	7.6	4
5.9	5.9	5.9	6.4	5.9	6.0	5.7	5.7	5.8	5.9	6.2	6.4	6.5	38
6.3	6.3	6.4	6.4	6.6	6.6	6.7	6.6	6.5	6.5	6.6	6.7	6.7	31
6.4	6.2	6.2	6.3	6.2	6.1	6.2	6.3	6.2	6.1	6.4	6.6	6.7	31
6.3	6.2	6.3	6.6	6.5	6.6	6.5	6.4	6.5	6.5	6.6	6.7	6.7	31
6.4	6.2	6.3	6.4	6.3	6.5	6.5	6.4	6.5	6.6	6.7	6.7	6.8	26
5.7	5.7	5.6	5.8	5.7	5.7	5.7	5.8	5.8	5.8	6.1	6.1	6.2	45
6.8	6.7	6.7	6.7	6.8	6.8	6.8	6.7	6.6	6.6	6.7	6.7	6.8	26
6.9	6.7	6.8	7.0	6.8	6.8	6.7	6.8	6.9	7.1	7.3	7.3	7.3	12
7.0	7.0	7.1	7.0	7.1	7.1	7.2	7.1	7.1	7.1	7.3	7.3	7.4	9
7.4	7.3	7.3	7.4	7.4	7.3	7.4	7.4	7.4	7.5	7.6	7.7	7.8	2
6.7	6.8	6.8	7.1	7.2	7.3	7.3	7.1	7.2	7.2	7.3	7.4	7.4	9
6.6	6.4	6.3	6.2	6.2	6.1	6.2	6.0	6.0	6.1	6.3	6.3	6.3	44
6.9	6.8	6.8	6.9	6.9	6.9	6.9	6.9	7.0	7.0	7.1	7.2	7.2	14
6.2	6.1	6.0	6.1	6.2	6.3	6.3	6.2	6.3	6.4	6.5	6.5	6.5	38
5.3	5.3	5.4	5.4	5.3	5.3	5.1	4.9	4.9	4.9	5.2	5.2	5.3	55
6.4	6.5	6.5	6.5	6.5	6.6	6.6	6.6	6.6	6.6	6.8	6.8	6.8	26
7.1	6.8	6.9	7.0	6.5	6.1	6.4	6.3	6.5	6.7	6.8	7.0	7.0	20

Table 3.4: Overall Scores at State/Provincial and Local/Municipal Levels, 1981–2005

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Alberta	7.3	6.9	6.6	6.5	6.7	6.1	6.0	6.3	6.3	6.3	6.1	5.8
British Columbia	5.2	4.9	4.7	4.8	5.0	5.0	5.4	5.5	5.6	5.3	5.1	4.8
Manitoba	5.7	5.2	4.9	5.1	5.0	4.9	4.6	4.6	4.8	4.7	4.5	4.3
New Brunswick	4.6	4.5	4.5	4.6	4.7	4.7	4.8	5.0	5.0	4.7	4.4	4.4
Newfoundland	3.8	3.8	3.3	3.5	3.6	3.7	3.7	3.9	3.9	3.4	3.4	2.9
Nova Scotia	4.6	4.6	4.8	4.9	4.7	5.0	5.1	5.1	5.1	4.9	4.8	4.5
Ontario	6.2	5.9	6.0	6.0	6.0	6.0	5.9	5.9	5.9	5.3	5.1	4.7
Prince Edward Island	4.8	4.8	5.2	4.9	4.9	5.0	4.8	4.9	4.8	4.6	4.5	4.4
Quebec	4.4	3.8	3.8	3.9	3.8	4.0	4.1	4.4	4.4	4.2	3.7	3.3
Saskatchewan	5.2	5.0	4.6	4.7	4.8	4.6	4.6	4.4	4.6	4.3	4.2	3.8
Alabama	7.9	7.9	7.9	8.1	8.0	8.0	8.1	8.1	8.0	7.9	7.8	7.7
Alaska	7.2	7.1	7.0	7.1	7.1	5.8	6.9	6.5	6.8	6.7	5.9	6.0
Arizona	8.1	7.9	8.0	8.1	8.0	8.0	7.8	7.7	7.6	7.4	7.3	7.3
Arkansas	7.3	7.3	7.2	7.5	7.2	7.2	7.3	7.4	7.4	7.3	7.3	7.1
California	6.1	6.0	6.2	6.4	6.4	6.4	6.5	6.6	6.6	6.5	6.1	5.8
Colorado	7.9	7.7	7.6	7.5	7.5	7.4	7.3	7.3	7.3	7.3	7.3	7.3
Connecticut	7.1	7.2	7.2	7.5	7.5	7.6	7.6	7.6	7.5	7.3	7.0	6.6
Delaware	7.0	7.2	7.3	7.4	7.7	7.6	7.8	8.0	8.0	7.9	7.9	7.6
Florida	8.5	8.4	8.5	8.5	8.5	8.4	8.4	8.3	8.2	8.0	7.8	7.7
Georgia	7.2	7.1	7.3	7.6	7.7	7.8	7.8	7.7	7.7	7.5	7.4	7.4
Hawaii	6.0	6.0	6.1	6.4	6.1	6.5	6.7	6.5	6.7	6.7	6.6	6.3
Idaho	7.1	6.9	7.1	7.3	7.1	7.0	6.8	7.0	7.2	6.9	6.7	6.6
Illinois	6.8	6.8	6.7	7.1	7.0	7.0	7.1	7.2	7.3	7.2	7.0	7.0
Indiana	7.4	7.4	7.3	7.5	7.5	7.6	7.6	7.6	7.6	7.5	7.3	7.3
Iowa	7.8	7.3	7.1	7.4	7.3	7.3	7.3	7.3	7.4	6.8	6.7	6.7
Kansas	7.4	7.4	7.2	7.4	7.4	7.3	7.2	7.1	7.2	7.2	7.2	7.1
Kentucky	7.1	7.1	7.0	7.4	7.4	7.2	7.2	7.2	7.3	7.2	6.9	6.9
Louisiana	8.6	8.2	7.9	8.2	8.1	7.7	7.7	8.1	7.8	7.9	7.7	7.5
Maine	5.7	5.7	5.8	6.0	6.1	6.2	6.2	6.5	6.5	6.1	5.7	5.6
Maryland	6.6	6.7	6.9	7.1	7.2	7.3	7.4	7.4	7.4	7.3	7.2	7.0
Massachusetts	6.2	6.5	6.7	7.1	7.2	7.2	7.3	7.3	7.2	7.0	6.8	6.7
Michigan	5.2	5.2	5.2	5.8	6.1	5.9	6.0	6.1	6.2	5.9	5.9	5.9
Minnesota	6.0	5.9	6.2	6.5	6.4	6.4	6.3	6.3	6.4	6.3	6.2	6.0
Mississippi	7.8	7.6	7.6	7.7	7.7	7.5	7.6	7.6	7.5	7.5	7.5	7.5
Missouri	7.4	7.3	7.4	7.7	7.7	7.7	7.7	7.7	7.8	7.7	7.6	7.5
Montana	7.2	6.7	6.6	6.5	6.1	6.0	5.9	5.7	5.9	5.6	5.9	5.5
Nebraska	7.6	7.6	7.4	7.5	7.5	7.5	7.5	7.4	7.4	7.5	7.3	7.3
Nevada	7.3	7.1	7.1	7.3	7.4	7.4	7.5	7.6	7.6	7.5	7.0	7.0
New Hampshire	7.7	7.7	7.8	8.1	8.4	8.4	8.5	8.5	8.2	7.9	7.6	7.2
New Jersey	6.2	6.3	6.5	6.8	6.8	7.0	7.0	7.2	7.1	7.0	6.5	6.2
New Mexico	7.2	7.0	6.9	7.0	7.0	6.7	6.6	6.5	6.5	6.5	6.5	6.4
New York	5.0	5.0	5.1	5.2	5.2	5.3	5.7	5.9	5.9	5.7	5.4	5.2
North Carolina	7.4	7.3	7.5	7.7	7.8	7.8	7.8	7.8	7.8	7.7	7.6	7.5
North Dakota	7.8	7.4	6.9	6.8	6.7	6.4	6.3	6.0	6.2	6.2	6.2	6.2
Ohio	6.5	6.4	6.2	6.7	6.5	6.5	6.6	6.7	6.7	6.5	6.1	6.0
Oklahoma	7.7	7.6	7.3	7.5	7.4	6.9	7.0	7.0	6.9	6.9	6.8	6.7
Oregon	5.8	5.7	5.7	6.0	6.0	6.2	6.1	6.4	6.3	6.3	6.1	6.2
Pennsylvania	6.1	6.0	5.9	6.5	6.6	6.7	6.8	7.0	7.0	6.9	6.7	6.5
Rhode Island	5.5	5.4	5.4	5.7	6.2	6.2	6.2	6.5	6.6	6.3	5.6	5.2
South Carolina	8.0	7.9	8.0	8.3	8.1	8.1	8.1	8.1	8.1	7.9	7.8	7.7
South Dakota	7.2	7.2	7.3	7.5	7.5	7.5	7.6	7.5	7.6	7.6	7.6	7.6
Tennessee	8.3	8.3	8.3	8.5	8.4	8.4	8.4	8.4	8.4	8.3	8.3	8.3
Texas	9.0	8.9	8.7	8.8	8.6	8.3	8.1	8.0	7.9	8.0	7.9	7.8
Utah	7.1	6.9	6.9	7.2	7.3	7.2	6.9	7.1	7.1	7.1	7.1	6.9
Vermont	5.8	5.6	6.1	6.3	6.3	6.4	6.6	6.9	7.0	6.8	6.3	6.3
Virginia	7.7	7.7	7.8	8.0	8.1	8.2	8.1	8.1	8.1	8.0	7.8	7.7
Washington	6.6	6.5	6.5	6.5	6.4	6.4	6.5	6.6	6.5	6.3	6.1	6.1
West Virginia	5.7	5.5	4.9	5.2	5.3	5.3	5.5	6.0	6.0	5.8	5.5	5.4
Wisconsin	6.2	6.1	5.7	5.9	6.0	5.9	6.1	6.3	6.4	6.3	6.2	6.2
Wyoming	8.6	7.7	7.2	7.2	7.1	6.5	6.7	7.1	7.3	7.4	7.3	7.1

* Rank out of 60 for 2005.

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	Rank*
6.2	6.6	6.8	7.0	7.1	7.1	7.2	7.4	7.2	7.2	7.4	7.6	7.7	8
4.7	4.8	4.7	4.6	4.6	4.8	5.0	5.2	5.2	5.2	5.3	5.4	5.6	52
4.2	4.5	4.6	4.8	4.8	5.0	4.9	5.1	5.1	5.0	4.8	4.8	4.8	58
4.5	4.6	4.8	4.8	4.9	5.1	5.4	5.5	5.4	5.2	5.2	5.2	5.1	56
3.0	3.1	3.3	3.2	3.4	3.9	4.4	4.8	4.7	5.1	5.2	5.3	5.6	52
4.5	4.5	4.8	4.9	4.9	5.2	5.3	5.5	5.4	5.3	5.3	5.2	5.2	55
4.6	4.9	5.0	5.1	5.4	5.5	5.9	6.0	5.9	5.9	5.8	5.8	5.7	50
4.5	4.6	4.7	4.9	4.7	4.9	5.0	5.0	4.8	5.0	4.8	4.7	4.6	59
3.3	3.6	3.6	3.7	3.9	4.0	4.4	4.5	4.3	4.3	4.1	4.1	4.1	60
4.0	4.5	4.6	4.8	5.0	4.9	5.0	5.2	4.9	4.7	4.8	5.0	5.1	56
7.6	7.7	7.6	7.7	7.7	7.5	7.4	7.3	7.2	7.2	7.2	7.3	7.3	16
5.6	6.0	5.7	6.0	5.7	5.6	5.9	5.8	5.9	5.9	5.8	5.8	5.8	47
7.3	7.5	7.5	7.7	8.0	8.1	8.1	8.0	7.9	7.9	7.8	7.7	7.8	5
7.0	7.1	7.1	7.1	7.1	7.0	7.0	7.0	6.8	6.7	6.8	6.8	6.9	27
5.8	5.9	5.9	6.1	6.2	6.3	6.4	6.4	6.2	5.9	5.9	6.0	6.1	45
7.3	7.4	7.3	7.4	7.6	7.8	7.7	7.8	7.6	7.5	7.5	7.5	7.5	10
6.5	6.7	6.6	6.9	6.9	6.9	6.9	7.0	7.0	6.9	6.9	6.9	6.9	27
7.7	7.8	7.8	7.8	8.2	8.1	8.1	8.2	8.2	8.2	8.2	8.2	8.3	1
7.6	7.7	7.6	7.7	7.8	7.9	7.9	8.0	7.9	7.9	7.8	7.8	7.5	10
7.4	7.4	7.5	7.4	7.6	7.7	7.7	7.7	7.6	7.5	7.5	7.5	7.5	10
6.0	5.9	5.8	5.8	5.7	5.8	6.1	6.1	6.1	6.0	6.1	6.2	6.2	43
6.7	6.8	6.7	6.5	6.4	6.5	6.6	6.7	6.6	6.4	6.5	6.6	6.7	32
7.0	7.1	7.0	7.1	7.3	7.3	7.3	7.3	7.2	7.0	7.1	6.9	6.9	27
7.4	7.4	7.5	7.6	7.7	7.7	7.5	7.5	7.4	7.4	7.4	7.4	7.4	13
6.6	6.8	6.7	6.9	6.9	7.0	7.0	6.9	6.8	6.9	7.0	7.1	7.1	21
6.9	6.8	6.8	7.0	7.2	7.3	7.3	7.2	7.1	7.1	7.0	7.0	7.0	24
6.9	7.0	6.9	6.9	7.1	7.1	7.0	6.8	6.7	6.7	6.6	6.6	6.7	32
7.4	7.7	7.6	7.7	7.5	7.4	7.4	7.4	7.2	7.0	7.2	7.3	7.4	13
5.6	5.7	5.7	5.8	5.8	5.7	5.8	5.8	5.8	5.8	5.8	5.8	5.8	47
6.9	6.9	6.9	7.0	7.1	7.2	7.2	7.1	7.2	7.2	7.2	7.3	7.3	16
6.7	6.9	6.9	7.0	7.1	7.3	7.4	7.4	7.2	7.1	7.1	7.0	7.0	24
6.1	6.4	6.4	6.5	6.8	6.8	6.9	6.9	6.7	6.7	6.5	6.3	6.4	39
5.9	6.2	6.1	6.3	6.5	6.5	6.6	6.6	6.5	6.5	6.6	6.7	6.7	32
7.3	7.4	7.4	7.2	7.1	7.1	7.0	6.9	6.8	6.7	6.7	6.7	6.6	35
7.4	7.5	7.4	7.4	7.5	7.4	7.4	7.4	7.3	7.2	7.1	7.1	7.2	19
5.7	5.7	5.7	5.7	6.0	6.1	6.1	6.1	6.1	6.2	6.3	6.4	6.6	35
7.2	7.3	7.3	7.4	7.3	7.3	7.4	7.3	7.2	7.2	7.2	7.2	7.2	19
7.0	7.2	7.0	7.1	7.2	7.5	7.4	7.6	7.5	7.4	7.5	7.6	7.6	9
7.2	7.5	7.7	7.9	8.0	8.0	8.0	8.0	8.0	7.8	7.8	7.8	7.8	5
6.3	6.3	6.3	6.4	6.7	6.7	6.8	6.8	6.8	6.7	6.6	6.5	6.5	37
6.5	6.6	6.3	6.4	6.5	6.1	6.3	6.2	6.1	6.0	6.0	6.3	6.3	41
5.0	5.1	5.2	5.5	5.6	5.8	6.0	6.0	5.9	5.8	5.8	5.7	5.7	50
7.3	7.3	7.4	7.4	7.6	7.5	7.6	7.5	7.5	7.4	7.4	7.4	7.4	13
6.3	6.6	6.5	6.8	6.5	6.6	6.5	6.5	6.7	6.9	7.0	7.0	7.1	21
5.8	6.0	6.0	6.1	6.5	6.6	6.6	6.5	6.3	6.1	6.1	6.1	6.2	43
6.6	6.6	6.5	6.7	6.7	6.7	6.8	7.0	6.8	6.6	6.8	6.9	7.0	24
6.2	6.4	6.5	6.6	6.5	6.6	6.6	6.5	6.4	6.3	6.3	6.3	6.4	39
6.5	6.6	6.6	6.8	6.8	7.0	6.9	6.9	6.9	6.9	6.9	6.7	6.8	31
5.4	5.5	5.4	5.6	5.7	5.8	5.8	5.9	5.8	5.7	5.9	5.8	5.8	47
7.6	7.6	7.6	7.6	7.7	7.7	7.7	7.5	7.3	7.2	7.1	7.0	7.1	21
7.6	7.6	7.6	7.7	7.7	7.7	7.7	7.7	7.7	7.8	7.9	7.9	7.9	3
7.8	8.2	8.2	8.2	8.3	8.4	8.4	8.3	8.2	8.1	8.1	8.1	8.2	2
7.7	7.7	7.7	7.8	7.9	8.0	7.9	8.0	7.9	7.7	7.7	7.8	7.8	5
6.9	7.2	7.2	7.4	7.4	7.4	7.3	7.2	7.3	7.2	7.2	7.2	7.3	16
6.4	6.4	6.3	6.4	6.4	6.4	6.5	6.3	6.3	6.3	6.3	6.2	6.1	45
7.7	7.7	7.7	7.7	7.8	7.8	7.8	7.8	7.9	7.8	7.8	7.8	7.9	3
6.0	6.1	5.8	6.0	6.3	6.5	6.5	6.5	6.4	6.3	6.2	6.3	6.3	41
5.2	5.6	5.6	5.7	5.6	5.7	5.6	5.5	5.2	5.0	5.3	5.5	5.5	54
6.2	6.3	6.3	6.4	6.4	6.6	6.6	6.5	6.5	6.4	6.4	6.5	6.5	37
7.2	7.1	7.2	7.4	7.1	6.9	7.1	7.2	6.9	6.7	6.8	6.8	6.9	27

Table 3.5: Scores for Size of Government at the Federal, State/Provincial, and Local/Municipal

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Alberta	9.1	8.5	7.9	7.7	8.0	7.5	7.5	7.7	7.7	7.8	7.4	7.3
British Columbia	7.8	7.1	6.8	6.9	7.0	7.0	7.2	7.3	7.4	7.3	6.8	6.8
Manitoba	7.4	6.6	6.4	6.7	6.6	6.3	6.2	6.3	6.5	6.3	5.8	5.7
New Brunswick	3.2	3.7	4.7	4.8	4.8	5.3	5.5	5.5	5.4	5.0	4.5	4.4
Newfoundland	4.7	4.3	3.8	4.0	3.8	4.0	4.0	4.0	4.0	3.4	3.2	2.5
Nova Scotia	2.8	3.7	4.3	4.5	4.4	4.8	5.0	4.9	5.1	4.8	4.5	4.3
Ontario	8.1	7.7	7.8	8.0	8.0	8.1	8.1	8.2	8.1	7.7	7.2	6.9
Prince Edward Island	4.2	3.8	4.2	3.5	3.0	3.6	3.7	3.8	3.9	3.5	3.3	3.1
Quebec	6.5	6.2	6.3	6.4	6.3	6.6	6.8	7.0	6.9	6.6	6.1	5.8
Saskatchewan	7.6	6.8	6.3	5.8	5.8	5.3	5.2	5.3	5.9	5.8	5.4	5.1
Alabama	6.6	6.6	6.6	6.9	6.9	6.8	7.0	7.1	7.0	6.7	6.5	6.4
Alaska	9.3	9.3	9.3	9.2	9.2	8.0	8.4	8.3	8.3	8.3	7.4	7.2
Arizona	7.2	7.2	7.2	7.5	7.5	7.5	7.3	7.5	7.3	7.0	6.9	7.0
Arkansas	6.5	6.5	6.5	7.0	6.6	6.6	6.7	6.9	6.9	6.8	6.7	6.6
California	7.4	7.4	7.4	7.7	7.8	7.8	8.0	8.2	8.2	8.2	7.8	7.5
Colorado	7.9	7.9	7.9	8.1	8.1	7.8	7.6	7.7	7.6	7.6	7.4	7.5
Connecticut	7.6	7.6	7.6	7.9	8.0	8.1	8.3	8.5	8.3	8.3	7.9	7.9
Delaware	8.3	8.3	8.3	8.5	8.6	8.6	8.8	8.7	8.9	8.9	8.8	8.7
Florida	6.9	6.9	6.9	7.3	7.2	7.3	7.4	7.6	7.4	7.2	6.9	6.8
Georgia	7.6	7.6	7.6	7.9	8.0	8.1	8.2	8.3	8.2	8.2	7.9	7.8
Hawaii	7.1	7.1	7.1	7.4	7.1	7.6	7.8	7.9	7.9	8.1	7.9	7.7
Idaho	7.1	7.1	7.1	7.3	7.0	6.8	6.8	6.9	7.1	7.1	6.8	6.7
Illinois	7.8	7.8	7.8	8.4	8.3	8.3	8.3	8.5	8.5	8.4	8.2	8.1
Indiana	7.7	7.7	7.7	8.0	7.8	7.9	7.9	8.1	8.1	8.0	7.7	7.8
Iowa	7.2	7.2	7.2	7.7	7.3	7.1	7.1	7.1	7.3	7.4	7.3	7.2
Kansas	7.4	7.4	7.4	7.5	7.5	7.4	7.5	7.5	7.5	7.5	7.3	7.3
Kentucky	7.1	7.1	7.1	7.5	7.5	7.0	7.5	7.6	7.5	7.3	6.9	7.0
Louisiana	8.4	8.4	8.4	8.6	8.4	7.9	7.9	8.1	7.9	8.0	7.6	6.8
Maine	6.4	6.4	6.4	6.7	6.5	6.9	7.0	7.4	7.1	6.9	6.2	5.8
Maryland	6.3	6.3	6.3	6.7	6.8	7.0	7.1	7.3	7.4	7.1	6.7	6.5
Massachusetts	7.1	7.1	7.1	7.6	7.7	7.7	7.9	8.1	7.9	7.6	7.2	7.3
Michigan	7.3	7.3	7.3	7.8	7.8	7.7	7.7	7.8	7.8	7.4	7.2	7.2
Minnesota	7.6	7.6	7.6	7.9	7.8	7.8	7.8	7.9	7.9	7.9	7.6	7.7
Mississippi	5.8	5.8	5.8	6.1	6.4	6.1	6.3	6.1	6.2	6.2	5.9	5.5
Missouri	6.6	6.6	6.6	7.0	6.8	7.2	7.4	7.5	7.4	7.3	7.1	7.1
Montana	6.8	6.8	6.8	6.7	6.0	5.8	5.9	5.8	5.8	5.8	5.5	5.5
Nebraska	7.4	7.4	7.4	8.0	7.7	7.4	7.4	7.4	7.7	7.7	7.7	7.7
Nevada	7.9	7.9	7.9	8.1	8.0	7.8	8.2	8.5	8.5	8.5	8.0	7.9
New Hampshire	7.4	7.4	7.4	7.8	8.0	8.4	8.6	8.7	8.5	8.2	7.9	7.5
New Jersey	7.9	7.9	7.9	8.1	8.1	8.3	8.4	8.6	8.5	8.3	8.1	7.8
New Mexico	6.8	6.8	6.8	6.7	6.6	6.1	6.0	5.5	5.8	5.8	5.9	5.7
New York	7.5	7.5	7.5	7.7	7.7	7.8	7.9	8.1	8.0	7.8	7.5	7.3
North Carolina	7.9	7.9	7.9	8.2	8.2	8.3	8.3	8.4	8.4	8.2	7.9	7.9
North Dakota	7.1	7.1	7.1	7.1	6.5	5.7	5.6	5.4	5.6	6.1	5.7	5.9
Ohio	7.3	7.3	7.3	7.8	7.7	7.5	7.6	7.7	7.6	7.5	7.2	7.2
Oklahoma	7.9	7.9	7.9	8.0	7.9	7.3	7.1	7.2	7.1	7.1	6.8	6.5
Oregon	6.8	6.8	6.8	7.1	7.0	7.2	7.3	7.4	7.5	7.3	7.1	6.9
Pennsylvania	6.7	6.7	6.7	7.3	7.2	7.2	7.4	7.5	7.5	7.4	7.2	6.9
Rhode Island	6.3	6.3	6.3	6.7	6.9	7.1	7.2	7.3	7.3	6.9	6.4	6.0
South Carolina	6.9	6.9	6.9	7.4	7.2	7.4	7.6	7.7	7.6	7.3	6.9	6.8
South Dakota	6.7	6.7	6.7	7.0	6.8	6.7	6.6	6.7	6.7	7.0	6.9	7.0
Tennessee	7.2	7.2	7.2	7.5	7.6	7.5	7.8	7.8	7.8	7.6	7.4	7.4
Texas	8.8	8.8	8.8	8.9	8.8	8.4	8.3	8.5	8.4	8.4	8.2	8.1
Utah	7.4	7.4	7.4	7.5	7.7	7.3	7.2	7.5	7.4	7.4	7.4	7.4
Vermont	6.7	6.7	6.7	7.0	7.2	7.4	7.7	7.9	7.9	7.7	7.2	7.2
Virginia	6.5	6.5	6.5	7.1	7.1	7.2	7.2	7.1	7.5	7.3	7.0	7.0
Washington	7.1	7.1	7.1	7.4	7.1	7.3	7.4	7.5	7.6	7.7	7.5	7.4
West Virginia	5.9	5.9	5.9	6.3	6.2	6.0	6.0	6.1	6.1	6.0	5.4	5.2
Wisconsin	7.3	7.3	7.3	7.6	7.6	7.6	7.6	7.8	7.7	7.7	7.5	7.5
Wyoming	8.8	8.8	8.8	8.7	8.6	8.0	7.8	8.0	8.0	8.1	7.9	7.6

* Rank out of 60 for 2005.

Levels, 1981–2005

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	Rank*
7.6	8.1	8.3	8.5	8.6	8.5	8.6	8.8	8.5	8.6	8.8	8.9	9.2	1
6.9	7.1	7.2	7.2	7.2	7.2	7.3	7.4	7.2	7.2	7.3	7.5	7.7	13
5.6	5.9	6.1	6.4	6.5	6.6	6.5	6.6	6.6	6.6	6.4	6.5	6.4	44
4.5	4.8	5.3	5.5	5.5	5.4	5.7	5.9	5.8	5.7	5.8	5.8	5.7	53
2.6	3.1	3.8	3.6	3.7	4.0	4.7	5.3	5.1	5.8	6.1	6.3	6.6	40
4.2	4.3	4.6	4.8	4.9	5.0	5.3	5.5	5.6	5.6	5.8	5.8	5.8	51
6.9	7.2	7.5	7.6	7.8	7.8	8.0	8.1	8.0	8.0	7.9	7.9	7.9	8
3.4	3.7	4.1	4.5	4.2	4.4	4.5	4.5	4.2	4.6	4.5	4.6	4.6	59
5.8	6.1	6.3	6.4	6.6	6.7	6.9	6.9	6.7	6.7	6.6	6.7	6.7	37
5.7	6.2	6.5	7.0	7.0	6.8	6.8	7.0	6.6	6.4	6.5	6.9	7.1	25
6.3	6.3	6.4	6.4	6.4	6.3	6.2	6.0	5.8	5.6	5.7	5.7	5.7	53
6.9	6.8	7.1	7.2	6.7	6.2	6.0	6.1	5.8	5.5	5.6	5.8	5.8	51
6.9	7.2	7.2	7.4	7.7	7.8	7.8	7.6	7.4	7.3	7.2	7.1	7.1	25
6.4	6.6	6.6	6.7	6.7	6.7	6.7	6.5	6.2	5.9	6.0	6.1	6.1	49
7.4	7.4	7.5	7.6	7.7	7.9	8.0	8.1	7.8	7.6	7.6	7.6	7.6	15
7.5	7.7	7.8	7.9	8.3	8.4	8.4	8.5	8.3	8.1	8.1	8.0	8.0	5
7.8	7.9	8.0	8.1	8.4	8.4	8.4	8.5	8.2	8.0	7.9	7.9	7.9	8
8.6	8.7	8.6	8.7	9.1	9.1	9.1	9.1	9.0	8.9	8.9	9.0	9.0	2
6.7	6.8	6.8	6.8	7.0	7.2	7.2	7.2	7.1	7.1	7.1	7.1	7.1	25
7.8	7.8	7.9	8.0	8.2	8.3	8.4	8.3	8.1	7.8	7.8	7.8	7.8	12
7.4	7.2	7.1	6.9	6.9	6.8	6.8	6.7	6.6	6.4	6.5	6.6	6.6	40
7.0	7.2	7.2	7.2	7.0	7.0	7.1	7.0	6.7	6.4	6.6	6.7	6.7	37
8.0	8.1	8.1	8.2	8.3	8.3	8.3	8.3	8.1	7.9	7.9	7.9	7.9	8
7.6	7.8	7.9	7.9	8.1	8.1	8.1	8.0	7.8	7.6	7.6	7.7	7.7	13
7.0	7.2	7.3	7.4	7.6	7.4	7.2	7.4	7.2	6.9	7.1	7.4	7.4	20
7.1	7.2	7.2	7.4	7.6	7.6	7.4	7.5	7.3	7.1	7.1	7.2	7.2	23
7.0	7.1	6.9	7.0	7.2	7.1	7.1	6.7	6.5	6.3	6.3	6.2	6.2	48
6.7	6.9	6.9	7.2	7.0	7.1	7.0	7.0	6.7	6.5	6.7	7.0	7.0	32
5.8	5.9	6.1	6.1	6.2	6.1	6.3	6.2	6.1	5.9	5.8	5.7	5.7	53
6.5	6.4	6.5	6.7	6.7	6.8	6.9	6.8	6.8	6.8	6.6	6.4	6.4	44
7.3	7.4	7.5	7.7	7.8	8.0	8.1	8.2	7.9	7.7	7.7	7.6	7.6	15
7.2	7.5	7.4	7.6	8.0	7.9	8.0	7.8	7.6	7.4	7.2	7.1	7.1	25
7.5	7.7	7.7	7.9	8.1	8.2	8.1	8.1	7.9	7.8	7.9	8.0	8.0	5
5.8	5.9	6.0	5.8	5.9	6.0	5.8	5.3	5.0	4.7	4.9	5.0	5.0	58
6.9	7.0	7.2	7.1	7.5	7.5	7.4	7.3	7.1	6.8	6.9	6.9	6.9	34
5.5	5.4	5.3	5.3	5.5	5.4	4.9	5.2	5.1	4.9	5.2	5.5	5.5	56
7.4	7.8	7.8	8.0	8.0	7.9	7.8	7.6	7.4	7.2	7.4	7.6	7.6	15
8.0	8.3	8.3	8.4	8.6	8.6	8.6	8.7	8.5	8.3	8.4	8.4	8.4	3
7.9	7.8	8.0	8.2	8.3	8.4	8.3	8.3	8.2	8.0	8.0	7.9	7.9	8
7.8	7.9	7.8	8.0	8.2	8.2	8.3	8.3	8.1	8.0	8.0	8.0	8.0	5
5.9	6.4	6.1	6.2	6.3	5.9	5.9	5.7	5.3	4.9	5.1	5.4	5.4	57
7.2	7.2	7.2	7.4	7.5	7.5	7.6	7.6	7.4	7.2	7.2	7.2	7.2	23
7.8	7.9	7.8	7.8	8.0	8.1	8.1	7.9	7.8	7.6	7.6	7.5	7.5	19
5.6	5.8	6.0	6.7	6.0	6.2	5.6	5.3	5.1	5.0	5.6	6.1	6.1	49
7.1	7.2	7.3	7.4	7.7	7.7	7.6	7.5	7.3	7.0	7.0	6.9	6.9	34
6.5	6.4	6.3	6.7	6.7	6.5	6.5	6.6	6.3	6.0	6.2	6.4	6.4	44
7.0	7.1	7.1	7.3	7.4	7.4	7.3	7.3	7.1	6.8	6.9	7.1	7.1	25
6.8	6.9	6.8	7.0	7.1	7.2	7.1	7.0	6.9	6.8	6.7	6.7	6.7	37
6.2	6.2	6.2	6.4	6.6	6.7	6.6	6.7	6.6	6.5	6.5	6.6	6.6	40
6.8	6.9	6.9	6.9	7.1	7.1	7.1	6.9	6.7	6.4	6.3	6.3	6.3	47
7.0	6.9	7.0	7.3	7.2	7.2	6.9	6.9	6.8	6.7	6.9	7.0	7.0	32
7.4	7.5	7.5	7.4	7.6	7.6	7.6	7.4	7.3	7.1	7.1	7.1	7.1	25
8.0	8.0	8.0	8.1	8.3	8.3	8.3	8.3	8.2	8.0	8.1	8.1	8.1	4
7.4	7.6	7.6	7.9	8.1	8.2	8.1	8.0	7.8	7.6	7.6	7.6	7.6	15
7.2	7.3	7.0	7.1	7.2	7.1	7.0	6.9	6.7	6.6	6.6	6.5	6.5	43
6.9	7.0	6.8	7.0	7.1	7.2	7.3	7.2	7.1	6.9	6.9	6.8	6.8	36
7.3	7.4	7.1	7.3	7.6	7.8	7.9	7.8	7.6	7.3	7.3	7.3	7.3	22
4.9	5.1	5.1	5.2	5.2	5.2	5.1	4.8	4.5	4.2	4.4	4.5	4.5	60
7.5	7.6	7.6	7.7	7.8	7.9	7.9	7.7	7.5	7.3	7.4	7.4	7.4	20
7.6	7.5	7.4	7.6	7.2	7.0	7.0	7.1	7.0	7.0	7.0	7.1	7.1	25

Table 3.6: Scores for Size of Government at the State/Provincial, and Local/Municipal Levels,

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Alberta	7.5	6.8	6.2	6.0	6.3	5.3	5.4	6.2	6.2	6.3	6.1	5.6
British Columbia	6.4	5.8	5.5	5.7	6.0	5.8	6.1	6.3	6.6	6.3	5.8	5.5
Manitoba	7.2	6.3	6.1	6.5	6.5	6.3	6.0	5.9	6.1	5.8	5.5	5.1
New Brunswick	5.3	4.6	5.1	5.2	5.3	5.6	5.6	5.7	5.8	5.3	4.9	5.0
Newfoundland	4.6	4.2	3.3	4.2	4.4	4.6	4.3	4.7	4.5	3.6	3.8	3.4
Nova Scotia	4.7	4.9	5.5	5.6	5.6	6.0	6.2	6.0	6.0	5.8	5.5	5.2
Ontario	7.4	6.9	7.0	7.2	7.2	7.3	7.1	7.2	7.1	6.4	5.8	5.1
Prince Edward Island	5.0	5.1	5.6	5.0	5.0	5.3	4.9	5.0	4.8	4.5	4.7	4.5
Quebec	5.6	4.9	4.8	4.9	4.9	5.1	5.5	6.0	5.9	5.4	4.8	4.1
Saskatchewan	5.9	5.5	4.9	4.3	4.9	4.8	5.1	4.7	5.3	4.7	4.6	4.0
Alabama	7.8	7.7	7.8	8.2	8.1	8.0	8.2	8.3	8.1	7.9	7.7	7.5
Alaska	8.9	8.9	8.4	8.3	8.3	6.6	6.9	6.5	7.0	7.0	5.8	5.5
Arizona	8.5	8.4	8.2	8.6	8.6	8.5	8.2	8.1	7.9	7.6	7.5	7.4
Arkansas	8.2	8.1	8.2	8.5	8.3	8.2	8.2	8.2	8.3	8.0	8.0	7.8
California	6.6	6.4	6.5	7.0	6.9	6.7	6.7	6.9	6.9	6.7	6.1	5.6
Colorado	8.4	8.1	8.0	8.1	8.2	7.9	8.0	8.0	7.9	7.8	7.8	7.7
Connecticut	7.8	7.8	7.8	8.2	8.3	8.4	8.4	8.4	8.2	7.8	7.2	6.9
Delaware	7.7	8.1	8.5	8.6	8.6	8.6	8.7	8.8	8.7	8.6	8.6	8.3
Florida	8.9	8.7	8.7	8.9	9.0	8.8	8.8	8.7	8.5	8.3	7.9	7.7
Georgia	8.4	8.2	8.3	8.6	8.8	8.7	8.7	8.6	8.5	8.4	8.2	8.1
Hawaii	7.0	7.0	7.1	7.5	6.6	7.9	8.1	8.2	8.2	8.2	8.0	7.5
Idaho	8.0	7.5	7.7	8.1	7.9	7.7	7.7	8.0	8.1	8.0	7.7	7.6
Illinois	7.0	6.9	6.7	7.5	7.5	7.5	7.5	7.8	8.0	7.8	7.6	7.4
Indiana	8.1	8.1	8.0	8.6	8.4	8.5	8.4	8.5	8.5	8.4	8.1	8.1
Iowa	7.8	7.5	7.1	7.6	7.5	7.4	7.5	7.8	7.8	7.8	7.6	7.5
Kansas	8.2	8.2	8.0	8.4	8.5	8.3	8.3	8.2	8.1	8.0	7.9	7.9
Kentucky	7.5	7.8	7.6	8.1	8.2	8.1	8.1	8.2	8.2	7.9	7.5	7.4
Louisiana	9.0	8.7	8.0	8.4	8.2	7.7	7.5	8.0	8.0	8.1	7.8	7.1
Maine	6.6	6.5	6.6	6.8	6.8	6.8	7.1	7.4	7.2	6.8	5.8	5.6
Maryland	7.1	7.2	7.2	7.6	7.7	7.9	8.0	8.0	7.9	7.6	7.2	7.0
Massachusetts	6.5	6.8	7.0	7.6	7.7	7.6	7.6	7.6	7.4	7.0	6.5	6.6
Michigan	5.3	5.1	4.9	5.9	6.3	6.1	6.0	6.1	6.3	5.6	5.6	5.9
Minnesota	7.2	7.0	7.0	7.4	7.2	7.0	7.0	7.1	7.1	7.0	6.6	6.2
Mississippi	7.6	7.5	7.5	7.8	7.8	7.6	7.6	7.6	7.4	7.6	7.5	7.4
Missouri	8.3	8.4	8.4	8.8	8.8	8.8	8.7	8.7	8.7	8.6	8.4	8.2
Montana	7.7	7.4	7.1	7.0	6.5	6.2	6.1	6.1	6.3	5.9	6.0	6.0
Nebraska	8.9	8.7	8.5	8.8	8.6	8.5	8.5	8.7	8.7	8.7	8.6	8.6
Nevada	8.2	8.0	7.8	8.3	8.3	8.1	8.3	8.4	8.4	8.3	7.3	7.4
New Hampshire	8.4	8.5	8.5	9.0	9.2	9.2	9.3	9.3	9.0	8.6	8.2	7.3
New Jersey	6.8	7.0	7.3	7.7	7.8	7.9	7.9	8.1	8.0	7.8	7.5	6.8
New Mexico	8.6	8.3	8.1	8.2	8.1	7.7	7.6	7.4	7.3	7.4	7.3	6.8
New York	6.0	6.1	6.1	6.3	6.2	6.4	6.3	6.6	6.5	6.3	5.7	5.2
North Carolina	8.1	8.1	8.2	8.7	8.7	8.6	8.6	8.7	8.6	8.3	8.0	7.9
North Dakota	8.6	8.3	7.9	7.9	7.7	7.1	7.1	6.8	6.9	6.8	7.0	6.8
Ohio	6.5	6.4	6.2	6.9	6.8	6.7	6.6	6.8	6.8	6.4	6.0	5.8
Oklahoma	8.8	8.7	8.2	8.5	8.4	7.8	7.5	7.7	7.6	7.6	7.4	7.1
Oregon	6.5	6.2	6.3	6.8	6.8	7.0	7.1	7.3	7.3	7.3	6.8	6.5
Pennsylvania	6.0	5.9	5.7	6.7	6.7	6.8	7.0	7.2	7.2	7.1	6.8	6.5
Rhode Island	5.8	5.5	5.7	6.4	6.6	6.7	6.7	6.9	6.8	6.3	5.3	4.3
South Carolina	7.9	7.7	8.0	8.5	8.3	8.3	8.4	8.5	8.4	8.1	7.7	7.4
South Dakota	8.0	8.2	8.3	8.4	8.6	8.4	8.5	8.4	8.4	8.5	8.5	8.4
Tennessee	8.4	8.4	8.4	8.9	8.8	8.7	8.7	8.7	8.7	8.5	8.4	8.2
Texas	9.7	9.6	9.2	9.3	9.3	8.9	8.6	8.8	8.8	8.7	8.6	8.3
Utah	8.0	8.0	7.8	8.4	8.4	8.1	7.8	8.1	7.9	7.9	7.7	7.6
Vermont	6.5	5.1	6.5	6.7	7.0	7.1	7.2	7.5	7.5	7.1	6.3	6.2
Virginia	8.4	8.4	8.5	8.8	8.8	8.8	8.8	8.8	8.8	8.7	8.3	8.1
Washington	7.2	7.1	7.1	7.2	6.9	7.0	7.1	7.3	7.4	7.0	6.6	6.5
West Virginia	6.8	6.9	5.9	6.4	6.3	6.1	5.8	6.2	6.3	6.1	5.8	5.3
Wisconsin	7.4	7.5	6.3	6.7	6.7	6.3	6.5	6.9	7.1	7.0	6.8	6.7
Wyoming	9.5	9.1	8.1	8.4	8.3	7.4	7.1	7.5	7.7	7.9	7.5	7.0

* Rank out of 60 for 2005.

1981–2005

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	Rank*
6.1	7.0	7.4	7.6	7.8	7.7	7.9	7.9	7.3	7.5	8.0	8.3	8.5	2
5.4	5.5	5.5	5.5	5.3	5.7	6.0	6.2	6.0	6.1	6.2	6.5	6.7	35
4.9	5.4	5.6	5.9	6.2	6.3	6.2	6.5	6.5	6.6	6.3	6.4	6.3	43
5.2	5.4	5.6	5.6	5.5	5.6	5.9	6.2	6.1	6.1	6.1	6.1	5.9	49
3.4	3.3	3.6	3.2	3.8	4.7	5.1	5.8	5.7	6.5	6.6	6.8	7.1	24
5.0	5.3	5.3	5.8	5.7	5.9	6.1	6.5	6.6	6.7	6.8	6.6	6.5	37
5.0	5.6	5.6	5.8	6.5	6.7	7.1	7.2	7.1	7.1	6.9	6.9	6.9	31
4.4	4.7	4.9	5.3	5.3	5.6	5.8	5.5	5.5	5.9	5.8	5.7	5.6	55
3.9	4.3	4.4	4.5	5.1	5.4	5.9	6.0	5.8	5.8	5.5	5.5	5.4	57
4.8	5.5	5.7	6.1	6.6	6.3	6.4	6.6	6.2	5.7	6.0	6.4	6.7	35
7.4	7.4	7.3	7.3	7.3	6.6	6.5	6.3	6.0	5.8	5.9	6.1	6.1	46
5.1	4.8	4.9	5.0	4.4	3.8	4.0	4.3	4.3	4.3	4.0	3.8	3.8	60
7.2	7.5	7.6	7.8	8.1	8.2	8.4	8.0	7.9	7.9	7.9	7.8	7.8	10
7.6	7.8	7.7	7.7	7.7	7.8	7.8	7.5	7.2	6.9	7.0	7.0	7.0	27
5.3	5.6	5.6	5.8	6.2	6.6	6.8	6.8	6.4	6.0	6.0	6.0	6.0	47
7.6	7.8	7.5	7.6	8.2	8.5	8.5	8.5	8.1	7.8	7.8	7.8	7.8	10
6.7	6.7	6.9	7.3	7.6	7.6	7.7	7.8	7.6	7.4	7.5	7.5	7.5	15
8.3	8.4	8.3	8.3	8.8	8.9	9.0	8.9	8.8	8.7	8.7	8.7	8.7	1
7.5	8.1	7.7	7.8	8.0	8.2	8.1	8.2	8.0	7.8	7.7	7.6	7.6	14
8.1	8.1	8.0	7.9	8.2	8.5	8.6	8.5	8.2	7.9	7.8	7.7	7.7	13
7.0	6.7	6.3	6.2	6.4	6.6	6.6	6.7	6.6	6.5	6.7	7.0	7.0	27
7.7	7.7	7.3	7.1	7.1	7.2	7.3	7.5	7.1	6.7	6.8	6.9	6.9	31
7.4	7.5	7.3	7.4	7.7	7.8	7.8	7.7	7.5	7.2	7.2	7.1	7.1	24
8.0	8.1	8.1	8.2	8.5	8.6	8.4	8.4	8.1	7.9	7.9	8.0	8.0	8
7.3	7.6	7.4	7.7	7.7	7.7	7.6	7.5	7.3	7.1	7.3	7.5	7.5	15
7.7	7.6	7.5	7.8	8.0	8.1	8.1	8.0	7.7	7.4	7.4	7.4	7.4	18
7.5	7.7	7.4	7.5	7.6	7.7	7.6	7.3	7.0	6.7	6.6	6.4	6.4	39
7.0	7.4	7.2	7.4	7.3	7.3	7.1	7.0	6.7	6.4	6.6	6.9	6.9	31
5.7	5.9	5.8	5.9	6.0	6.2	6.3	6.1	6.0	6.0	6.0	5.9	5.9	49
7.0	6.9	7.1	7.2	7.3	7.4	7.5	7.4	7.4	7.3	7.4	7.4	7.4	18
6.6	6.9	6.9	7.3	7.5	7.8	7.9	8.0	7.7	7.4	7.3	7.1	7.1	24
6.0	6.5	6.4	6.7	7.3	7.3	7.5	7.5	7.2	6.9	6.6	6.4	6.4	39
6.2	6.4	6.4	6.7	7.1	7.1	7.2	7.0	6.7	6.5	6.6	6.8	6.8	34
7.3	7.4	7.3	7.2	6.8	7.1	6.9	6.6	6.3	6.0	5.9	5.9	5.9	49
8.1	8.2	8.1	8.2	8.3	8.2	8.1	8.0	7.7	7.4	7.4	7.3	7.3	21
5.9	5.9	5.5	5.5	6.1	6.4	6.3	6.2	6.1	5.9	6.0	6.2	6.2	45
8.5	8.6	8.5	8.6	8.4	8.6	8.5	8.4	8.3	8.1	8.1	8.1	8.1	5
7.5	8.0	8.0	8.3	8.4	8.6	8.5	8.8	8.5	8.3	8.4	8.5	8.5	2
7.9	7.8	8.1	8.3	8.4	8.6	8.5	8.6	8.4	8.2	8.2	8.1	8.1	5
7.0	7.1	6.7	7.0	7.4	7.6	7.6	7.6	7.4	7.2	7.1	7.0	7.0	27
7.0	7.1	6.7	6.8	6.9	6.5	6.6	6.4	6.0	5.6	5.8	5.9	5.9	49
5.0	5.1	5.0	5.3	5.5	5.8	6.2	6.2	6.0	5.8	5.7	5.7	5.7	53
7.8	7.8	7.7	7.7	8.0	8.0	8.0	7.8	7.6	7.5	7.5	7.5	7.5	15
6.4	6.9	7.1	7.3	6.9	7.0	6.8	6.7	7.0	7.3	7.3	7.4	7.4	18
5.7	5.9	6.0	6.2	6.7	6.7	6.7	6.5	6.0	5.6	5.5	5.5	5.5	56
7.0	7.0	6.9	7.3	7.4	7.4	7.4	7.6	7.2	6.9	7.1	7.3	7.3	21
6.3	6.6	6.4	6.2	6.3	6.2	6.3	6.2	5.9	5.5	5.6	5.7	5.7	53
6.2	6.5	6.4	6.7	6.9	7.1	7.0	7.0	6.8	6.6	6.6	6.5	6.5	37
4.8	4.9	4.9	5.3	5.7	6.1	5.8	6.0	5.7	5.3	5.4	5.4	5.4	57
7.4	7.3	7.3	7.2	7.4	7.6	7.5	7.3	6.9	6.4	6.2	6.0	6.0	47
8.4	8.3	8.3	8.4	8.5	8.5	8.3	8.3	8.3	8.3	8.3	8.3	8.3	4
8.3	8.3	8.1	8.1	8.2	8.4	8.3	8.2	8.0	7.8	7.8	7.8	7.8	10
8.1	8.2	8.1	8.2	8.3	8.4	8.2	8.4	8.2	8.0	8.1	8.1	8.1	5
7.6	7.8	7.9	8.0	8.0	8.1	7.5	7.5	7.4	7.2	7.2	7.2	7.2	23
6.5	6.6	6.4	6.7	6.7	6.8	6.8	6.6	6.5	6.5	6.4	6.3	6.3	43
8.1	8.1	8.0	7.8	8.2	8.3	8.2	8.2	8.2	8.2	8.1	8.0	8.0	8
6.4	6.8	5.9	6.3	6.7	7.0	7.0	6.8	6.6	6.4	6.4	6.4	6.4	39
4.7	5.4	5.5	5.5	5.6	5.8	5.9	5.6	4.7	3.8	4.5	5.2	5.2	59
6.8	6.9	6.8	7.0	7.1	7.4	7.2	6.9	6.6	6.3	6.3	6.4	6.4	39
7.1	7.1	7.0	7.3	7.1	7.0	7.0	7.2	7.0	6.9	7.0	7.0	7.0	27

Table 3.7: Scores for Takings and Discriminatory Taxation at the Federal, State/Provincial,

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Alberta	6.1	6.6	6.7	6.4	6.7	6.4	5.9	6.6	6.4	6.3	5.4	5.3
British Columbia	4.0	4.1	4.1	4.2	4.3	4.0	4.4	5.1	4.8	4.5	3.7	3.4
Manitoba	4.3	4.2	3.8	4.3	4.1	3.6	3.3	4.0	4.1	4.0	3.2	3.1
New Brunswick	2.2	4.1	4.1	4.1	3.8	3.5	3.7	4.3	4.2	3.8	2.8	2.9
Newfoundland	4.4	4.8	4.5	4.3	4.0	3.9	3.7	4.4	4.2	3.7	2.6	2.2
Nova Scotia	3.1	4.1	4.2	4.0	3.6	3.7	3.8	4.4	4.5	3.8	3.3	3.1
Ontario	3.7	4.3	4.5	4.2	4.1	3.5	3.7	4.0	3.9	3.3	3.1	3.0
Prince Edward Island	4.9	5.3	5.4	4.9	4.9	4.7	4.4	5.1	5.0	4.7	3.5	3.2
Quebec	3.1	2.9	3.1	3.1	3.0	2.7	2.6	2.9	3.2	2.9	2.2	2.2
Saskatchewan	4.2	4.8	4.8	5.1	4.9	4.8	4.3	4.4	4.4	4.5	3.5	2.9
Alabama	5.0	5.4	5.7	5.5	5.4	5.5	6.5	7.4	7.2	7.3	6.8	6.9
Alaska	5.4	6.0	6.2	6.6	7.0	6.4	8.1	8.5	8.2	7.9	6.4	6.9
Arizona	4.4	4.6	4.9	4.8	4.6	4.6	5.3	6.1	5.9	6.2	5.6	5.9
Arkansas	5.0	5.0	5.3	5.3	5.1	5.2	5.9	7.0	7.0	7.1	6.7	6.4
California	4.6	4.7	4.9	4.9	4.8	4.8	5.6	6.5	6.5	6.7	6.0	5.8
Colorado	4.9	5.0	5.3	5.3	5.3	5.2	5.9	6.7	6.6	6.7	6.1	6.2
Connecticut	3.9	4.6	5.0	5.0	5.0	5.0	5.7	6.8	6.8	7.3	6.7	5.9
Delaware	5.6	5.7	6.0	6.1	6.1	6.0	6.7	7.8	8.1	8.4	8.0	7.7
Florida	3.9	4.6	5.0	4.9	4.7	4.7	5.5	6.3	6.2	6.3	5.9	5.7
Georgia	5.2	5.3	5.6	5.7	5.7	5.7	6.5	7.3	7.2	7.2	6.8	6.8
Hawaii	4.6	4.7	4.9	5.0	5.1	5.0	5.4	6.5	6.4	6.6	6.2	6.5
Idaho	5.0	5.0	5.3	5.1	4.9	4.8	5.4	6.2	6.1	6.1	5.6	5.7
Illinois	4.4	4.8	5.1	5.2	5.2	5.2	6.0	6.9	6.8	7.0	6.6	6.5
Indiana	4.9	5.3	5.6	5.6	5.4	5.5	6.4	7.2	7.2	7.4	6.7	6.9
Iowa	4.6	4.6	4.8	5.1	5.1	4.9	5.5	6.4	6.4	6.7	6.2	6.3
Kansas	4.8	4.9	5.1	5.2	5.1	5.0	5.6	6.3	6.4	6.7	6.1	6.1
Kentucky	5.1	5.1	5.4	5.6	5.7	5.6	6.3	7.2	7.1	7.2	6.5	6.7
Louisiana	6.3	6.5	6.7	6.8	6.7	6.5	7.0	8.2	7.8	8.0	7.1	7.0
Maine	3.9	4.0	4.2	4.3	4.3	4.2	4.7	5.9	5.9	6.2	5.7	5.2
Maryland	4.1	4.3	4.7	4.6	4.6	4.8	5.7	6.5	6.4	6.7	6.2	6.0
Massachusetts	4.3	4.6	4.9	5.1	5.3	5.3	6.1	7.1	7.1	7.5	6.8	6.3
Michigan	4.1	4.3	4.7	4.7	4.7	4.6	5.3	6.5	6.5	6.6	6.0	5.9
Minnesota	4.6	4.6	4.8	4.9	4.9	4.8	5.3	6.1	6.1	6.2	5.7	5.7
Mississippi	4.8	4.8	5.2	5.2	5.2	5.2	6.2	6.9	6.6	6.7	6.3	6.4
Missouri	5.0	5.4	5.7	5.8	5.8	5.8	6.4	7.6	7.6	7.6	7.1	7.0
Montana	4.6	4.6	4.9	4.7	4.4	4.5	5.1	5.6	5.7	5.4	5.7	5.1
Nebraska	5.1	5.0	5.2	5.4	5.5	5.3	6.0	6.9	6.8	7.0	6.5	6.7
Nevada	4.2	4.9	5.2	5.1	5.0	5.0	5.8	6.7	6.7	6.7	6.4	6.3
New Hampshire	4.1	4.7	5.1	5.2	5.3	5.3	6.2	7.1	7.1	7.4	6.8	6.1
New Jersey	3.4	3.8	4.2	4.3	4.4	4.4	4.9	6.3	6.4	6.8	5.9	5.5
New Mexico	5.2	5.3	5.4	5.4	5.3	5.1	5.6	6.3	6.1	6.1	6.0	6.1
New York	4.1	4.2	4.3	4.4	4.4	4.3	5.1	6.1	6.0	6.5	6.0	5.7
North Carolina	5.3	5.3	5.7	5.6	5.5	5.5	6.1	7.4	7.3	7.5	7.1	6.9
North Dakota	5.1	5.3	5.2	5.2	5.2	4.9	5.1	5.8	5.8	5.9	5.1	5.5
Ohio	4.4	4.8	4.8	5.0	4.9	4.9	5.5	6.6	6.5	6.7	6.1	6.1
Oklahoma	5.2	5.3	5.4	5.6	5.7	5.5	6.3	6.9	6.5	6.7	6.2	6.4
Oregon	4.3	4.4	4.5	4.5	4.4	4.3	4.8	5.9	5.7	5.9	5.4	5.9
Pennsylvania	4.0	4.4	4.7	4.8	4.8	4.8	5.6	6.5	6.4	6.7	6.3	6.1
Rhode Island	3.4	3.5	3.7	3.8	4.0	3.8	4.4	5.7	5.9	6.2	5.3	4.8
South Carolina	4.8	4.8	5.1	5.2	5.1	5.1	5.9	7.0	6.9	7.0	6.5	6.6
South Dakota	4.7	5.2	5.5	5.7	5.8	5.7	6.4	7.1	7.0	7.1	6.8	6.9
Tennessee	4.9	5.5	5.8	5.9	5.8	5.8	6.7	7.5	7.4	7.5	7.2	7.1
Texas	5.6	6.2	6.4	6.4	6.3	6.1	6.8	7.6	7.3	7.6	7.0	7.0
Utah	4.8	5.1	5.4	5.4	5.4	5.3	5.8	6.7	6.6	6.8	6.6	6.7
Vermont	4.1	4.1	4.3	4.3	4.1	4.0	4.4	6.0	6.3	6.7	5.9	5.6
Virginia	4.8	4.9	5.2	5.4	5.5	5.5	6.3	7.1	7.0	7.3	6.8	6.7
Washington	3.9	4.6	5.0	4.8	4.7	4.5	5.1	6.0	5.9	6.0	5.4	5.5
West Virginia	3.9	3.9	3.9	4.1	4.2	4.3	5.0	6.4	6.3	6.2	5.3	5.5
Wisconsin	4.1	4.1	4.2	4.3	4.3	4.2	4.8	6.0	6.0	6.3	5.8	5.9
Wyoming	5.4	5.6	5.7	5.7	5.7	5.3	6.4	7.4	7.4	7.8	7.2	7.1

* Rank out of 60 for 2005.

and Local/Municipal Levels, 1981–2005

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	Rank*
5.5	5.7	5.8	5.9	5.8	5.6	6.0	6.8	7.1	6.7	7.1	7.2	7.5	3
3.0	2.8	2.9	2.8	2.9	2.9	3.3	3.5	4.1	4.3	4.3	4.4	4.5	54
3.0	3.0	3.1	3.4	3.3	3.3	3.4	3.5	3.9	3.8	3.6	3.8	3.8	55
3.0	2.9	3.1	3.1	3.3	3.7	3.8	3.7	4.0	3.7	3.7	3.9	3.8	55
2.0	2.3	2.3	2.3	2.6	2.9	3.2	4.0	3.9	4.5	4.8	5.0	5.4	48
3.1	2.8	3.1	3.1	3.1	3.2	3.2	3.4	3.8	3.7	3.7	3.4	3.4	58
3.1	2.9	3.1	3.0	2.9	3.3	3.3	3.7	3.7	3.9	3.9	3.9	3.8	55
3.1	3.1	3.0	2.9	2.8	2.9	2.9	2.8	2.9	3.1	2.9	3.0	2.8	59
2.4	2.4	2.3	2.3	2.2	2.1	2.2	2.4	2.6	2.6	2.5	2.5	2.5	60
2.9	3.1	3.5	3.6	3.5	3.5	3.9	4.2	4.1	4.3	4.4	4.9	4.9	53
6.6	6.0	6.0	6.0	6.0	6.1	6.1	5.9	5.9	6.3	6.6	6.8	6.8	15
6.6	6.5	6.2	6.8	6.2	6.1	6.7	6.6	6.7	7.1	7.5	7.6	7.6	2
5.4	5.1	5.1	5.1	5.4	5.9	6.0	5.8	5.9	6.1	6.3	6.4	6.4	24
5.9	5.5	5.5	5.5	5.5	5.6	5.6	5.5	5.5	5.5	5.9	6.0	6.0	34
5.6	5.3	5.2	5.0	4.9	5.0	5.1	4.5	5.0	5.8	6.1	6.2	5.9	40
6.0	5.7	5.8	5.8	6.1	6.1	6.1	5.9	6.2	6.5	6.9	7.0	7.0	9
5.5	5.4	5.2	5.1	4.8	4.9	5.1	5.0	5.3	5.6	5.9	6.0	6.0	34
7.5	7.3	7.3	7.2	7.7	7.6	7.9	7.7	7.8	8.2	8.5	8.6	8.6	1
5.4	4.6	4.8	4.6	4.5	4.6	4.8	4.8	5.1	5.6	5.9	6.0	6.0	34
6.6	6.0	6.0	6.0	6.2	6.3	6.4	6.2	6.3	6.7	7.1	7.1	7.1	7
6.0	5.5	5.6	5.3	5.2	5.0	5.1	4.9	5.4	5.5	5.9	6.0	6.0	34
5.6	5.3	5.4	5.3	4.9	5.2	5.3	5.0	5.2	5.4	5.8	5.9	5.9	40
6.3	5.7	5.4	5.7	5.7	5.8	5.8	5.6	5.8	6.2	6.6	6.6	6.6	19
6.7	6.1	6.1	6.3	6.2	6.3	6.3	6.3	6.3	6.4	7.0	7.1	7.1	7
6.1	5.7	5.5	5.8	5.7	5.6	5.7	5.7	6.0	6.1	6.5	6.6	6.6	19
5.6	5.3	5.3	5.5	5.3	5.3	5.4	5.4	5.6	5.7	6.2	6.3	6.3	27
6.5	6.0	5.8	5.9	6.1	6.0	6.0	5.6	5.7	6.1	6.5	6.5	6.5	23
6.7	6.6	6.6	6.6	6.0	6.0	6.4	6.5	6.2	6.0	6.7	6.9	6.9	11
5.0	4.4	4.4	4.3	4.2	3.7	4.1	3.8	4.3	4.6	4.9	5.1	5.1	50
5.7	5.1	5.0	5.3	5.3	5.3	5.5	5.2	5.4	5.5	5.8	5.9	5.9	40
6.1	5.6	5.4	5.4	5.3	5.5	5.6	5.0	5.8	6.4	6.7	6.8	6.8	15
5.5	5.3	5.2	5.3	5.8	6.0	5.9	5.7	5.9	6.0	6.3	6.6	6.6	19
5.4	4.9	4.7	4.8	4.9	5.0	5.5	5.2	5.5	5.8	6.1	6.2	6.2	29
6.0	5.5	5.4	5.4	5.3	5.4	5.3	5.1	5.1	5.2	5.6	5.7	5.7	45
6.4	6.2	6.0	6.1	6.2	6.1	6.1	6.1	6.2	6.3	6.9	6.9	6.9	11
4.8	4.5	4.5	4.6	4.7	4.5	4.5	4.5	4.7	4.9	5.3	5.4	5.7	45
6.2	6.0	5.8	5.9	5.7	5.8	5.8	5.6	5.8	6.0	6.5	6.6	6.6	19
6.0	5.4	5.3	5.3	5.3	5.4	5.5	5.3	5.5	6.0	6.3	6.4	6.4	24
5.5	5.6	5.9	6.1	5.8	5.8	5.6	5.3	5.7	6.5	6.8	6.9	6.9	11
5.2	5.0	4.9	4.8	4.8	4.7	4.7	4.4	4.7	5.2	5.3	5.4	5.4	48
6.1	5.7	5.4	5.4	5.6	5.0	5.6	5.9	5.4	4.9	5.4	5.8	5.8	43
5.2	5.0	5.0	5.1	4.8	4.9	5.2	5.0	5.2	5.4	5.7	5.8	5.8	43
6.4	6.1	6.1	6.1	6.4	6.3	6.5	6.4	6.6	6.7	7.0	7.0	7.0	9
5.6	5.1	4.8	5.4	5.0	5.0	4.7	4.7	5.2	5.5	5.9	6.0	6.0	34
5.6	5.3	5.2	5.3	5.5	5.6	5.6	5.6	5.6	5.6	6.0	6.0	6.0	34
5.9	5.5	5.4	5.4	5.3	5.1	5.4	5.4	5.4	5.5	5.8	6.2	6.2	29
5.8	5.4	5.6	5.9	5.7	5.9	5.8	5.6	6.1	6.3	6.6	6.7	6.7	18
5.9	5.3	5.3	5.4	5.1	5.4	5.5	5.3	5.8	6.0	6.3	6.3	6.3	27
4.5	4.2	4.2	4.3	4.1	3.9	3.9	4.0	4.2	4.5	5.1	5.1	5.1	50
6.1	5.8	5.8	5.7	5.7	5.8	5.8	5.6	5.8	5.9	6.2	6.2	6.2	29
6.8	6.2	6.2	6.5	6.1	6.0	5.9	6.1	6.4	7.0	7.3	7.3	7.3	4
6.4	6.3	6.3	6.2	6.3	6.4	6.6	6.4	6.5	6.8	7.2	7.2	7.2	5
6.8	6.2	6.2	6.3	6.3	6.0	6.2	6.2	6.3	6.7	7.1	7.2	7.2	5
6.2	5.9	5.8	6.1	6.2	6.4	6.4	6.1	6.4	6.6	6.9	6.9	6.9	11
5.4	4.8	4.7	4.6	4.2	4.2	4.3	4.3	4.5	4.8	5.4	5.5	5.5	47
6.6	6.0	6.0	6.0	6.0	5.9	5.9	5.7	6.2	6.4	6.8	6.8	6.8	15
5.4	4.9	4.7	4.6	4.7	4.7	4.7	4.5	5.0	5.8	6.1	6.2	6.2	29
5.4	5.0	5.0	5.0	4.7	4.6	4.3	4.0	4.1	4.2	4.8	5.0	5.0	52
5.4	5.1	5.0	5.0	5.1	5.2	5.3	5.2	5.3	5.4	6.0	6.1	6.1	33
6.8	6.1	6.4	6.4	5.3	4.5	5.3	4.9	5.2	5.8	6.2	6.4	6.4	24

Table 3.8: Scores for Takings and Discriminatory Taxation at the State/Provincial, and

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Alberta	9.1	9.1	8.9	8.6	8.8	8.5	7.7	7.9	8.0	7.8	7.6	7.3
British Columbia	6.0	5.8	5.4	5.3	5.5	5.4	5.9	6.1	6.1	5.8	5.7	5.2
Manitoba	6.3	6.1	5.5	5.6	5.5	5.2	4.7	4.9	5.1	5.2	5.1	4.8
New Brunswick	5.9	6.4	5.7	5.5	5.4	5.1	5.2	5.4	5.3	5.1	5.0	4.7
Newfoundland	5.4	5.5	5.1	4.8	4.5	4.5	4.4	4.8	4.8	4.3	4.2	3.5
Nova Scotia	6.2	6.3	6.1	5.8	5.5	5.5	5.3	5.5	5.6	5.2	5.4	5.0
Ontario	6.4	6.2	6.2	6.1	6.1	5.6	5.7	5.5	5.5	4.9	5.1	4.7
Prince Edward Island	6.2	6.4	6.4	5.9	5.9	5.9	5.5	5.7	5.8	5.6	5.5	5.0
Quebec	5.1	4.2	4.2	4.3	3.9	4.1	3.9	4.3	4.4	4.3	4.0	3.4
Saskatchewan	6.7	6.7	6.1	6.6	6.5	6.0	5.4	5.2	5.3	5.2	5.0	4.5
Alabama	8.1	8.1	8.1	8.1	7.9	8.0	7.9	8.0	7.8	7.8	7.9	7.8
Alaska	7.0	6.5	6.8	7.1	7.3	5.4	8.0	7.3	7.6	7.2	6.1	6.6
Arizona	7.3	7.1	7.2	7.1	6.8	6.8	6.4	6.4	6.1	6.1	5.9	6.2
Arkansas	7.6	7.6	7.4	7.5	7.1	7.1	7.2	7.3	7.3	7.3	7.3	7.0
California	6.1	6.0	6.2	6.2	6.1	6.2	6.3	6.4	6.6	6.5	6.1	5.8
Colorado	8.2	7.6	7.5	7.4	7.3	7.2	6.8	6.9	6.8	6.9	6.9	6.9
Connecticut	7.7	7.7	7.7	7.7	7.7	7.8	7.7	7.8	7.8	7.6	7.2	6.4
Delaware	6.9	6.8	7.0	7.1	7.6	7.5	8.0	8.1	8.1	8.2	8.4	8.0
Florida	8.1	8.0	7.9	7.9	7.7	7.6	7.6	7.4	7.3	7.1	6.9	6.8
Georgia	7.4	7.4	7.5	7.6	7.6	7.6	7.6	7.5	7.3	7.1	7.2	7.2
Hawaii	5.6	5.7	5.9	6.1	6.1	6.1	6.2	5.9	6.2	6.3	6.0	6.0
Idaho	7.1	6.9	7.0	6.7	6.6	6.5	6.2	6.3	6.3	6.2	6.2	6.3
Illinois	7.4	7.4	7.2	7.6	7.6	7.6	7.6	7.7	7.6	7.4	7.3	7.3
Indiana	8.1	8.0	7.8	7.7	7.6	7.7	7.7	7.7	7.6	7.8	7.6	7.7
Iowa	8.0	6.9	6.6	6.9	6.9	6.7	6.5	6.5	6.7	6.8	6.8	6.7
Kansas	7.0	7.0	6.8	6.6	6.5	6.5	6.3	6.2	6.9	6.9	7.0	6.9
Kentucky	7.5	7.3	7.1	7.6	7.4	7.2	7.2	7.3	7.2	7.2	6.9	7.0
Louisiana	9.2	8.4	8.1	8.3	7.8	7.5	7.5	8.0	7.3	7.4	7.2	7.4
Maine	5.8	5.8	5.8	5.7	5.7	5.8	5.8	5.8	5.8	5.8	5.6	5.2
Maryland	7.1	7.2	7.3	7.2	7.2	7.3	7.3	7.2	7.2	7.2	7.3	7.1
Massachusetts	6.9	7.1	7.3	7.5	7.5	7.4	7.5	7.6	7.5	7.4	7.3	7.0
Michigan	5.9	6.1	6.0	6.5	6.9	6.6	6.7	6.8	6.8	6.6	6.5	6.4
Minnesota	5.4	5.3	6.2	6.3	6.2	6.3	6.0	5.8	6.1	6.0	6.2	6.2
Mississippi	7.5	7.1	7.0	7.0	6.9	6.7	7.1	7.0	6.9	6.8	6.9	7.0
Missouri	8.4	8.1	8.0	8.1	8.1	8.0	8.0	7.9	8.0	7.9	7.9	7.8
Montana	7.5	6.7	6.8	6.5	6.1	6.2	6.2	5.4	5.8	5.5	6.3	5.4
Nebraska	6.9	7.2	6.7	6.9	7.0	6.8	7.2	7.3	7.3	7.3	7.0	7.1
Nevada	7.7	7.4	7.4	7.4	7.3	7.3	7.4	7.6	7.5	7.3	7.2	7.2
New Hampshire	8.6	8.4	8.5	8.5	8.8	8.8	8.8	8.8	8.5	8.2	7.9	7.4
New Jersey	6.9	7.0	6.9	7.0	7.1	7.1	7.0	7.2	7.1	7.1	6.2	6.0
New Mexico	7.1	6.9	6.8	6.6	6.6	6.3	6.1	6.0	6.0	5.7	6.0	6.1
New York	4.7	4.6	4.6	4.7	4.6	4.6	5.5	5.7	5.7	5.5	5.4	5.2
North Carolina	7.7	7.5	7.7	7.7	7.6	7.6	7.5	7.6	7.6	7.5	7.5	7.2
North Dakota	8.5	7.6	6.5	6.1	6.1	5.9	5.7	5.0	5.3	5.5	5.2	5.7
Ohio	7.3	7.1	6.6	7.2	6.4	6.4	6.8	6.9	6.8	6.7	6.4	6.5
Oklahoma	7.8	7.5	7.3	7.4	7.0	6.6	6.9	6.5	6.5	6.6	6.6	6.8
Oregon	6.0	6.0	5.7	5.8	5.9	6.0	5.6	6.2	6.0	6.1	6.0	6.5
Pennsylvania	7.3	7.2	7.0	7.3	7.4	7.4	7.4	7.5	7.5	7.4	7.3	6.9
Rhode Island	5.2	5.3	4.8	5.0	5.8	5.8	5.7	6.4	6.6	6.5	5.7	5.4
South Carolina	7.2	7.0	7.1	7.2	7.0	7.0	7.1	7.1	7.0	6.9	7.1	7.1
South Dakota	7.8	7.5	7.7	7.9	7.8	7.7	7.7	7.4	7.7	7.8	7.9	8.0
Tennessee	8.3	8.2	8.3	8.4	8.1	8.1	8.2	8.2	8.2	8.1	8.3	8.2
Texas	9.1	8.9	8.7	8.7	8.4	8.1	7.8	7.8	7.8	7.9	7.8	7.7
Utah	7.7	7.2	7.2	7.0	7.0	7.0	6.6	6.8	6.8	6.9	7.0	6.9
Vermont	5.4	5.8	5.8	5.8	5.7	5.8	5.7	6.7	7.0	6.9	6.2	6.0
Virginia	7.8	7.8	7.7	7.8	7.8	7.9	7.8	7.8	7.6	7.6	7.6	7.7
Washington	7.3	7.0	6.7	6.6	6.6	6.4	6.3	6.5	6.5	6.4	6.3	6.2
West Virginia	5.4	4.9	4.6	4.7	4.8	5.1	5.9	6.9	6.4	6.0	5.6	5.9
Wisconsin	6.3	5.8	5.6	5.8	5.7	5.8	6.0	6.1	6.1	6.2	6.1	6.2
Wyoming	8.6	6.9	6.4	6.5	6.4	5.4	6.4	7.2	7.5	7.8	7.8	7.6

* Rank out of 60 for 2005.

Local/Municipal Levels, 1981–2005

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	Rank*
7.7	7.8	7.8	7.9	8.0	8.0	8.2	8.5	8.7	8.4	8.5	8.6	8.7	2
5.1	5.1	4.9	5.0	5.1	5.2	5.5	5.7	6.0	5.9	5.8	5.8	5.9	49
4.7	5.0	5.1	5.3	5.0	5.1	5.3	5.5	5.5	5.3	5.1	5.1	5.1	56
4.7	4.8	4.9	5.0	5.4	5.7	6.0	6.1	6.0	5.3	5.2	5.2	5.1	56
3.6	3.9	3.9	4.0	4.4	4.8	5.2	5.7	5.5	5.8	5.9	5.9	6.1	45
5.0	4.8	5.1	5.2	5.3	5.6	5.7	5.8	5.5	5.2	5.0	4.9	4.8	58
4.8	4.9	5.0	5.0	5.0	5.2	5.5	5.8	5.6	5.6	5.5	5.4	5.2	55
5.1	5.3	5.2	5.1	4.9	5.0	5.3	5.3	4.9	4.9	4.5	4.5	4.4	59
3.7	4.2	4.0	4.3	4.1	4.0	4.2	4.2	4.2	4.1	3.9	3.7	3.7	60
4.2	4.5	4.8	5.0	5.0	5.2	5.3	5.7	5.5	5.3	5.3	5.4	5.4	53
7.6	7.8	7.7	7.7	7.7	7.7	7.7	7.6	7.6	7.7	7.8	7.9	7.9	7
5.9	7.3	6.5	7.3	6.9	7.4	8.1	7.8	8.0	8.3	8.2	8.1	8.1	6
6.2	6.5	6.5	6.8	7.3	7.4	7.4	7.3	7.3	7.2	7.1	7.1	7.1	25
6.9	6.9	6.9	6.8	6.7	6.8	6.8	6.8	6.7	6.6	6.6	6.7	6.7	35
5.8	5.9	5.9	6.0	6.1	6.1	6.3	6.2	6.1	6.0	6.0	5.9	6.1	45
6.9	7.0	7.0	7.2	7.4	7.6	7.5	7.6	7.5	7.5	7.5	7.5	7.5	12
6.4	6.9	6.6	6.6	6.5	6.6	6.7	6.8	6.9	7.0	7.0	6.9	6.9	31
8.1	8.1	8.0	8.2	8.6	8.5	8.6	8.9	9.0	9.0	9.1	9.1	9.1	1
6.7	6.6	6.7	6.8	6.9	7.0	7.0	7.1	7.2	7.4	7.3	7.2	7.2	22
7.1	7.2	7.2	7.2	7.5	7.5	7.4	7.4	7.4	7.4	7.4	7.5	7.5	12
5.9	5.5	5.6	5.3	5.3	5.4	5.9	5.8	5.9	6.0	6.0	6.1	6.1	45
6.2	6.1	6.1	6.0	5.8	6.0	6.2	6.2	6.2	6.2	6.2	6.2	6.2	44
7.2	7.2	7.1	7.2	7.4	7.5	7.4	7.4	7.3	7.3	7.3	7.3	7.3	20
7.8	7.7	7.7	7.9	7.7	7.9	7.8	7.8	7.8	7.8	7.7	7.7	7.7	10
6.4	6.7	6.5	6.8	7.0	7.2	7.2	7.1	7.2	7.2	7.3	7.4	7.4	16
6.2	6.1	6.2	6.4	6.4	6.5	6.7	6.7	6.7	6.7	6.6	6.4	6.4	41
6.9	6.9	6.8	6.8	7.1	7.1	7.0	6.9	6.9	6.9	7.0	7.0	7.1	25
7.5	7.8	7.7	7.7	7.2	7.2	7.2	7.3	7.1	6.9	7.2	7.4	7.4	16
5.1	5.3	5.3	5.3	5.2	4.8	5.1	5.2	5.2	5.2	5.3	5.4	5.4	53
6.8	6.9	6.8	7.0	7.2	7.2	7.3	7.1	7.2	7.2	7.2	7.2	7.2	22
7.0	7.1	7.0	7.2	7.2	7.3	7.5	7.5	7.5	7.4	7.4	7.3	7.3	20
6.5	6.8	6.9	6.9	7.2	7.4	7.3	7.2	7.3	7.3	7.1	7.0	7.0	29
5.9	6.1	5.8	6.1	6.2	6.3	6.4	6.5	6.5	6.6	6.7	6.8	6.8	32
6.6	6.6	6.5	6.4	6.4	6.4	6.2	6.1	6.1	6.2	6.3	6.3	6.3	43
7.7	7.7	7.4	7.6	7.7	7.7	7.6	7.7	7.7	7.6	7.6	7.6	7.6	11
6.0	5.9	5.8	6.1	6.1	6.2	6.4	6.4	6.5	6.7	6.8	6.9	7.2	22
6.9	6.9	6.8	6.9	6.8	6.9	7.0	6.8	6.8	6.8	6.7	6.6	6.6	39
7.0	7.1	6.8	6.9	7.1	7.4	7.3	7.4	7.4	7.4	7.4	7.4	7.4	16
6.8	7.9	8.0	8.4	8.4	8.5	8.3	8.5	8.4	8.3	8.3	8.2	8.2	3
6.2	6.3	6.2	6.2	6.5	6.5	6.5	6.6	6.6	6.6	6.4	6.4	6.4	41
6.2	6.3	6.1	6.1	6.1	5.6	6.1	5.9	6.0	6.1	6.1	6.6	6.8	32
5.1	5.2	5.3	5.8	5.8	6.0	6.2	6.2	6.2	6.3	6.2	6.0	6.0	48
7.1	7.1	7.2	7.3	7.5	7.4	7.5	7.5	7.6	7.6	7.5	7.5	7.5	12
6.4	6.5	6.3	6.7	6.3	6.4	6.3	6.3	6.6	6.9	7.0	7.1	7.1	25
6.1	6.1	6.0	6.1	6.7	6.8	6.8	6.8	6.5	6.4	6.4	6.3	6.6	39
6.5	6.5	6.4	6.4	6.5	6.5	6.6	6.6	6.6	6.6	6.7	6.7	6.7	35
6.8	7.1	7.3	7.6	7.5	7.6	7.6	7.4	7.5	7.6	7.5	7.5	7.5	12
7.0	7.0	7.0	7.2	7.0	7.4	7.4	7.4	7.5	7.6	7.5	7.1	7.1	25
5.2	5.1	5.0	5.2	5.1	5.2	5.5	5.6	5.7	5.7	5.9	5.6	5.6	51
6.9	7.0	7.0	7.0	7.0	7.0	6.9	6.9	6.9	7.0	6.9	6.7	6.7	35
8.0	7.8	7.7	7.9	7.9	7.8	7.9	7.9	8.1	8.2	8.2	8.2	8.2	3
7.0	8.2	8.2	8.1	8.2	8.2	8.3	8.2	8.2	8.3	8.2	8.2	8.2	3
7.6	7.7	7.7	7.9	8.0	7.9	8.0	8.0	7.9	7.8	7.9	7.9	7.9	7
6.8	7.1	7.1	7.4	7.4	7.3	7.3	7.3	7.5	7.6	7.4	7.4	7.4	16
6.2	5.8	5.8	5.9	5.8	5.9	5.9	6.0	6.1	6.2	6.1	5.9	5.9	49
7.6	7.6	7.5	7.7	7.7	7.7	7.8	7.8	7.8	7.9	7.9	7.9	7.9	7
6.2	6.0	5.8	6.0	6.3	6.6	6.8	6.8	6.9	6.9	6.9	6.8	6.8	32
5.7	6.0	5.9	5.9	5.5	5.5	5.4	5.3	5.3	5.4	5.5	5.5	5.5	52
6.0	6.0	5.9	6.0	6.3	6.3	6.3	6.6	6.6	6.7	6.7	6.7	6.7	35
7.7	7.4	7.7	7.9	7.3	6.8	7.3	7.2	7.0	6.9	6.9	7.0	7.0	29

Table 3.9: Scores for Labor Market Freedom at the Federal, State/Provincial, and

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Alberta	6.0	5.7	5.6	5.7	5.9	5.5	5.6	5.6	5.5	5.5	5.5	5.3
British Columbia	3.8	3.7	3.7	3.9	4.1	4.3	4.7	4.7	4.7	4.4	4.3	4.2
Manitoba	3.7	3.3	3.3	3.6	3.4	3.5	3.4	3.4	3.5	3.6	3.4	3.5
New Brunswick	2.6	2.6	2.7	3.2	3.4	3.8	4.0	4.4	4.3	4.0	3.8	3.8
Newfoundland	1.5	1.5	1.4	1.6	2.0	2.0	2.4	2.6	2.7	2.6	2.6	2.2
Nova Scotia	2.6	2.6	2.7	3.2	3.1	3.5	3.7	4.0	3.8	3.9	3.9	3.6
Ontario	5.1	4.9	5.2	5.2	5.2	5.4	5.4	5.5	5.5	5.2	4.9	4.7
Prince Edward Island	3.1	2.9	3.3	3.6	3.5	3.7	3.8	4.1	3.8	3.7	3.6	3.8
Quebec	2.9	2.7	3.0	3.2	3.3	3.5	3.5	3.6	3.4	3.4	3.1	2.9
Saskatchewan	3.6	3.3	3.6	3.8	3.9	3.7	3.8	3.9	4.0	3.9	3.8	3.7
Alabama	4.9	5.0	5.3	5.7	5.9	6.0	6.4	6.5	6.5	6.5	6.2	6.1
Alaska	5.7	5.8	5.8	6.0	5.9	5.7	6.0	5.9	6.1	6.0	5.9	6.0
Arizona	6.1	6.1	6.4	6.9	7.0	7.2	7.4	7.5	7.5	7.2	7.0	7.0
Arkansas	5.7	5.8	6.0	6.5	6.4	6.5	6.6	6.9	6.9	6.7	6.5	6.7
California	5.8	5.9	6.1	6.4	6.5	6.6	6.8	6.7	6.6	6.7	6.7	6.6
Colorado	6.5	6.7	6.9	7.1	7.2	7.0	7.1	7.3	7.4	7.3	7.1	7.1
Connecticut	6.1	6.3	6.5	6.9	7.0	7.2	7.3	7.2	7.2	7.2	7.1	7.3
Delaware	6.0	6.2	6.5	6.9	7.1	7.1	7.4	7.6	7.7	7.5	7.3	7.3
Florida	6.2	6.3	6.7	7.0	7.1	7.3	7.5	7.6	7.7	7.4	7.0	7.1
Georgia	5.8	6.0	6.3	6.8	7.1	7.2	7.4	7.3	7.5	7.5	7.3	7.4
Hawaii	4.7	4.8	5.0	5.2	5.3	5.4	5.4	5.3	5.6	5.7	5.6	5.4
Idaho	5.6	5.6	5.9	6.5	6.3	6.2	6.2	6.6	7.0	6.8	6.6	6.5
Illinois	5.7	5.7	5.8	6.3	6.4	6.4	6.5	6.8	6.9	6.7	6.5	6.6
Indiana	5.2	5.2	5.4	5.7	6.1	6.3	6.3	6.5	6.6	6.5	6.3	6.3
Iowa	5.9	5.8	5.8	6.1	6.2	6.4	6.5	6.7	6.7	6.4	6.4	6.4
Kansas	6.2	6.2	6.3	6.7	6.8	6.8	6.8	7.0	7.0	6.8	6.6	6.7
Kentucky	5.5	5.6	5.8	6.2	6.2	6.4	6.4	6.5	6.8	6.7	6.5	6.6
Louisiana	6.8	6.7	6.6	7.1	7.3	6.9	7.1	7.2	7.4	7.4	7.1	6.9
Maine	4.6	4.8	5.1	5.5	5.9	6.0	6.0	6.4	6.5	6.1	5.9	6.3
Maryland	5.0	5.3	5.6	6.0	6.2	6.4	6.6	6.8	6.8	6.8	6.7	6.5
Massachusetts	5.6	5.9	6.2	6.6	7.0	7.1	7.1	7.1	7.2	7.2	7.0	7.0
Michigan	4.7	4.7	5.1	5.4	5.7	5.7	5.9	6.0	6.1	5.9	5.8	5.7
Minnesota	5.6	5.7	6.0	6.2	6.3	6.4	6.4	6.6	6.7	6.5	6.3	6.3
Mississippi	5.3	5.4	5.6	6.0	6.1	6.2	6.3	6.6	6.7	6.5	6.2	6.2
Missouri	5.5	5.6	5.8	6.2	6.4	6.5	6.7	6.8	7.0	6.9	6.8	6.7
Montana	5.6	5.6	5.7	5.8	5.5	5.6	5.7	5.8	6.0	5.8	5.5	5.4
Nebraska	6.2	6.2	6.3	6.5	6.6	6.8	6.7	6.7	6.9	6.8	6.7	6.7
Nevada	6.1	6.1	6.3	6.3	6.6	6.8	7.0	7.2	7.2	7.3	6.8	6.7
New Hampshire	6.2	6.5	6.8	7.3	7.5	7.5	7.8	7.8	7.5	7.4	7.3	7.4
New Jersey	5.2	5.4	5.7	6.1	6.1	6.5	6.5	6.7	6.8	6.5	6.4	6.2
New Mexico	5.8	5.9	5.9	6.3	6.4	6.3	6.3	6.4	6.6	6.5	6.3	6.3
New York	4.8	4.9	5.1	5.3	5.6	5.8	5.9	6.1	6.1	5.9	5.7	5.8
North Carolina	6.4	6.5	6.9	7.2	7.4	7.6	7.8	7.8	8.0	7.8	7.6	7.6
North Dakota	6.5	6.6	6.5	6.6	6.6	6.4	6.3	6.2	6.6	6.4	6.5	6.6
Ohio	5.3	5.3	5.5	5.9	6.0	6.2	6.2	6.4	6.6	6.4	6.2	6.2
Oklahoma	6.7	6.7	6.6	6.9	6.9	6.6	6.7	7.0	6.9	6.7	6.5	6.6
Oregon	5.1	5.1	5.4	5.4	5.6	6.0	6.0	6.2	6.1	5.8	5.7	5.9
Pennsylvania	4.9	5.0	5.2	5.7	6.0	6.2	6.3	6.5	6.4	6.5	6.4	6.4
Rhode Island	5.4	5.6	5.8	6.0	6.3	6.5	6.5	6.6	6.6	6.5	6.2	6.3
South Carolina	5.9	6.1	6.4	7.1	7.1	7.2	7.4	7.5	7.7	7.4	7.2	7.2
South Dakota	5.8	5.9	6.0	6.4	6.4	6.6	6.9	6.9	6.9	6.9	6.7	6.7
Tennessee	5.5	5.6	6.0	6.3	6.6	6.6	6.9	7.0	7.1	6.9	6.9	7.0
Texas	7.4	7.5	7.5	7.7	7.7	7.5	7.6	7.7	7.7	7.7	7.5	7.4
Utah	5.2	5.4	5.6	6.0	6.2	6.3	6.3	6.3	6.6	6.6	6.5	6.4
Vermont	5.9	6.1	6.4	6.6	6.7	6.8	7.1	7.1	7.1	7.0	6.8	7.0
Virginia	5.9	6.0	6.4	6.7	6.9	7.2	7.3	7.4	7.4	7.3	7.1	7.0
Washington	4.8	5.0	5.2	5.4	5.5	5.5	5.9	5.9	6.0	5.9	5.9	6.0
West Virginia	4.4	4.5	4.3	4.7	4.9	5.2	5.1	5.4	5.8	5.5	5.3	5.4
Wisconsin	5.4	5.4	5.6	5.7	6.1	6.1	6.3	6.5	6.5	6.4	6.2	6.3
Wyoming	7.6	7.3	7.1	6.9	6.9	6.9	6.7	6.7	6.8	6.7	6.7	6.6

* Rank out of 60 for 2005.

Local/Municipal Levels, 1981–2005

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	Rank*
5.5	5.9	6.0	6.2	6.3	6.3	6.3	6.6	6.5	6.4	6.6	6.7	6.8	37
4.2	4.4	4.1	3.9	4.0	4.0	4.2	4.3	4.2	4.2	4.3	4.5	4.8	54
3.5	3.8	3.8	3.8	4.0	4.3	4.0	4.1	4.0	4.0	3.7	3.8	3.9	59
4.0	4.2	4.4	4.3	4.2	4.5	4.8	4.6	4.7	4.7	4.8	4.8	4.9	53
2.4	2.6	2.9	2.8	2.7	3.0	3.4	3.6	3.7	3.9	3.9	4.1	4.4	56
3.6	3.8	4.1	4.1	4.1	4.2	4.5	4.6	4.6	4.7	4.7	4.7	4.7	55
4.6	4.7	4.7	4.8	5.0	5.2	5.5	5.5	5.5	5.5	5.5	5.5	5.4	52
4.0	3.8	4.2	4.3	4.0	4.2	4.3	4.3	4.3	4.3	4.3	4.0	4.1	58
2.9	3.2	3.2	3.1	3.1	3.4	3.6	3.7	3.7	3.7	3.6	3.8	3.8	60
3.8	4.2	4.1	4.3	4.3	4.3	4.2	4.4	4.2	4.2	4.1	4.3	4.4	56
6.1	6.4	6.6	6.8	6.7	6.6	6.7	6.8	6.8	6.9	7.0	7.0	7.1	31
6.0	6.1	6.0	6.1	6.1	5.8	5.8	5.8	5.8	5.6	5.5	5.9	6.0	50
7.0	7.2	7.3	7.5	7.4	7.5	7.5	7.6	7.6	7.6	7.7	7.6	7.7	10
6.8	7.0	7.1	7.2	7.2	7.1	7.1	7.2	7.1	7.2	7.3	7.4	7.6	15
6.6	6.7	6.8	6.9	6.8	6.7	6.8	6.9	6.6	6.4	6.5	6.6	6.8	37
7.3	7.3	7.5	7.6	7.6	7.6	7.7	7.8	7.7	7.8	7.8	7.8	7.9	5
7.2	7.1	7.2	7.5	7.4	7.3	7.1	7.2	7.2	6.9	7.0	7.0	7.1	31
7.4	7.6	7.7	7.7	7.9	7.7	7.6	7.6	7.7	7.8	7.8	7.8	7.9	5
7.2	7.2	7.4	7.4	7.4	7.4	7.5	7.5	7.5	7.6	7.6	7.8	7.9	5
7.5	7.5	7.7	7.6	7.7	7.6	7.7	7.9	7.7	7.8	7.7	7.8	8.0	3
5.2	5.3	5.7	5.8	5.5	5.5	5.8	5.8	5.9	5.7	5.6	5.8	5.7	51
6.7	7.0	7.1	7.1	6.8	6.7	6.8	7.1	7.1	7.0	7.0	7.3	7.5	19
6.6	6.8	6.8	6.8	6.9	6.8	7.0	6.9	6.9	6.8	7.0	7.0	6.8	37
6.5	6.6	6.9	7.0	7.0	6.8	6.9	6.9	7.0	7.1	7.3	7.4	7.4	21
6.5	6.7	6.8	6.8	6.8	6.9	6.8	6.8	6.8	7.1	7.0	7.3	7.3	24
6.8	6.8	6.9	7.0	7.1	7.1	7.0	7.0	7.0	7.2	7.2	7.2	7.4	21
6.7	6.9	6.9	6.9	6.9	6.7	7.0	6.8	6.9	7.0	6.9	7.1	7.2	29
6.7	7.1	7.2	7.2	7.0	6.9	7.0	7.1	7.0	6.9	7.2	7.3	7.7	10
6.4	6.4	6.5	6.6	6.7	6.6	6.5	6.6	6.8	6.5	6.4	6.7	6.7	42
6.6	6.6	6.7	6.8	6.7	6.8	6.7	6.8	6.9	6.8	6.9	7.3	7.2	29
7.0	7.3	7.2	7.2	7.2	7.2	7.3	7.3	7.0	7.0	7.1	7.2	7.3	24
6.0	6.2	6.2	6.2	6.3	6.4	6.5	6.6	6.4	6.5	6.4	6.4	6.6	45
6.3	6.6	6.6	6.7	6.7	6.8	6.8	7.0	7.0	7.0	7.1	7.1	7.3	24
6.5	6.8	7.0	6.9	6.6	6.4	6.6	6.5	6.5	6.6	6.8	6.9	6.7	42
6.7	6.9	6.9	6.9	6.9	6.9	6.9	7.0	7.0	7.0	7.0	7.1	7.3	24
5.6	5.8	6.1	6.1	6.1	6.0	5.9	6.1	6.2	6.2	6.4	6.7	6.9	36
6.8	7.1	7.3	7.3	7.2	7.0	7.2	7.3	7.3	7.3	7.4	7.5	7.6	15
6.9	7.0	6.8	6.7	6.6	7.0	6.9	7.1	7.1	7.2	7.3	7.5	7.6	15
7.5	7.4	7.4	7.6	7.6	7.5	7.6	7.6	7.6	7.6	7.6	7.7	7.7	10
6.3	6.3	6.4	6.5	6.6	6.6	6.8	6.8	6.9	6.9	6.9	6.9	6.8	37
6.6	6.7	6.7	6.8	6.6	6.4	6.5	6.6	6.7	6.7	6.7	7.0	7.0	33
5.8	5.8	6.0	6.2	6.1	6.2	6.3	6.3	6.2	6.2	6.3	6.3	6.1	49
7.6	7.7	7.9	7.9	7.9	7.8	8.1	8.0	8.0	8.0	8.0	8.1	8.1	1
6.5	6.7	6.8	7.1	6.9	6.9	6.8	7.1	7.1	7.0	7.2	7.3	7.4	21
6.3	6.5	6.6	6.6	6.6	6.6	6.7	6.8	6.7	6.8	6.8	7.0	7.0	33
6.7	6.7	6.8	6.7	6.7	6.7	6.7	7.0	7.0	6.8	7.1	7.3	7.5	19
6.0	6.0	6.2	6.6	6.3	6.4	6.4	6.4	6.3	6.3	6.3	6.4	6.5	46
6.5	6.6	6.7	6.8	6.8	6.8	6.8	6.9	6.8	7.0	7.1	7.2	7.3	24
6.6	6.7	6.5	6.6	6.5	6.6	6.6	6.6	6.6	6.6	6.7	6.7	6.8	37
7.3	7.5	7.6	7.6	7.5	7.4	7.6	7.5	7.4	7.4	7.5	7.7	7.8	9
6.9	7.0	7.2	7.3	7.2	7.2	7.3	7.5	7.4	7.6	7.7	7.6	7.7	10
7.1	7.1	7.4	7.4	7.3	7.4	7.5	7.4	7.5	7.4	7.5	7.7	7.9	5
7.4	7.6	7.7	7.7	7.7	7.7	7.7	7.8	7.8	7.8	7.8	7.9	8.1	1
6.5	6.8	7.0	7.1	7.2	7.2	7.4	7.3	7.4	7.4	7.5	7.5	7.7	10
7.1	7.3	7.1	7.1	7.1	7.1	7.1	6.8	6.7	6.9	6.9	6.8	6.7	42
7.1	7.3	7.5	7.6	7.5	7.5	7.6	7.7	7.8	7.7	7.7	7.9	8.0	3
6.0	5.9	6.1	6.3	6.3	6.4	6.3	6.3	6.2	6.1	6.0	6.1	6.2	48
5.5	5.8	6.0	6.0	5.9	6.1	6.0	6.0	6.1	6.3	6.3	6.3	6.4	47
6.5	6.7	6.8	6.7	6.6	6.6	6.8	6.8	6.9	7.0	6.9	7.0	7.0	33
6.8	6.8	6.9	7.1	6.9	6.8	6.9	7.1	7.1	7.2	7.3	7.4	7.6	15

Table 3.10: Scores for Labor Market Freedom at the State/Provincial, and Local/Municipal

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Alberta	5.1	4.8	4.7	4.8	4.9	4.6	4.7	4.7	4.6	4.7	4.6	4.5
British Columbia	3.3	3.1	3.2	3.4	3.6	3.7	4.1	4.1	4.2	3.9	3.7	3.7
Manitoba	3.5	3.2	3.1	3.3	3.2	3.1	3.1	3.0	3.1	3.1	3.0	3.0
New Brunswick	2.7	2.5	2.7	3.0	3.3	3.6	3.7	4.1	4.0	3.7	3.4	3.4
Newfoundland	1.6	1.6	1.6	1.6	1.9	1.9	2.2	2.4	2.4	2.3	2.3	1.8
Nova Scotia	2.7	2.8	2.8	3.2	3.1	3.5	3.7	3.8	3.7	3.8	3.7	3.4
Ontario	4.8	4.6	4.8	4.8	4.8	5.0	5.0	5.0	5.0	4.8	4.4	4.2
Prince Edward Island	3.2	3.0	3.4	3.7	3.7	3.8	3.9	4.0	3.8	3.6	3.5	3.7
Quebec	2.4	2.2	2.5	2.6	2.7	2.9	2.9	2.9	2.8	2.8	2.4	2.2
Saskatchewan	2.9	2.6	2.9	3.0	3.1	3.0	3.2	3.2	3.2	3.1	3.0	3.0
Alabama	7.9	7.9	7.9	8.1	8.0	8.0	8.2	8.1	8.0	8.1	7.9	7.8
Alaska	5.7	5.7	5.7	5.8	5.6	5.5	5.8	5.7	5.9	5.8	5.8	5.9
Arizona	8.4	8.4	8.5	8.7	8.6	8.6	8.8	8.7	8.7	8.6	8.5	8.5
Arkansas	6.2	6.1	6.2	6.5	6.3	6.4	6.4	6.6	6.6	6.5	6.5	6.5
California	5.5	5.6	5.8	6.1	6.2	6.3	6.4	6.4	6.2	6.3	6.2	6.1
Colorado	7.2	7.4	7.2	7.1	7.1	6.9	7.0	7.2	7.2	7.2	7.3	7.2
Connecticut	5.7	5.9	6.1	6.5	6.5	6.7	6.8	6.7	6.7	6.6	6.6	6.7
Delaware	6.3	6.5	6.4	6.6	6.7	6.7	6.8	7.0	7.0	6.9	6.7	6.6
Florida	8.6	8.6	8.7	8.8	8.8	8.8	8.8	8.8	8.8	8.6	8.4	8.5
Georgia	5.7	5.8	6.1	6.6	6.9	6.9	7.1	7.0	7.2	7.2	7.0	7.0
Hawaii	5.2	5.2	5.4	5.5	5.7	5.7	5.7	5.5	5.7	5.8	5.8	5.4
Idaho	6.3	6.3	6.5	7.0	6.7	6.6	6.5	6.8	7.1	6.5	6.2	6.1
Illinois	6.0	6.0	6.1	6.2	6.0	6.0	6.1	6.3	6.4	6.3	6.3	6.4
Indiana	6.0	5.9	6.1	6.1	6.5	6.6	6.6	6.7	6.7	6.4	6.1	6.2
Iowa	7.7	7.6	7.6	7.7	7.6	7.8	7.8	7.7	7.6	5.7	5.8	5.8
Kansas	6.9	6.8	6.9	7.2	7.2	7.2	7.2	6.8	6.7	6.6	6.6	6.7
Kentucky	6.4	6.3	6.2	6.5	6.5	6.4	6.2	6.2	6.5	6.4	6.2	6.2
Louisiana	7.7	7.6	7.6	8.0	8.1	8.0	8.2	8.1	8.1	8.2	8.1	8.1
Maine	4.7	4.9	5.2	5.5	5.8	5.9	5.8	6.2	6.3	5.8	5.7	6.0
Maryland	5.7	5.8	6.2	6.5	6.6	6.8	7.0	7.1	7.1	7.1	7.0	6.8
Massachusetts	5.3	5.6	5.8	6.2	6.5	6.7	6.7	6.6	6.7	6.7	6.6	6.6
Michigan	4.3	4.3	4.6	4.9	5.1	5.1	5.4	5.4	5.5	5.5	5.5	5.5
Minnesota	5.4	5.3	5.5	5.7	5.7	5.9	5.9	6.0	6.1	5.9	5.8	5.8
Mississippi	8.3	8.3	8.3	8.3	8.3	8.3	8.2	8.4	8.3	8.2	8.2	8.0
Missouri	5.4	5.6	5.7	6.0	6.2	6.3	6.4	6.5	6.7	6.6	6.5	6.4
Montana	6.2	6.0	5.9	6.0	5.6	5.5	5.5	5.5	5.7	5.5	5.3	5.1
Nebraska	6.9	6.9	7.0	7.0	7.0	7.2	6.8	6.1	6.3	6.4	6.2	6.1
Nevada	6.1	6.1	6.2	6.2	6.5	6.7	6.8	6.8	6.8	6.8	6.4	6.3
New Hampshire	6.0	6.2	6.4	6.9	7.1	7.1	7.4	7.3	7.1	6.9	6.8	6.9
New Jersey	4.8	5.0	5.3	5.6	5.7	6.0	6.0	6.1	6.2	6.0	5.8	5.7
New Mexico	5.9	5.8	5.8	6.1	6.2	6.1	6.1	6.2	6.3	6.4	6.3	6.4
New York	4.3	4.4	4.5	4.7	4.9	5.1	5.2	5.4	5.4	5.2	5.0	5.1
North Carolina	6.5	6.4	6.5	6.8	7.0	7.2	7.2	7.3	7.4	7.4	7.3	7.2
North Dakota	6.4	6.4	6.3	6.4	6.4	6.2	6.2	6.1	6.2	6.2	6.3	6.2
Ohio	5.8	5.8	5.9	6.1	6.2	6.3	6.3	6.4	6.5	6.3	5.8	5.7
Oklahoma	6.6	6.6	6.4	6.7	6.7	6.4	6.6	6.7	6.6	6.4	6.3	6.2
Oregon	5.0	5.0	5.3	5.2	5.4	5.6	5.6	5.7	5.6	5.5	5.4	5.5
Pennsylvania	4.9	4.9	5.1	5.5	5.8	6.0	6.1	6.3	6.2	6.2	6.1	6.1
Rhode Island	5.5	5.5	5.6	5.7	6.0	6.2	6.2	6.3	6.4	6.2	5.9	5.9
South Carolina	8.8	8.9	8.9	9.1	9.0	8.9	8.9	8.8	8.8	8.7	8.6	8.6
South Dakota	5.7	5.8	5.9	6.2	6.2	6.4	6.6	6.7	6.6	6.5	6.4	6.3
Tennessee	8.2	8.2	8.3	8.3	8.4	8.3	8.3	8.3	8.3	8.3	8.4	8.3
Texas	8.1	8.1	8.1	8.3	8.2	8.1	7.9	7.3	7.3	7.4	7.4	7.3
Utah	5.6	5.6	5.8	6.1	6.4	6.4	6.4	6.4	6.6	6.6	6.4	6.3
Vermont	5.7	5.9	6.1	6.3	6.3	6.5	6.7	6.7	6.6	6.5	6.3	6.5
Virginia	6.8	6.9	7.2	7.4	7.6	7.8	7.8	7.8	7.8	7.8	7.5	7.3
Washington	5.4	5.4	5.6	5.8	5.8	5.7	6.1	6.0	5.6	5.5	5.5	5.5
West Virginia	4.8	4.5	4.2	4.5	4.7	4.8	4.6	4.9	5.3	5.2	5.1	5.0
Wisconsin	5.0	5.0	5.2	5.3	5.6	5.6	5.8	5.9	5.9	5.9	5.8	5.7
Wyoming	7.5	7.3	7.0	6.8	6.7	6.8	6.7	6.6	6.6	6.6	6.7	6.6

* Rank out of 60 for 2005.

Levels, 1981–2005

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	Rank*
4.7	5.1	5.2	5.3	5.6	5.5	5.6	5.8	5.7	5.6	5.8	5.9	6.0	44
3.7	3.8	3.6	3.4	3.5	3.4	3.6	3.7	3.6	3.6	3.8	4.0	4.2	54
3.0	3.2	3.2	3.1	3.3	3.5	3.3	3.4	3.2	3.2	3.0	3.0	3.1	59
3.6	3.8	3.9	3.8	3.7	3.9	4.2	4.1	4.1	4.1	4.2	4.2	4.3	53
2.0	2.1	2.3	2.3	2.1	2.3	2.7	2.9	2.9	3.1	3.1	3.2	3.6	57
3.4	3.5	3.8	3.8	3.8	3.9	4.1	4.1	4.0	4.1	4.1	4.1	4.1	55
4.2	4.3	4.3	4.4	4.6	4.7	5.0	5.1	5.1	5.0	5.0	5.0	4.9	52
3.9	3.8	4.1	4.1	3.9	4.2	4.1	4.2	4.1	4.1	4.1	3.8	3.9	56
2.2	2.4	2.4	2.4	2.5	2.7	3.0	3.1	3.0	3.0	2.9	3.1	3.1	59
3.0	3.3	3.3	3.4	3.4	3.4	3.3	3.5	3.1	3.1	3.1	3.2	3.2	58
7.7	7.8	7.9	8.1	8.2	8.1	8.1	8.2	8.0	8.0	8.0	7.8	7.8	5
5.9	5.9	5.7	5.8	5.8	5.5	5.5	5.5	5.4	5.2	5.2	5.5	5.6	48
8.4	8.4	8.5	8.6	8.6	8.6	8.6	8.6	8.6	8.5	8.5	8.4	8.4	1
6.5	6.6	6.6	6.8	6.8	6.6	6.5	6.7	6.5	6.6	6.7	6.8	6.9	19
6.2	6.2	6.2	6.3	6.3	6.2	6.2	6.3	6.0	5.7	5.9	6.0	6.1	42
7.4	7.3	7.4	7.5	7.1	7.2	7.2	7.3	7.1	7.2	7.2	7.2	7.3	10
6.6	6.5	6.5	6.8	6.7	6.6	6.4	6.5	6.5	6.2	6.3	6.3	6.3	36
6.7	7.0	7.0	7.0	7.1	6.9	6.9	6.9	6.9	7.0	7.0	7.0	7.0	17
8.5	8.4	8.5	8.5	8.6	8.6	8.6	8.6	8.5	8.5	8.5	8.5	7.6	8
7.1	7.1	7.3	7.2	7.2	7.2	7.2	7.4	7.2	7.3	7.1	7.2	7.4	9
5.2	5.3	5.7	5.8	5.5	5.5	5.8	5.7	5.7	5.5	5.5	5.6	5.6	48
6.2	6.5	6.6	6.6	6.4	6.3	6.3	6.5	6.5	6.4	6.4	6.6	6.9	19
6.3	6.5	6.5	6.5	6.7	6.7	6.8	6.8	6.7	6.5	6.7	6.3	6.2	38
6.3	6.4	6.7	6.8	6.9	6.7	6.4	6.3	6.4	6.4	6.6	6.7	6.7	25
5.9	6.1	6.2	6.2	6.1	6.2	6.1	6.1	6.1	6.3	6.2	6.5	6.5	32
6.8	6.7	6.8	6.9	7.1	7.2	7.0	7.0	6.9	7.0	7.0	7.0	7.2	14
6.3	6.5	6.4	6.5	6.6	6.4	6.4	6.3	6.3	6.4	6.3	6.5	6.6	29
7.8	7.9	8.0	7.9	8.0	7.8	7.8	7.9	7.7	7.6	7.8	7.7	7.9	4
6.1	6.0	6.1	6.2	6.2	6.2	6.1	6.1	6.3	6.0	6.0	6.2	6.2	38
6.9	6.8	6.9	6.9	6.9	6.9	6.8	6.9	6.9	6.9	7.0	7.4	7.2	14
6.6	6.8	6.7	6.7	6.7	6.7	6.8	6.7	6.5	6.5	6.5	6.7	6.7	25
5.7	5.9	5.9	5.9	5.8	5.8	5.9	5.9	5.7	5.7	5.7	5.7	5.9	45
5.8	6.0	6.0	6.1	6.3	6.2	6.2	6.3	6.3	6.3	6.4	6.4	6.6	29
8.1	8.3	8.3	8.2	8.2	8.0	8.0	7.9	7.9	7.8	7.9	7.9	7.7	6
6.4	6.5	6.5	6.5	6.5	6.4	6.5	6.5	6.4	6.4	6.5	6.5	6.7	25
5.2	5.4	5.7	5.7	5.7	5.6	5.5	5.7	5.8	5.8	5.9	6.2	6.4	34
6.2	6.4	6.6	6.7	6.6	6.4	6.6	6.6	6.6	6.6	6.7	6.8	6.9	19
6.4	6.5	6.3	6.2	6.1	6.5	6.4	6.6	6.5	6.6	6.8	7.0	6.9	19
7.0	6.9	6.8	7.0	7.0	6.9	7.0	7.0	7.0	6.9	6.9	7.0	7.0	17
5.7	5.7	5.9	6.0	6.0	6.0	6.2	6.2	6.2	6.2	6.1	6.1	6.1	42
6.3	6.3	6.2	6.3	6.3	6.2	6.2	6.4	6.4	6.4	6.2	6.3	6.2	38
5.0	5.1	5.3	5.5	5.5	5.6	5.7	5.6	5.4	5.4	5.5	5.5	5.3	51
7.0	7.1	7.2	7.3	7.4	7.2	7.4	7.3	7.2	7.2	7.2	7.3	7.3	10
6.1	6.3	6.3	6.5	6.3	6.3	6.3	6.5	6.6	6.4	6.6	6.6	6.7	25
5.7	6.0	6.1	6.1	6.2	6.3	6.4	6.4	6.3	6.3	6.3	6.5	6.5	32
6.3	6.3	6.4	6.3	6.3	6.3	6.3	6.6	6.5	6.3	6.6	6.8	6.9	19
5.5	5.5	5.7	6.0	5.8	5.9	5.9	5.8	5.7	5.8	5.7	5.8	5.9	45
6.2	6.2	6.3	6.4	6.4	6.4	6.4	6.4	6.4	6.5	6.6	6.6	6.8	24
6.2	6.4	6.1	6.2	6.2	6.2	6.3	6.2	6.2	6.1	6.3	6.3	6.4	34
8.5	8.6	8.6	8.6	8.6	8.5	8.6	8.4	8.2	8.2	8.2	8.3	8.4	1
6.4	6.6	6.7	6.8	6.7	6.8	6.9	7.0	6.9	7.0	7.1	7.1	7.1	16
8.3	8.2	8.4	8.4	8.4	8.5	8.5	8.4	8.4	8.2	8.2	8.3	8.4	1
7.2	7.3	7.4	7.4	7.5	7.6	7.6	7.6	7.4	7.1	7.1	7.2	7.3	10
6.3	6.5	6.7	6.8	6.8	6.8	7.0	6.9	6.9	6.9	7.0	7.1	7.3	10
6.6	6.8	6.6	6.6	6.6	6.6	6.6	6.4	6.2	6.4	6.4	6.3	6.2	38
7.2	7.4	7.5	7.5	7.5	7.4	7.4	7.5	7.6	7.4	7.5	7.6	7.7	6
5.5	5.4	5.6	5.8	5.8	5.9	5.7	5.8	5.6	5.5	5.4	5.5	5.6	48
5.1	5.3	5.5	5.6	5.7	5.8	5.6	5.6	5.7	5.8	5.8	5.8	5.9	45
5.8	6.1	6.1	6.1	6.0	6.0	6.1	6.1	6.1	6.2	6.2	6.2	6.3	36
6.8	6.8	6.9	7.1	7.1	7.1	7.1	7.2	6.5	6.3	6.4	6.5	6.6	29

Areas and Components Used in *Economic Freedom of North America: 2008 Annual Report*

Area 1 Size of Government

- *1A General Consumption Expenditures by Government as a Percentage of GDP*
- *1B Transfers and Subsidies as a Percentage of GDP*
- *1C Social Security Payments as a Percentage of GDP*

Area 2 Takings and Discriminatory Taxation

- *2A Total Tax Revenue as a Percentage of GDP*
- *2B Top Marginal Income Tax Rate and the Income Threshold at Which It Applies*
- *2C Indirect Tax Revenue as a Percentage of GDP*
- *2D Sales Taxes Collected as a Percentage of GDP*

Area 3 Labor Market Freedom

- *3A Minimum Wage Legislation*
- *3B Government Employment as a Percentage of Total State/Provincial Employment*
- *3C Union Density*

Chapter 4
Economic Freedom in the United Mexican States

by Nathan J. Ashby

The effort to provide a measure of economic freedom including all three nations of North America has been hampered by the difficulty in obtaining data for the Mexican states. In the past year, however, much of the data needed to construct an index for the 31 Mexican states for the year 2003 has been collected. Although these data are not completely comparable, they are sufficient for the time being to analyze economic performance across the Mexican states.

No attempt has yet been made to make the values for Mexican states comparable to those of Canadian provinces or US states. There are two reasons for this: first, not all the data required are available or fully trustworthy at this point for the Mexican states; second, the incorporation of the Mexican states would require adding data categories for the Canadian provinces and US states. At present, the index of *Economic Freedom of North America* does not contain components on the rule of law and property rights, both of which are well-established and protected in Canada and the United States with little variation among states or provinces. This is not the case with Mexico, where both can vary broadly across states, and components would have to be added to the index constructed from Canadian and American data to capture this variation.

Because of these limitations, the results presented here should be considered preliminary and subject to revision. It is hoped that future editions of *Economic Freedom of North America* will include estimates of economic freedom for Mexico comparable to those of the Canadian provinces and US states.

The Data

Figure 4.1 shows a summary of the components included in the economic freedom index for the Mexican states. Data have been gathered for seven of the 10 components currently included as part of the index published in *Economic Freedom*

Figure 4.1 Areas and Components Used in the Index of Economic Freedom in the United Mexican States

Area 1 Size of Government

1A *Government consumption at all levels of government as a percentage of Gross State Product* (INEGI, 2006b)

1B *Government transfers and subsidies at all levels of government as a percentage of Gross State Product* (INEGI, 2006b)

…

Area 2 Takings and Discriminationary Taxation

2A *Total Tax revenues at all levels of government as a percentage of Gross State Product* (INEGI, 2006b; CEFP, 2005)

2B *Top marginal tax rate and the threshold at which it applies* (Gwartney and Lawson, 2007)

2C *Total indirect taxes at all levels of government as a percentage of Gross State Product* (INEGI, 2006b; CEFP, 2005)

2D *Total value-added taxes as a percentage of Gross State Product* (CEFP, 2005)

Area 3 Labor Market Freedom

3A *Population-weighted daily minimum wage salary as a percentage of daily average wage in a given state* (Conasami, 2007)

…

3D *The percentage of workers employed in the formal market as a percentage of total employment* (Instituto Mexicano para la Competividad, 2006)

Area 4 Legal System and Property Rights

4A *Impartiality of Judges* (Instituto Mexicano para la Competividad, 2006)

4B *Institutional quality of judicial system* (Instituto Mexicano para la Competividad, 2006)

4C *Trustworthiness and agility of public property registry* (Instituto Mexicano para la Competividad, 2006)

4D *Control against piracy of software* (Instituto Mexicano para la Competividad, 2006)

Notes: Component 3D and Area 4 and its components are included in the Mexican measurement of economic freedom but are not included in the index of economic freedom in the United States and Canada. Components 1C, 3B, and 3C of the American and Canadian index are not included in the Mexican estimate because of a lack of data.

Component 3A is population-weighted because there are three minimum wages that apply to three geographical regions in Mexico. Many Mexican states belong to all three regions whereas some belong to just one. To compute an effective minimum wage in those states where more than one minimum wage is applicable, different minimum wages are weighted by the percentage of population they cover in a given state. For example, if ¼ of State 1 belongs to Region A, ¼ belongs to Region B, and ½ belongs to Region C, the minimum wage for State 1 would be computed as the minimum wage for Region A × ¼ + minimum wage for Region B × ¼ + minimum wage for Region C × ½.

of North America. The exceptions are measurements of social security expenditures (1C), government employment as a percentage of total employment (3B), and union density (3C). Statistics have been gathered for these components but the accuracy of these measurements remain questionable. For example, data on "union density," the percentage of workers unionized, should control for the percentage of workers in the government and manufacturing sectors. [1] Since government employment is one of the other missing components, it is not possible to make this adjustment to union density.

Given the lower level of institutional development in Mexico, it is necessary to consider additional factors when estimating differences in economic freedom among Mexican states. One factor is the quality of property rights and the legal structure (Area 4 in figure 4.1). This component is measured in the *Economic Freedom of the World* (Gwartney and Lawson, 2007) at national levels but is not considered in *Economic Freedom of North America*. When only Canada and the United States are considered, this is probably not a problem since property rights are much more secure than in Mexico. Both Canada and the United States rate highly in these areas in *Economic Freedom of the World* while Mexico ranks slightly below the median.

Area 4 measures Legal Structure and Property Rights in Mexico. The Instituto Mexicano para la Competividad (Mexican Institute for Competitiveness), associated with the Graduate School of Public Administration and Public Policy at Instituto Tecnológico y de Estudios Superiores de Monterrey (Monterrey Institute of Technology and Higher Education), has collected (2006) data for many indicators of competitiveness at the state level in Mexico. Among these are four measurements similar to those used in *Economic Freedom of the World* called Impartiality of Judges (4A), Institutional Quality of the Judicial System (4B), Trustworthiness and Agility of Public Registry of Property (4C), and Control against Piracy of Software (4D).

In addition, although some measurements of labor freedom cannot accurately be measured at this time, another measurement is being included that is arguably a strong proxy for the labor-market conditions in Mexico. This component (3D) is the percentage of individuals who are working in the formal sector as a percentage of total employment. Most individuals do not use informal employment as a first resort as it is the solution to a regulatory environment that stifles mutually beneficial cooperation between employers and employees to create jobs that the market dictates. A state with very little formal employment is a state with serious labor-market restrictions.

All four areas are equally weighted to construct the overall index. The Distrito Federal (Federal District) is currently excluded from the Mexican index since it has only one level of government.

[1] In the index for Canada and the United States, data for the states and provinces were adjusted for the level of government employment through regression analysis; the manufacturing variable did not prove to be significant and no adjustments were made for this variable.

The Results

Figure 4.2 displays the scores for economic freedom of Mexcan states, ranked from highest to lowest. Economic freedom is measured on a scale from zero to 10 where a higher value indicates a higher level of economic freedom. The maximum and minimum values are determined using the same mini-max calculation used for the United States and Canada (see Appendix A). Observe that Nuevo León, generally considered the most advanced state in the country, has the highest level of economic freedom followed by Coahuila de Zaragoza and Campeche. Chiapas, Nayarit, and Oaxaca, some of the poorest states, are at the bottom. Table 4.1 shows the overall score and scores for the components of the All-Government index for each Mexican state. (see figure 4.3 for a map of the Mexican States).

Figure 4.2: Summary of 2003 Ratings for Mexico at the All-Government Level

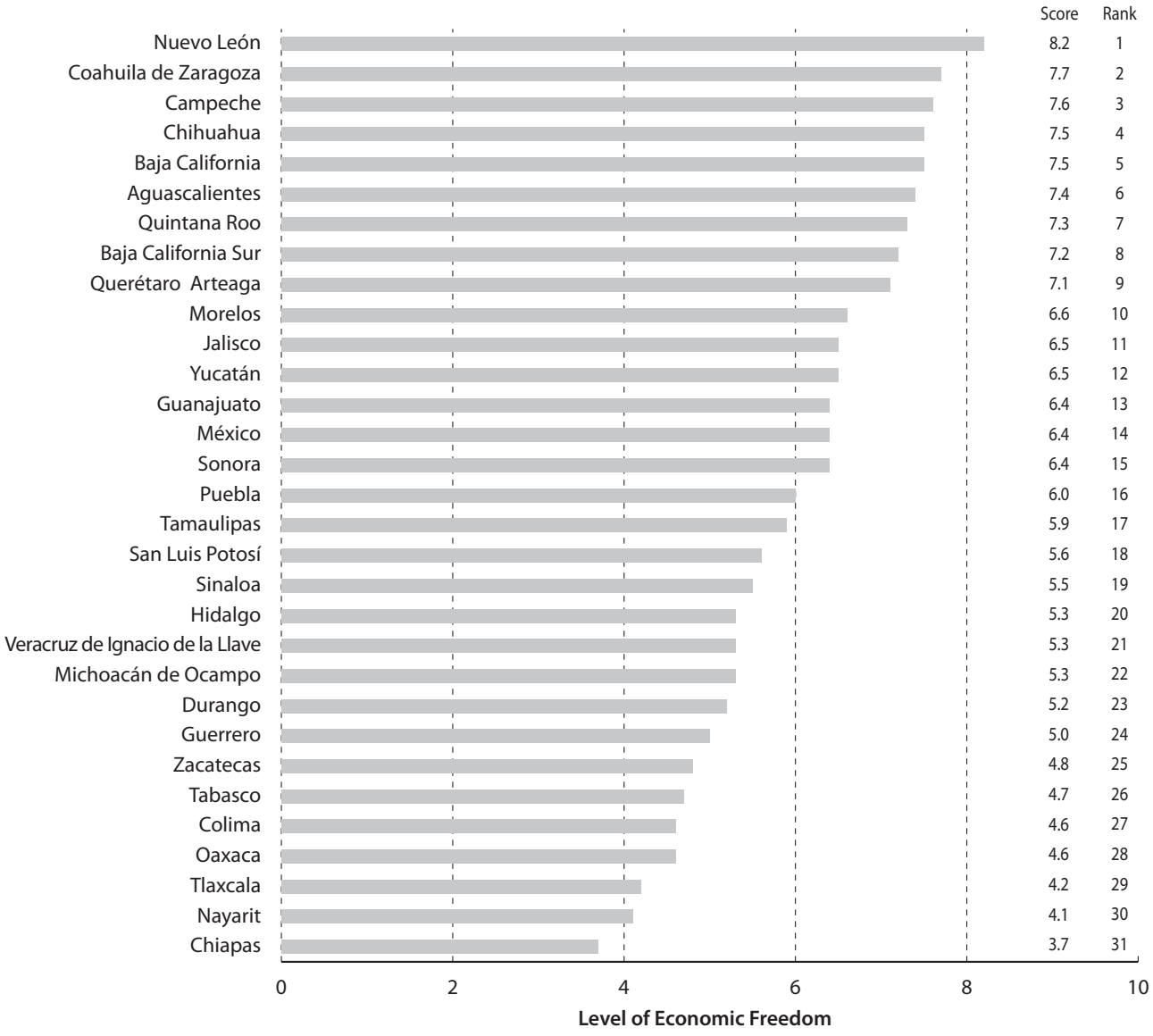

Table 4.1: Detailed Scores at the All-Government Level, 2003

	Overall Index	Rank	Area 1	Area 2	Area 3	Area 4	1A	1B	2A	2B	2C	2D	3A	3D	4A	4B	4C	4D
Aguascalientes	7.4	6	8.5	8.6	6.9	5.5	10.0	7.0	9.1	7.0	9.2	9.1	6.5	7.4	7.2	8.3	6.1	0.2
Baja California	7.5	5	8.8	7.7	7.7	5.7	9.4	8.2	8.1	7.0	7.3	8.5	7.2	8.2	7.2	8.3	6.5	0.7
Baja California Sur	7.2	8	9.4	8.6	7.7	3.4	8.7	10.0	9.3	7.0	8.2	9.8	6.3	9.1	2.8	4.2	6.5	0.0
Campeche	7.6	3	8.3	9.1	8.1	4.7	7.9	8.8	9.7	7.0	9.9	9.6	9.1	7.1	8.3	6.7	3.9	0.0
Coahuila	7.7	2	9.5	8.8	7.8	4.7	9.1	9.9	8.9	7.0	10.0	9.2	6.9	8.7	6.7	5.0	7.0	0.3
Colima	4.6	27	6.7	1.8	5.1	4.9	8.8	4.6	0.0	7.0	0.0	0.0	5.6	4.6	6.7	7.5	5.2	0.3
Chiapas	3.7	31	2.7	8.5	0.8	2.7	2.8	2.6	9.9	7.0	6.9	10.0	1.2	0.4	6.1	3.3	0.9	0.4
Chihuahua	7.5	4	9.0	7.8	7.7	5.6	9.4	8.5	9.0	7.0	5.7	9.5	6.5	8.9	6.1	5.8	10.0	0.6
Durango	5.2	23	6.9	8.9	2.3	2.9	8.3	5.6	10.0	7.0	9.6	10.0	1.1	3.5	6.1	5.0	0.4	0.0
Guanajuato	6.4	13	8.1	8.9	3.8	5.0	9.1	7.0	9.4	7.0	9.4	9.7	4.9	2.8	5.6	8.3	5.2	0.8
Guerrero	5.0	24	4.3	9.0	1.9	4.7	6.5	2.0	9.8	7.0	9.2	9.9	3.9	0.0	7.2	5.0	6.5	0.1
Hidalgo	5.3	20	5.8	8.8	2.9	3.8	8.8	2.9	9.5	7.0	9.1	9.7	4.9	0.9	6.7	5.8	2.2	0.6
Jalisco	6.5	11	8.7	8.0	5.5	4.0	8.2	9.2	8.5	7.0	7.0	9.4	6.7	4.2	3.9	5.0	4.3	2.8
México	6.4	14	8.0	8.2	4.5	4.8	7.6	8.4	8.6	7.0	8.1	9.1	8.7	0.3	7.8	3.3	5.2	2.8
Michoacán	5.3	22	6.1	8.8	2.6	3.5	3.8	8.4	9.6	7.0	8.9	9.8	4.9	0.3	6.7	4.2	3.0	0.3
Morelos	6.6	10	7.5	8.8	5.2	4.7	8.9	6.2	9.3	7.0	9.4	9.6	8.0	2.4	7.2	5.8	5.2	0.6
Nayarit	4.1	30	3.0	8.5	2.0	3.1	5.9	0.0	9.3	7.0	7.8	9.8	2.3	1.7	3.3	1.7	7.4	0.0
Nuevo León	8.2	1	9.8	6.8	9.9	6.4	9.6	10.0	7.3	7.0	4.4	8.3	9.8	10.0	6.1	6.7	4.8	8.1
Oaxaca	4.6	28	3.0	8.8	2.5	4.1	5.4	0.6	9.7	7.0	8.6	10.0	3.8	1.3	8.9	5.8	1.3	0.2
Puebla	6.0	16	7.6	8.8	3.9	3.5	6.4	8.8	9.3	7.0	9.4	9.7	7.2	0.7	1.7	2.5	5.2	4.8
Querétaro	7.1	9	8.2	8.6	8.2	3.5	9.1	7.4	8.6	7.0	9.1	9.5	10.0	6.3	2.8	5.8	5.2	0.3
Quintana Roo	7.3	7	8.9	8.6	7.1	4.4	9.8	8.0	9.1	7.0	8.8	9.4	4.6	9.7	8.3	7.5	1.7	0.0
San Luis Potosí	5.6	18	6.6	9.0	3.6	3.4	8.1	5.1	9.4	7.0	9.6	9.9	5.8	1.3	7.8	4.2	0.9	0.6
Sinaloa	5.5	19	6.9	8.8	2.4	3.9	8.6	5.3	9.4	7.0	8.9	9.8	2.5	2.4	5.0	5.8	4.8	0.1
Sonora	6.4	15	8.3	8.8	4.7	3.7	9.0	7.5	9.4	7.0	9.0	9.7	3.7	5.7	3.9	5.8	4.8	0.2
Tabasco	4.7	26	2.7	8.8	1.9	5.5	0.0	5.3	9.3	7.0	9.4	9.5	3.3	0.6	8.3	8.3	5.2	0.0
Tamaulipas	5.9	17	8.2	3.9	6.9	4.5	9.0	7.4	3.8	7.0	4.1	0.7	7.3	6.5	6.7	5.8	4.3	1.3
Tlaxcala	4.2	29	4.6	8.9	3.0	0.1	6.7	2.4	9.5	7.0	9.2	10.0	5.5	0.5	0.0	0.0	0.0	0.4
Veracruz	5.3	21	6.7	7.4	2.7	4.6	4.3	9.1	7.9	7.0	7.0	7.7	4.9	0.5	1.7	4.2	4.8	7.9
Yucatán	6.5	12	8.7	8.7	3.1	5.3	8.0	9.5	9.3	7.0	8.9	9.6	2.0	4.3	6.1	9.2	5.2	0.5
Zacatecas	4.8	25	3.7	8.1	0.4	7.0	6.5	1.0	9.1	7.0	6.6	9.6	0.0	0.8	10.0	10.0	7.8	0.1

Figure 4.3: Map of the United Mexican States

Figure 4.4 further illustrates the relationship between economic freedom and Gross State Product (GSP) per capita. Again, levels of economic freedom are only estimated at the all-government level for the year 2003. GSP per capita is estimated for 2004 by dividing GSP in 2004 by the population in each state in 2005 since data on the population is not available for 2003 and 2004. That there is a benefit to economic freedom can be seen from the comparison of the per-capita incomes by quintile of economic freedom. The results are consistent with the results shown in figure 1.3 (page 13).

Finally, a regression similar to the regressions run in chapter 1 (page 30 and table 1.3) was run to analyze the impact of economic freedom at the all-government level in 2003 on GSP per-capita in 2004, while controlling for the level of education in states in 2000. The data used to measure the level of education is the percentage of individuals over 24 as a percentage of individuals over 24 who completed technical schooling having finished "preparatoria" or high school. However, this is the measure that is most comparable to that used for the United States and Canada. The year 2000 is used because it is the most recent year of data available before 2003. The results (table 4.2) are significant for both components. Economic freedom has a significant impact on per-capita GSP in 2004, supporting the results found for

Figure 4.4: Economic Freedom at the All-Government Level, 2003, and GSP per Capita, 2004

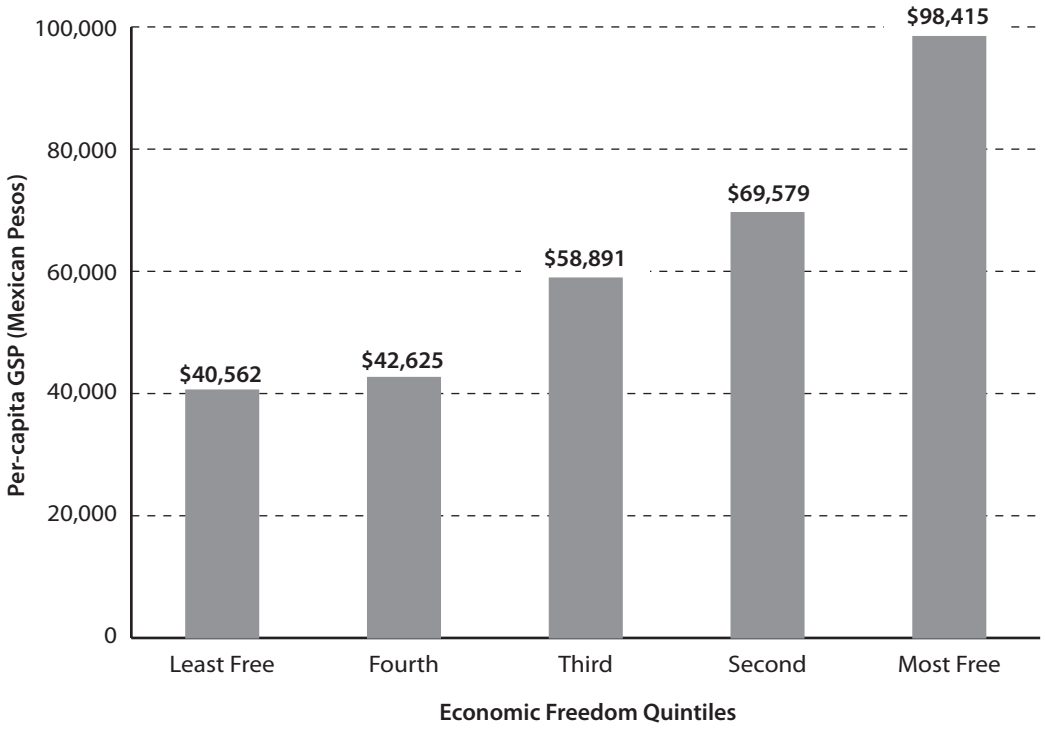

Table 4.2: Level of Economic Freedom and GSP per Capita in Mexico

Regression at All-Government Level

Dependent Variable: Real GSP per Capita (2004)

Method: Ordinary Least Squares

Sample: 2003

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Constant	−55722	10711.8	−5.2	0.00
High School Graduates	3867.67	1120.71	3.45	0.00
Economic Freedom (All-Government Level)	12551.9	2226.83	5.64	0.00

Adjusted R^2: 0.80

Note: High School Graduates is the number of high school graduates 24 years and older as a percentage of the total population 25 years and older in the year 2000; GSP per capita is calculated using GSP in 2004 and Population in 2005 due to data limitations.

Canada and the United States. Again, these results appear to corroborate with the regression results in table 1.3, the only difference being that education seems to have a significant impact on per-capita GSP as well. This is not too surprising, given that the Mexican indicator measures a higher level of education than the Canadian and American indicator.

Conclusion

This chapter has briefly discussed the index of economic freedom for the Mexican states in 2003. These are preliminary results and therefore subject to revision. Nonetheless, the data gathered thus far allow the construction of components that demonstrate that variance in the well-being of Mexicans is strongly connected to differences in economic freedom. The principal remaining hurdles to constructing an index of economic freedom for Mexico are finding or imputing reliable data for government employment at the state level, finding trustworthy data on total social-security payments, and constructing comparable data for the Legal Structure and Property Rights in Canada and the United States.

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Instituto Nacional de Estadística Geografía e Informática (INEGI) (2006b). *Finanzas Públicas Estatales y Municipales de México 2002-2005*. Instituto Nacional de Estadística Geografía e Informática.

Karabegović, A., and Fred McMahon (2005). *Economic Freedom of North America: 2005 Annual Report*. Fraser Institute.

Appendix A Methodology

Calculating the Scores

To avoid subjective judgments, objective methods were used to calculate and weight the components. For all components, each observation was transformed into a number from zero to 10 using the following formula: $(V_{max} - V_i)/(V_{max} - V_{min}) \times 10$, where V_{max} is the largest value found within a component, V_{min} is the smallest, and V_i is the observation to be transformed. For each component, the calculation included all data for all years to allow comparisons over time.

To transform the individual components into areas and the overall summary index, Areas 1, 2, and 3 were equally weighted, and each of the components within each area was equally weighted. For example, the weight for Area 1 was 33.3%. Area 1 has three components, each of which received equal weight in calculating Area 1, or 11.1% in calculating the overall index.

Calculating the income-tax component was more complicated. The component examining the top marginal income-tax rate and the income threshold at which it applies was transformed into a score from zero to 10 using Matrix 1 and Matrix 2. Canadian nominal thresholds were first converted into constant 2005 Canadian dollars by using the Consumer Price Index and then converted into US dollars using the Purchasing Power Parity between Canada and US for each year. US nominal thresholds were converted into real 2005 US dollars using the Consumer Price Index. This procedure is based on the transformation system found in *Economic Freedom of the World: 1975–1995* (Gwartney et al., 1996), modified for this study to take into account a different range of top marginal tax rates and income thresholds.

Matrix 1 was used in calculating the score for Component 2B, Top Marginal Income Tax Rate and the Income Threshold at Which It Applies, at the all-government level; Matrix 2 was used to calculate the score for Component 2B at the subnational level.

In setting the threshold levels for income taxes at the subnational level, we faced an interesting quandary. In the United States, most state thresholds were below US federal thresholds in the 1980s and 1990s. In Canada, provincial thresholds were frequently higher than federal thresholds. Whenever the provincial or state threshold was higher than the federal threshold, the federal threshold was used at the sub-national level since, when a provincial threshold is above the national level,

Matrix 1: Income Tax Matrix for Component 2B at the All-Government Level

	Income Threshold Level (US$2005)		
Top Marginal Tax Rate	Less than $50,000	$50,000 to $100,000	More than $100,000
27% or less	10.0	10.0	10.0
27% to 30%	9.0	9.5	10.0
30% to 33%	8.0	8.5	9.0
33% to 36%	7.0	7.5	8.0
36% to 39%	6.0	6.5	7.0
39% to 42%	5.0	5.5	6.0
42% to 45%	4.0	4.5	5.0
45% to 48%	3.0	3.5	4.0
48% to 51%	2.0	2.5	3.0
51% to 54%	1.0	1.5	2.0
54% to 57%	0.0	0.5	1.0
57% to 60%	0.0	0.0	0.5
60% or more	0.0	0.0	0.0

Matrix 2: Income Tax Matrix for Component 2B at the Subnational Level

	Income Threshold Level (US$2005)		
Top Marginal Tax Rate	Less than $50,000	$50,000 to $100,000	More than $100,000
1.5% or less	10.0	10.0	10.0
1.5% to 3.0%	9.0	9.5	10.0
3.0% to 4.5%	8.0	8.5	9.0
4.5% to 6.0%	7.0	7.5	8.0
6.0% to 7.5%	6.0	6.5	7.0
7.5% to 9.0%	5.0	5.5	6.0
9.0% to 10.5%	4.0	4.5	5.0
10.5% to 12.0%	3.0	3.5	4.0
12.0% to 13.5%	2.0	2.5	3.0
13.5% to 15.0%	1.0	1.5	2.0
15.0% to 16.5%	0.0	0.5	1.0
16.5% to 18.0%	0.0	0.0	0.5
18.0% or more	0.0	0.0	0.0

Note: The range of the top marginal tax rates in Matrix 1 and Matrix 2 should be written "27.00% to 29.99%" or "1.50% to 2.99%" and so on but for convenience we have written them as "27% to 30%" or "1.5% to 3.0%."

the cause is typically the imposition of a relatively small surcharge on those earning high incomes. Because of the structure of these matrixes, this can produce perverse scoring results. For example, in Matrix 2 a jurisdiction gets a score of 2.5 if it has a top marginal income-tax rate of, say, 12.5% for incomes over $50,000. Let us say the jurisdiction imposes a surcharge for income earners above $100,000, increasing the top marginal income-tax rate to 13%. In Matrix 2, even though additional taxes in the form of a surcharge have been imposed, the state's score perversely increases to 3.0 because of the increase in the threshold level.

Our decision to use the federal threshold as the default threshold when the provincial threshold was higher is, frankly, a matter of judgement. Thus, it was important to understand whether this would affect the results significantly. To see whether this was so, we calculated the overall index both ways and found that changes were small and that the overall results were not significantly affected.

Adjustment Factors

Due to constitutional differences and variations in policy, in the United States subnational jurisdictions take a proportionately smaller share of overall government spending than in Canada. In 2002, for instance, provinces and local governments accounted for about 79% of government consumption in Canada while, in the United States, state and local government are responsible for 63% of government consumption, just 80% of the level in Canada: $^{0.63}/_{.79}$ = 0.80. This is what we term the adjustment factor: R_U/R_C, where R_U is the percent of total government spending at the state level in the United States, and R_C is the percent of total government spending at the provincial level in Canada. Because of this difference in government structure in the United States and Canada, a direct comparison would not be appropriate. Instead, we use this adjustment factor, multiplying provincial and local government consumption in Canada by 0.80 so that it will be comparable to US data. The adjustment factor itself is adjusted every year to the relative differences in spending patterns between Canada and the United States

At the subnational level, similar adjustment factors are calculated for each year for each component in Areas 1 and 2 as well as for component 3B: Government Employment as a Percentage of Total State/Provincial Employment. For example, the adjustment factor for 2A: Total Tax Revenue as a Percentage of GDP at the subnational level is calculated as the percentage of total government revenue at a state level in the United States divided by the percentage of total government revenue at a provincial level in Canada. No adjustment factor is necessary at the all-government level because every level of government is counted. Note that Component 2D: Sales Tax Collected as a Percentage of GDP is not adjusted because the United States does not have a federal general sales tax and Canada does.

We faced another common problem in comparing statistics across time, changes in the structure of some series over time. Similarly, some Canadian spending

categories were not strictly comparable to those in the United States. This required the use of judgment in some cases. Spending on medical care, for example, is structured as government consumption in Canada and as a set of transfer programs in the United States. Given that the index captures the impact of both government consumption and of transfer programs, we decided the most accurate method of accounting was to reflect the actual nature of the spending, a transfer program in the United States and government consumption in Canada, rather than artificially include one or other in an inappropriate component.

A further complication arose in applying the adjustment factor to the income-tax component at the subnational level. To construct this adjustment factor, the Canadian top marginal tax rates at the subnational level are multiplied by the ratio of (a) the percentage of total personal tax revenue at a state level in the United States; and (b) the percentage of total personal tax revenue at a provincial level in Canada. For example, in 2002, in Canada, provinces collected 37% of the income-tax revenue raised in Canada. In the United States, states collected 19% of all income taxes. Thus, $^{19}/_{37}$ equals 51%. In Ontario, for example, the top marginal rate in 2002 was 17.4%. This is reduced to 8.9% when the adjustment factor is applied.

Appendix B
Explanation of Components and Data Sources

Area 1 Size of Government

1A General Consumption Expenditures by Government as a Percentage of GDP

General consumption expenditure is defined as total expenditures minus transfers to persons, transfers to businesses, transfers to other governments, and interest on public debt. Data for Quebec is adjusted for Quebec abatement at the subnational level.

Sources for Canada

Statistics Canada, *Provincial Economic Accounts, 2007*.

Statistics Canada, Public Institutions Division, Financial Management System, 2005, 2007.

Special request from Finance Canada, Federal-Provincial Relations and Social Policy Branch, Federal-Provincial Relations Division (November 2007).

Sources for the United States

US Census Bureau (2007). *Annual Survey of State and Local Government Finances and Census of Governments (1981–2005)*. <http://www.census.gov/main/www/access.html>.

US Department of Commerce, Bureau of Economic Analysis. <http://www.bea.gov/> (December 18, 2007).

US Census Bureau, *Statistical Abstract of the United States* (various editions).

US Census Bureau, *Consolidated Federal Funds Report* (various editions).

Special request from US Census Bureau, Governments Division (December 14, 2007).

Special request from US Census Bureau, Governments Division, Federal Programs Branch (February 2, 2005).

1B Transfers and Subsidies as a Percentage of GDP

Transfers and subsidies include transfers to persons and businesses such as welfare payments, grants, agricultural assistance, food-stamp payments (US), housing assistance, etc. Foreign aid is excluded. Data for Quebec is adjusted for Quebec abatement at the subnational level.

Sources for Canada

Statistics Canada, *Provincial Economic Accounts, 2005*;

Special request from Finance Canada, Federal-Provincial Relations and Social Policy Branch, Federal-Provincial Relations Division (November, 2007).

Sources for the United States

US Census Bureau (2007). *Annual Survey of State and Local Government Finances and Census of Governments (1981–2005)*. <http://www.census.gov/main/www/access.html>.

US Department of Commerce, Bureau of Economic Analysis, <http://www.bea.gov/> (December 18, 2007).

US Census Bureau, *Statistical Abstract of the United States* (various editions).

US Census Bureau, *Consolidated Federal Funds Report* (various editions).

Special request from US Census Bureau, Governments Division, (December 14, 2007).

Special request from US Census Bureau, Governments Division, Federal Programs Branch (February 2, 2005).

1C Social Security Payments as a Percentage of GDP

Payments by Employment Insurance, Workers Compensation, and various pension plans are included in this component.

Sources for Canada

Statistics Canada, *Provincial Economic Accounts, 2007*.

Sources for the United States

US Census Bureau (2007). *Annual Survey of State and Local Government Finances and Census of Governments (1981–2005)*, <http://www.census.gov/main/www/access.html>.

US Department of Commerce, Bureau of Economic Analysis, <http://www.bea.gov/> (December 18, 2007).

Special request from US Census Bureau, Governments Division (December 14, 2007).

Area 2 Takings and Discriminatory Taxation

2A Total Tax Revenue as a Percentage of GDP

Total Tax Revenue is defined as a sum of income taxes, consumption taxes, property and sales taxes, contributions to social security plans, and other various taxes. Note that natural resource royalties are not included. Data for Quebec is adjusted for Quebec abatement at the subnational level.

Sources for Canada

Statistics Canada, *Provincial Economic Accounts, 2007*.

Special request from Finance Canada, Federal-Provincial Relations and Social Policy Branch, Federal-Provincial Relations Division (November, 2007).

Sources for the United States

US Census Bureau (2007). *Annual Survey of State and Local Government Finances and Census of Governments (1981–2005)*, <http://www.census.gov/main/www/access.html>.

US Department of Commerce, Bureau of Economic Analysis, <http://www.bea.gov/> (December 18, 2007).

Tax Foundation (Washington, DC), <http://www.taxfoundation.org/research/show/22685.html> (December 19, 2007).

2B Top Marginal Income Tax Rate and the Income Threshold at Which It Applies

See Matrix 1 and Matrix 2 in Appendix A for information on how the final scores were calculated. Data for Quebec is adjusted for Quebec abatement at the subnational level.

Sources for Canada

Canadian Tax Foundation, *Finances of the Nation* (various issues).

Canadian Tax Foundation, *Canadian Tax Journal, Provincial Budget Roundup (2003, 2002, 2001, 2000)* (by Deborah L. Ort and David B. Perry).

Palacios, Milagros (2008). Purchasing Power Parity, United States and Canada, 1981–2005. Fiscal Studies, Fraser Institute.

Statistics Canada, *Provincial Economic Accounts, 2007.*

Temple, James (2007). *Purchasing Power Parities and Real Expenditures, United States and Canada, 1992–2005*. Income and Expenditure Accounts Technical Series. Cat. 13-604-MIE--No 053. Statistics Canada.

Sources for the United States

Tax Foundation, *Facts and Figures on Government Finances* (various editions).

Tax Foundation (Washington, DC). [website], <http://www.taxfoundation.org/statefinance.html> (Oct. 1, 2003; December 21, 2007).

US Department of Labor, Bureau of Labor Statistics, <http://www.bls.gov/cpi/> (Decenber 28, 2007).

US Census Bureau (2007). *Annual Survey of State and Local Government Finances and Census of Governments (1981–2005)*, <http://www.census.gov/main/www/access.html>.

2C Indirect Tax Revenue as a Percentage of GDP

Indirect tax revenue includes property taxes, contributions to social security insurance (i.e., Employment insurance, Workers Compensation, and various pension plans), and other various taxes. Income-tax revenue, sales-tax revenue, and natural resource royalties are not included in this component.

Sources for Canada

Statistics Canada, *Provincial Economic Accounts, 2007*.

Sources for the United States

US Census Bureau (2007). *Annual Survey of State and Local Government Finances and Census of Governments (1981–2005)*, <http://www.census.gov/main/www/access.html>.

US Department of Labor, Bureau of Labor Statistics, <http://www.bls.gov/cpi/> (Decenber 18, 2007).

Tax Foundation, *Facts and Figures on Government Finances* (various editions).

Tax Foundation (Washington, DC), <http://www.taxfoundation.org/research/show/22685.html> (December 19, 2007).

2D Sales Taxes Collected as a Percentage of GDP

Sales tax revenue includes revenue from general sales tax as well as revenue from liquor and tobacco taxes.

Sources for Canada

Statistics Canada, *Provincial Economic Accounts, 2007*.

Sources for the United States

US Census Bureau (2007). *Annual Survey of State and Local Government Finances and Census of Governments (1981–2005)*, <http://www.census.gov/main/www/access.html>.

US Department of Labor, Bureau of Labor Statistics, <http://www.bls.gov/cpi/> (Decenber 18, 2007).

Tax Foundation, *Facts and Figures on Government Finances* (various editions).

Area 3 Labor Market Freedom

3A Minimum Wage Legislation

This component was calculated as minimum wage multiplied by 2,080, which is the full-time equivalent measure of work hours per year (52 weeks multiplied by 40 hours per week) as a percentage of per-capita GDP. For the Canadian provinces, provincial minimum wage was used to compute both of the indices (subnational and all-government). For US states, we used state minimum wage at the subnational level whereas at the all-government level federal minimum wage was used whenever the federal minimum wage was higher than the state minimum wage.

Sources for Canada

Human Resources Development Canada, <http://srv116.services.gc.ca/wid-dimt/mwa/menu.aspx> (December 28, 2007).

Statistics Canada, *Provincial Economic Accounts, 2007*.

Sources for the United States

Division of External Affairs, Wage and Hour Division, Employment Standards Administration, US Department of Labor, <http://www.dol.gov/esa/programs/whd/state/state.htm> (December 28, 2007); see <http://www.dol.gov/esa/contacts/state_of.htm> for a list of State Labor Offices with contacts and URLs).

Special requests from various state Labor Departments; see <http://www.dol.gov/esa/contacts/state_of.htm> for a list of State Labor Offices with contacts and URLs).

US Department of Commerce, Bureau of Economic Analysis, <http://www.bea.gov/> (December 18, 2007).

3B Government Employment as a Percentage of Total State/Provincial Employment

Government employment includes public servants as well as those employed by government business enterprises. Military employment is excluded.

Sources for Canada

Statistics Canada, Public Institutions Division, Financial Management System (various years);

Statistics Canada, *Provincial Economic Accounts, 2007*.

Sources for the United States

Regional Economic Information System, Bureau of Economic Analysis, US Department of Commerce, <http://www.bea.gov/> (January 2, 2008).

US Department of Labor, Bureau of Labor Statistics, <http://www.bls.gov/lau/> (January 2, 2008).

3C Union Density

For this component, our goal was to determine the relationship between unionization and public policy, other than the level of government employment, which is captured in 3B. We regressed union density on the size of the manufacturing sector and on the size of the government sector. Data were not available to allow a regression on rural compared to urban populations. The manufacturing sector did not prove significant while the government sector proved highly significant. Thus, the scores were determined holding public-sector employment constant.

Sources for Canada

Statistics Canada, CANSIM.

Statistics Canada, *Labour Force Historical Review 2006* (CD-ROM).

Statistics Canada, Public Institutions Division, Financial Management System (various years).

Statistics Canada, Provincial Economic Accounts, 2007.

Sources for the United States

Barry T. Hirsch and David A. Macpherson (2008). *Union Membership and Coverage Database from the Current Population Survey*, <http://www.unionstats.com/> (January 3, 2008).

Regional Economic Information System, Bureau of Economic Analysis, US Department of Commerce, <http://www.bea.gov/> (January 2, 2008).

US Dept. of Labor, Bureau of Labor Statistics, <http://www.bls.gov/lau/> (Jan. 2, 2008).

Additional Data Sources Used in Regression Analysis

Sources for Canada

Palacios, Milagros (2008). Purchasing Power Parity, United States and Canada, 1981–2005. Fiscal Studies, Fraser Institute.

Statistics Canada, *Provincial Economic Accounts, 2007*.

Temple, James (2007). *Purchasing Power Parities and Real Expenditures, United States and Canada, 1992–2005*. Income and Expenditure Accounts Technical Series. Cat. 13-604-MIE--No 053. Statistics Canada.

Statistics Canada, *Labour Force Historical Review*, 2001 and 2006 (CD-ROM).

Sources for the United States

Regional Economic Information System, Bureau of Economic Analysis, US Dept. of Commerce, <http://www.bea.gov/> (January 2, 2008).

US Census Bureau, Population Division, Education & Social Stratification Branch, <http://www.census.gov/population/www/socdemo/educ-attn.html>.

US Census Bureau, Population Division, <http://www.census.gov/popest/estimates.php>.

US Dept. of Labor, Bureau of Labor Statistics, <http://www.bls.gov/cpi/> (Dec. 28, 2007).

Appendix C
Selected Publications Using Ratings from *Economic Freedom of North America*

Ashby, Nathan J. (2007). Economic Freedom and Migration Flows between U.S. States. *Southern Economic Journal* 73, 3: 677–97.

This paper looked at an impact of economic freedom on gross migration flows among the 48 US states using the data from the US Census Bureau's 2000 survey. The results show that economic freedom does have an impact on gross migration flows. Specifically, it was found that individuals migrate to states with relatively low restrictions on labor markets and low tax burdens. However, it was also found that some components of economic freedom such as government spending and transfers have the opposite effect on migration flows. In other words, states that have high income transfers and high levels of government spending on social programs, which lead to lower levels of economic freedom, also attract migration flows.

Ashby, Nathan J., and Russell S. Sobel (2008). Income Inequality and Economic Freedom in the U.S. States. *Public Choice* 134, 3–4: 329–46.

The paper examined the impact of economic freedom on income inequality in the US states. The authors used income inequality data produced by the Economic Policy Institute and the economic freedom data from *Economic Freedom of North America* for 48 continental US states for three different time periods, 1980–1982, 1990–1992, and 2001–2003. After controlling for factors such as percentage of individuals with a high school education, percentage of population living in metropolitan area, and median income, they found that positive changes in economic freedom are associated with higher income levels and economic growth and with decreases in income inequality. The impact of economic freedom level on income inequality remains mainly insignificant. The authors also looked at the impact of specific components of economic freedom on income inequality and found that reductions in state minimum wages and tax burdens would be most effective in reducing income inequality and promoting high levels of income and growth.

Bezmen, Trisha L., and Craig A. Depken II (2006). Influences on Software Piracy: Evidence from the various United States. *Economics Letters* 90: 356–61.
The authors looked at which socioeconomic factors have a significant influence on the software piracy rates in 50 US states from 1999 to 2001. They found that higher income, lower tax burdens, and higher level of economic freedom lead to lower levels of software piracy in US states.

Campbell, D. Noel, and Tammy M. Rogers (2007). Economic Freedom and Net Business Formation. *Cato Journal* 27, 1: 23–36. <http://www.cato.org/pubs/journal/cj27n1/cj27n1-2.pdf >.
The authors examined the impact of economic freedom on business formation measured as the difference between business births and deaths. They used data for all 50 US states from 1990 to 2001. After controlling for state population, income, median age, federal intergovernmental revenue, minority population as a percentage of total population, and commercial lending, they found that a higher level of economic freedom in a given state leads to more new businesses being formed. Furthermore, they concluded that policies aimed at increasing economic freedom would be much more effective than policies aimed at increasing lending in creating a higher number of net business start-ups.

Hall, C. Joshua, and Russell S. Sobel (2007). Institutions, Entrepreneurship and Regional Differences in Economic Growth. Unpublished working paper, West Virginia University. <http://joshua.c.hall.googlepages.com/Institutions_Entrepreneurship_and_Re.pdf>.
The paper looked at the impact of economic freedom on entrepreneurial activity, measured by the Kauffman Index of Entrepreneurial Activity. The authors hypothesized that the mechanism through which institutions, as measured by economic freedom, increase economic growth is by increasing entrepreneurial activity. Using the data for 50 US states, the authors found that this is indeed the case. High levels of economic freedom lead to increases in entrepreneurial activity.

Kreft, F. Steven, and Russell S. Sobel (2005). Public Policy, Entrepreneurship, and Economic Freedom. *Cato Journal* 25, 3 (Fall): 595–616. <https://www.cato.org/pubs/journal/cj25n3/cj25n3-15.pdf>.
The authors examined the direction of causation between entrepreneurial activity, measured by sole proprietorship and patent activity (i.e., number of utility patents received for general inventions and innovations), and venture capital in 50 US states. They found a one-way, causal relationship by which entrepreneurial activity attracts venture capital and not the other way around. Furthermore, they found that higher levels of economic freedom lead to higher levels of entrepreneurial activity. In other words, the "results show that state policymakers need to ensure that economic freedom exists in their state in order to promote entrepreneurial growth, which in turn naturally attracts the necessary venture capital" (p. 608).

Sobel, Russell S. (forthcoming). Testing Baumol: Institutional Quality and the Productivity of Entrepreneurship. *Journal of Business Venturing*.

In this paper, the author tested Baumol's theory by examining the impact of institutional quality on the levels of productive and unproductive entrepreneurship in 48 US states. Baumol's theory states that the economic, political, and legal institutions determine how individuals channel their efforts. That is, these institutions determine whether an individual engages in productive or unproductive activity. Productive entrepreneurship is defined as those actions that lead to positive-sum economic activities. Voluntary transactions in competitive markets are positive-sum transactions as both parties gain as a result of the transaction. Unproductive entrepreneurship, on the other hand, refers to those transactions that use up resources when capturing zero-sum transfers such as those from lobbying. Using five different measures of productive entrepreneurship and four measures of unproductive entrepreneurship, the author found that better institutional quality, measured by economic freedom, leads to higher levels of productive and lower levels of unproductive entrepreneurial activity.

Wang, Lu (2005). Economic Freedom and Economic Growth in the United States. Unpublished working paper, Department of Social and Decision Sciences, Carnegie Mellon University.

The study examined the impact of economic freedom on economic growth in 48 US states. Using data for four four-year periods from 1981 to 1997, the author found that growth in economic freedom leads to economic growth. Specifically, increases in economic freedom by one standard deviation increases economic growth by one standard deviation as well.

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