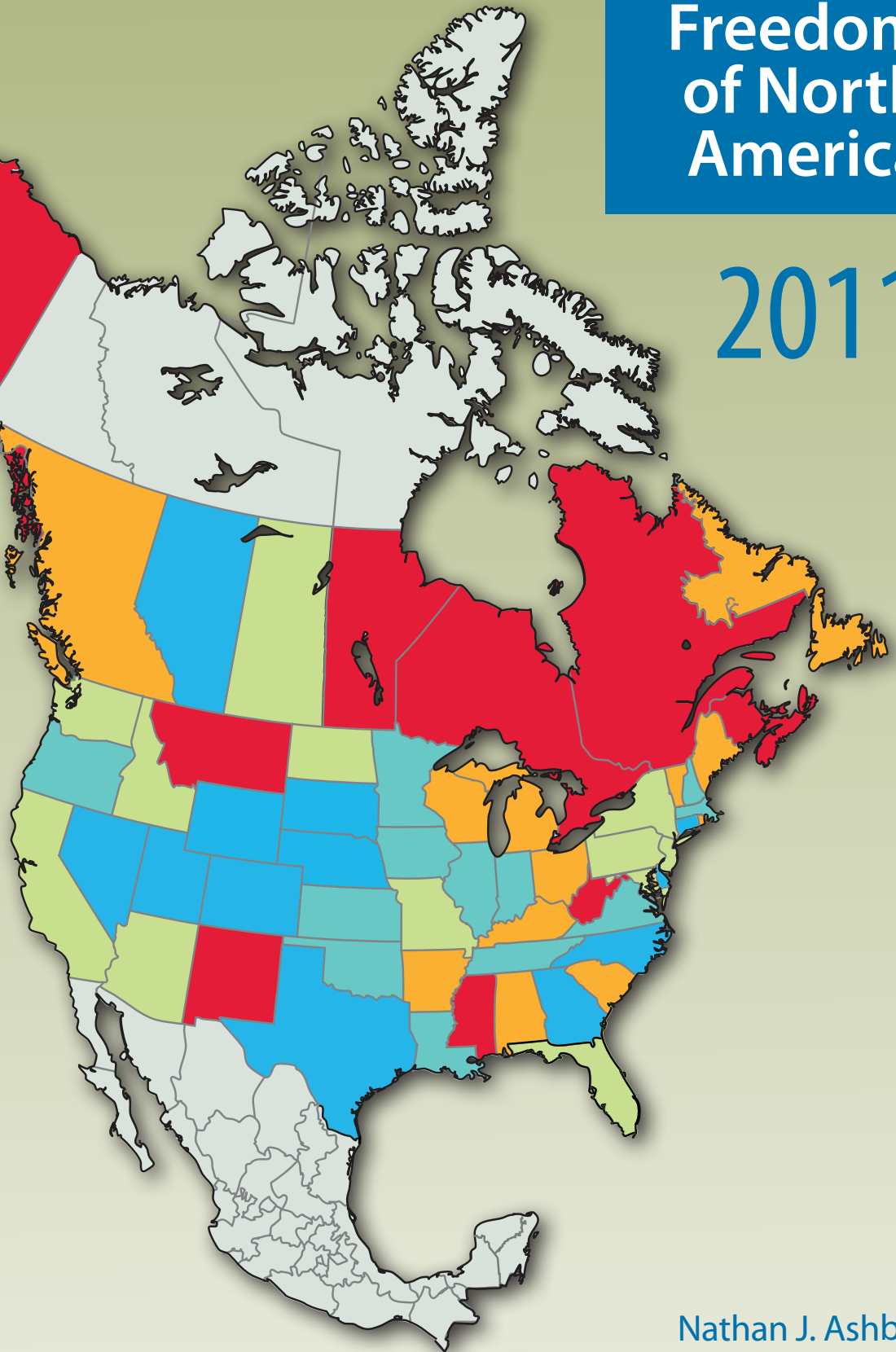
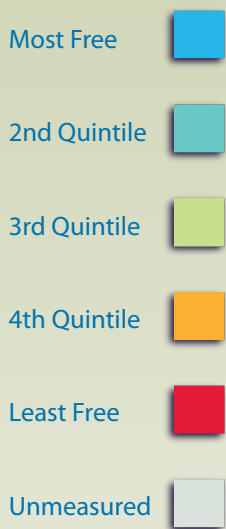


Economic Freedom of North America

2011



Nathan J. Ashby,
Avilia Bueno,
and Fred McMahon,
with Deborah Martinez

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Fraser Institute

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Executive Summary

This is the seventh 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 six 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 for the United States and Canada 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\$6,340 for US states and by US\$6,890 (CA\$7,235 using a conversion rate of 1.05) for Canadian provinces. At the subnational level, a one-point improvement in economic freedom increases per-capita GDP by US\$5,551 for US states and by US\$5,963 (CA\$6,261) 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 0.96% in the growth rate of per-capita GDP for US states and an increase of 0.62% 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 0.76% in the growth rate of per-capita GDP for US states and 0.68% 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 use of data for an additional three years (2007, 2008, 2009). The similarity of results regardless of the structure of the index or year of the tests is quite remarkable.

Differences between Canada and the United States

Most provinces, except Alberta, are clustered at the bottom of the rankings for economic freedom at both the all-government and the subnational levels. Alberta is tied for 6th at the subnational level and for first 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. Saskatchewan, British Columbia, and Newfoundland & Labrador have jumped ahead of some of the US states. Saskatchewan leaped from 50th in 2007 to 32nd in 2009; British Columbia moved from 49th to 43rd; and Newfoundland & Labrador moved from 44th to 37th.

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 2007, 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, a trend that has continued.

The most recently available data for this report is from 2009. The economic freedom of both the US states and the Canadian provinces has declined since 2007 due to government reaction to the financial crises and recession, especially the increased spending. This reduction has been more pronounced in US states.

Chapter 3: US decline and Canadian ascent in the rankings

Economic freedom scores for Canadian provinces in recent years have been improving compared to US states. Canadian policies during the 1990s that led to government budget surpluses are contrasted to the change of course in the United States towards excessive government spending. The state-level indices fail to capture all of the measures that affect economic freedom since many policies such as monetary policy, trade, and a significant number of regulatory and financial policies are constitutionally centralized by the federal government. When looking at the national indices, these are areas of particular weakness for the United States. If these could be captured at the state and provincial level, then the gains in the Canadian provinces would be much greater than the estimates in this report.

Avilia Bueno and Fred McMahon explain the improvement of many Canadian provinces compared to U.S. states in recent years. Aside from Alberta, from 1990 to 1996 all Canadian provinces were clustered at the bottom of the index. In 2005, Newfoundland and Labrador ranked above the lowest US state and in 2006 all the provinces except Nova Scotia, Quebec, and Prince Edward Island ranked above the lowest US state. From 2007 to 2009, Manitoba, New Brunswick, Quebec, Nova Scotia, and Prince Edward Island remained below the lowest US state, while the rest of the provinces moved ahead in the rankings. The most notable improvements were Newfoundland & Labrador and Saskatchewan, which jumped to 37th and 32nd in 2009, respectively, from 40th and 50th in 2007.

A significant part of the relative improvement of the Canadian provinces can be attributed to policies in the United States. The average score for Size of Government in the United States declined from 7.1 to 6.4 at the all-government level and from 7.2 to 7.0 at the subnational level between 2007 and 2009. These changes resulted from an average increase in government consumption of 5.02 percentage points between 2000 and 2009 and an increase of 1.93 percentage points in transfers and subsidies.

Chapter 3 ends by suggesting ways in which Canada could continue its improvement relative to the United States. An area where Canadian provinces lag most is labor-market freedom. Right-to-work legislation similar to that found in 22

US states would provide workers with greater choice in negotiating the wages and conditions of their employment. In 2009, the average unionization rate for Canada was 32.7% while the average for the United States was 12.77%; the average minimum wage burden in Canada was 41.39% of GDP per capita while the US average was 33.80%; and the average government employment rate for Canada was 23.91% but 18.25% for the United States. In 2009, all of the Canadian provinces, except Alberta, ranked at the bottom of the list. It is clear that Canada would benefit from labor laws that are more market friendly.

Chapter 4: Economic Freedom in Mexico

Nathan Ashby in the 2008 edition of this report published a preliminary measure of economic freedom for Mexican states. This work has been rife with challenges, some of which have been resolved, while others continue to be worked out. The long-term goal is to construct an integrated index for the United States, Canada, and Mexico but such an informative index is not immediately feasible because the required data are not available.

Many of these challenges were overcome by Nathan J. Ashby, Deborah Martinez, and Avilia Bueno, who updated this chapter in 2010. This year, the index was updated again by adding two additional years (2008 and 2009). The authors have been able to find data for nine of the ten measures currently included in the index of economic freedom in Canada and the United States and the calculations of many of the components that were included in the 2008 index have been improved using more complete data. The index is now available for multiple years and can be used for analyzing the Mexican economy through time.

The index of economic freedom in Mexico includes a set of variables not found in the index for Canada and the United States. These measure the rule of law and property rights as they vary across the Mexican states. The measures are:

Area 4 Legal System and Property Rights

- 4A Impartiality of Judges
- 4B Institutional Quality of Judicial System
- 4C Trustworthiness and Agility of Public Property Registry

Results for Mexico

Despite the challenges in constructing this index, the same patterns are seen in Mexico as in the United States and Canada. Higher levels of economic freedom result in increased prosperity. For example, the average daily wage (2009 pesos) is MX\$233 in the Mexican states in the top quintile, compared to MX\$203 in the second quintile; MX\$200 in the third quintile; MX\$173 in the fourth quintile, and MX\$197 in the bottom quintile.

A statistical relationship between economic freedom and wages, and growth in economic freedom and growth in wages is demonstrated using a panel of seven years. However, the results are not as economically significant as they are in the United States and Canada possibly due to a federalist system where it is difficult for state and local governments to differentiate from the federal policies. The shorter time series and the difficulties in constructing the index may also be factors in the lower level of significance. Nonetheless, the results are significant at a level above the 10% level, meaning they are accurate more than 9 times out of 10. Moreover, the results are consistent with global and North American results showing that economic freedom is a powerful driver of growth and prosperity. Thus, the results here should be of value to Mexican policy makers as a guide to better policy. As we continue to refine the index and add additional years, the significance of the testing and the value to policy makers will increase.

Chapter 1

Economic Freedom of Canada and the United States

Economic Freedom and the Index

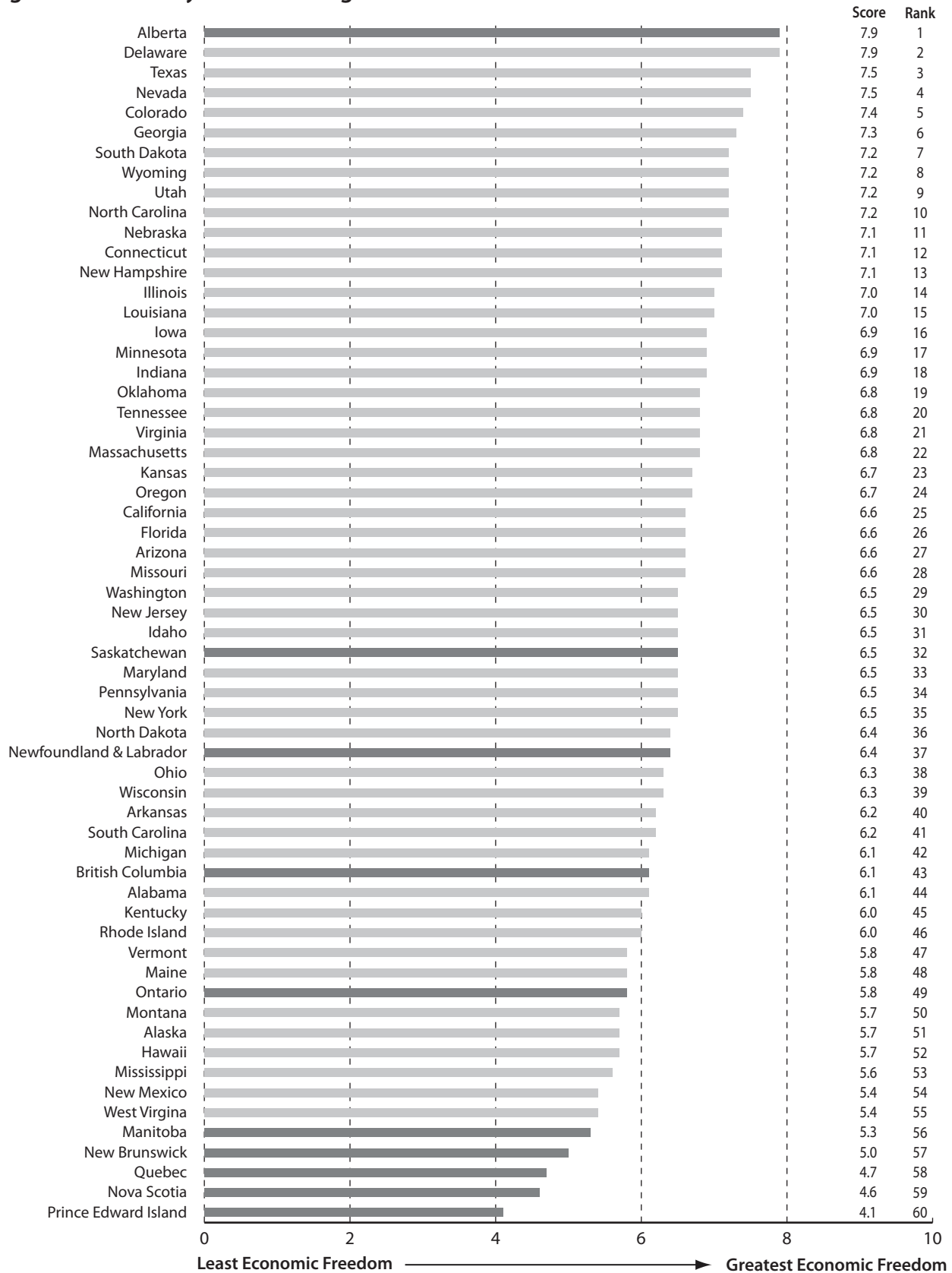
Economic Freedom of North America is an attempt to gauge the extent of the restrictions on economic freedom imposed by governments in North America. The index published here measures economic freedom at two levels, the subnational and the all-government. At the subnational level, it measures the impact 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 Canadian provinces, with the exception of Alberta, are all clustered at the bottom of the economic freedom ratings, along with Hawaii, Mississippi, New Mexico, and West Virginia. Figures 1.1 and 1.2 (pp. 2, 3) show scores for economic freedom and the large differences between the US states and the Canadian provinces. Although most Canadian provinces lag behind the US states, some provinces—British Columbia, Saskatchewan, and Newfoundland—have improved significantly in recent years.

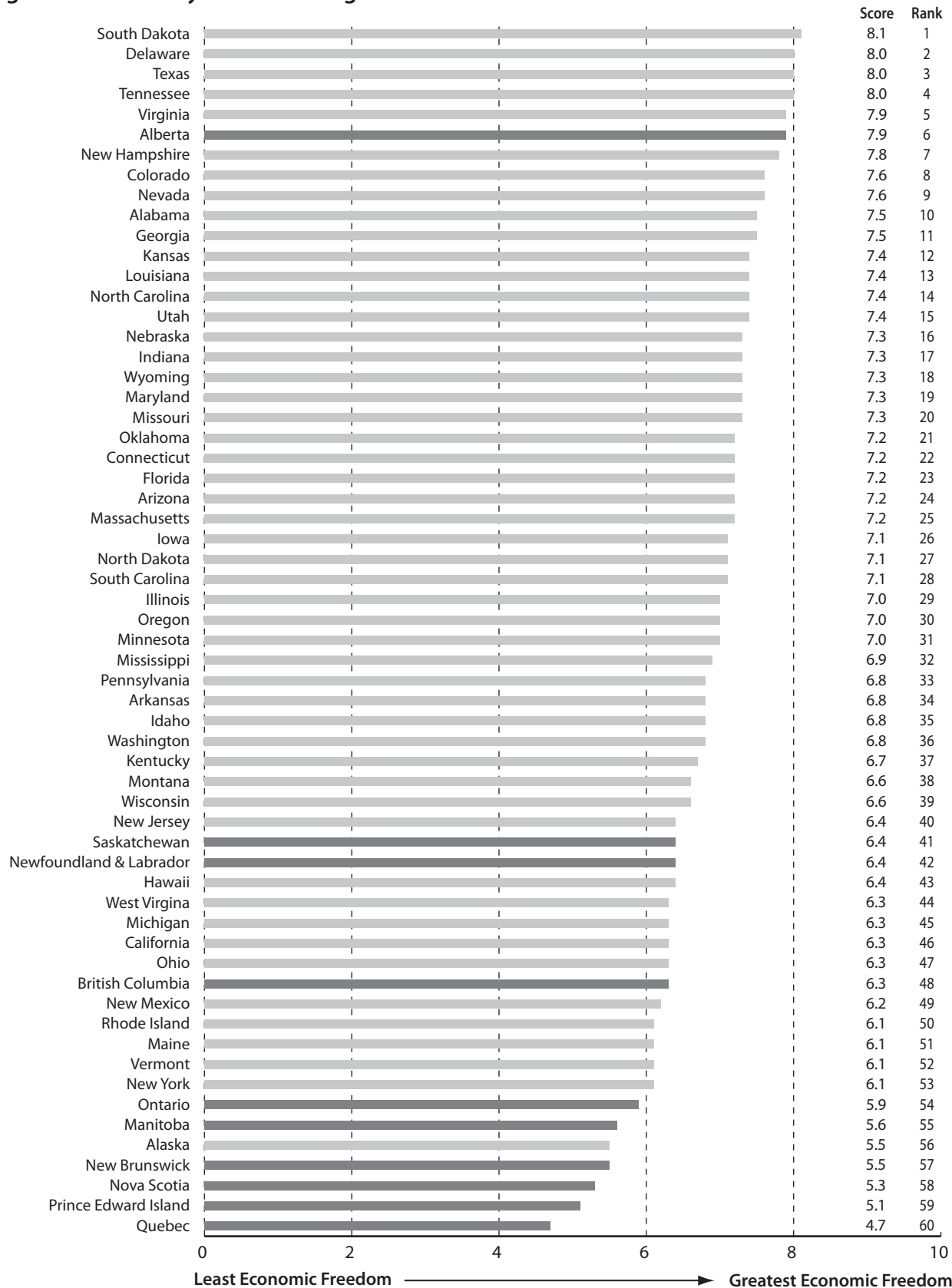
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- [1] *Economic Freedom of North America* examines only US states and Canadian provinces because of the limitations of the data available for the Mexican states. Our ultimate goal, however, is to include all three North American nations. Chapter 4: Economic Freedom in Mexico 2011 is a step towards this goal, although the results remain preliminary and subject to revision. Dr. Ashby published an earlier Mexican index in the 2008 edition of this report.
- [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 2009 Ratings at the All-Government Level



Note: For simplicity, we report scores rounded to one decimal while the rankings are based on our unrounded scores. Provinces and states with the same rounded scores will therefore have different rankings. This difference does not imply that higher-ranked states have greatly higher economic freedom.

Figure 1.2: Summary of 2009 Ratings at the Subnational Level



Note: For simplicity, we report scores rounded to one decimal while the rankings are based on our unrounded scores. Provinces and states with the same rounded scores will therefore have different rankings. This difference does not imply that higher-ranked states have greatly higher economic freedom.

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 a quarter century 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 the 10 Canadian provinces (Northwest Territories, Nunavut, and Yukon are not included) and the 50 US states from 1981 to 2009. 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 because there is a lack of data. This may be particularly important in the Canadian context, since Canada retains a number of internal trade barriers (Knox, 2002).

Limited or missing data 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.

Because of 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 degree of 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. We also use federal tax revenue estimates based on total tax revenue collections in the United States to impute the tax burden as the state level beginning in 2006 since the Tax Foundation, the source of the tax burden measures, only constructs these measures up to the year 2005.

The theory of economic freedom⁴ 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

[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.

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.

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, p. 65, 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 minimal 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

[5] Due to the way scores for economic freedom are calculated, a mini-max procedure discussed in Appendix A: Methodology (p. 65), a score of 10 is not indicative of perfect economic freedom.

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.

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 Rate⁶ 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

[6] See Appendix A: Methodology (p. 65) for further discussion of how the rating for the top marginal tax rate and its threshold was derived.

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 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 the province of Newfoundland & Labrador and the state of West Virginia than they raise through taxation in these jurisdictions while the opposite pattern holds 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. For instance, a minimum wage requirement of \$2 an hour for New York will have little impact but, for developing 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

[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.

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 employers looking to hire have to bid against their own tax dollars 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; that the government is attempting to provide goods and services that individuals would not care to obtain if able to contract freely; or 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 for both the United States and Canada. 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, the level 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 et al., 2006).⁸

There is one significant change that was made to the report this year. In the past, the methodology basically held the mean of the union scores constant through time by design since the residuals were used to measure unionization rates not explained by government employment. The reason for this is that the mean of regression residuals will always be zero. But, holding the mean constant does not measure the significant changes that have occurred since the 1980s that have reduced the coercive power of unions significantly and, thus, increased labor freedom. In this year's estimates, we use the estimated intercept plus the residual. We find the relative rankings of states and provinces within given years does not change significantly and that the average scores by year tend to improve through time as we would expect. This clearly had some impact on the overall scores of states and provinces for economic freedom but, interestingly, scores did not differ in this area as much as they did in other areas of economic freedom that we measured.

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* (p. 17). 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

[8] The National Right to Work Legal Defense Foundation (2011) provides a reasonable measure of right-to-work laws and when they were established for US states (see <http://www.nrtw.org/b/rtw_faq.htm>). We considered using this as to replace or complement the measure of unionization rates that has been used in the past. We discovered, however, that these laws seem to drive differences in unionization rates among states more strongly than we had originally expected. The benefit of using a measure of unionization rates is that it picks up some of the differences in enforcement and informal freedoms not picked up by the legislation. For instance, some states may have right-to-work laws with weak enforcement while other states that do not have such laws may actually protect labor freedom more in practice. Although we decided not to include a measure for right-to-work legislation, the analysis was fruitful in that it strongly validates the proxy as a suitable, if not superior, measure of workers' freedom.

12 lowest of the 60 Canadian and American jurisdictions. Six of these are Canadian provinces. The jurisdictions in this least free quintile have an average per-capita GDP of just US\$38,313 (CA\$40,229).⁹ This compares to an average per-capita GDP of US\$51,843 (CA\$54,435) 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\$40,537 (CA\$42,564) compared to the most free quintile, which has an average per-capita GDP of US\$47,722 (CA\$50,108).

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. Figure 1.5 and figure 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. In past reports, the subnational relationship has been weaker than the all-government one because only at the all-government level are all government restrictions on economic freedom captured. In this year's report, the subnational relationship between economic freedom and per-capita GDP appears to be much stronger than the all-government measure. We are not sure why this is the case, but it may have to do with the ability of states with sounder subnational policies to withstand and recover from the recession.

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 figure 1.7 and figure 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 States differ. Thus, government spending and taxation patterns cannot be directly compared. Instead, we use an "adjustment factor" (see Appendix A: Methodology, p. 65).

[9] The most recent data available are from 2009 and are converted into 2009 US constant dollars. Note that an exchange rate of \$1.05 was used throughout the study (source: Heston, Summers, and Aten, 2011).

Figure 1.3: Economic Freedom at the All-Government Level and GDP per Capita, 2009

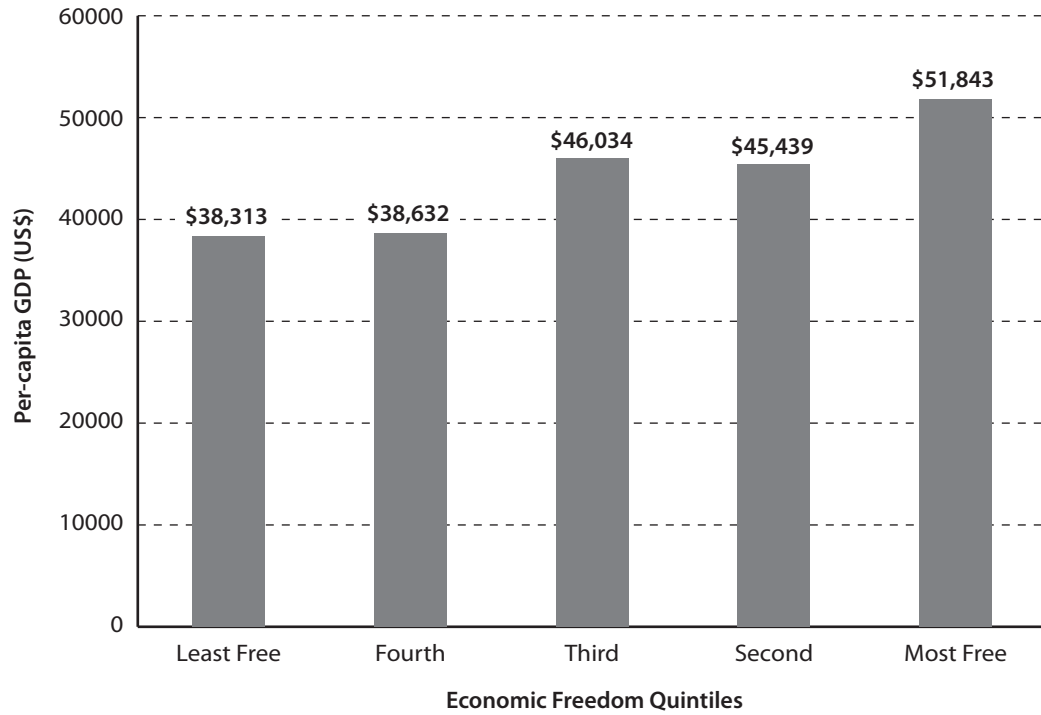


Figure 1.4: Economic Freedom at the Subnational Level and GDP per Capita, 2009

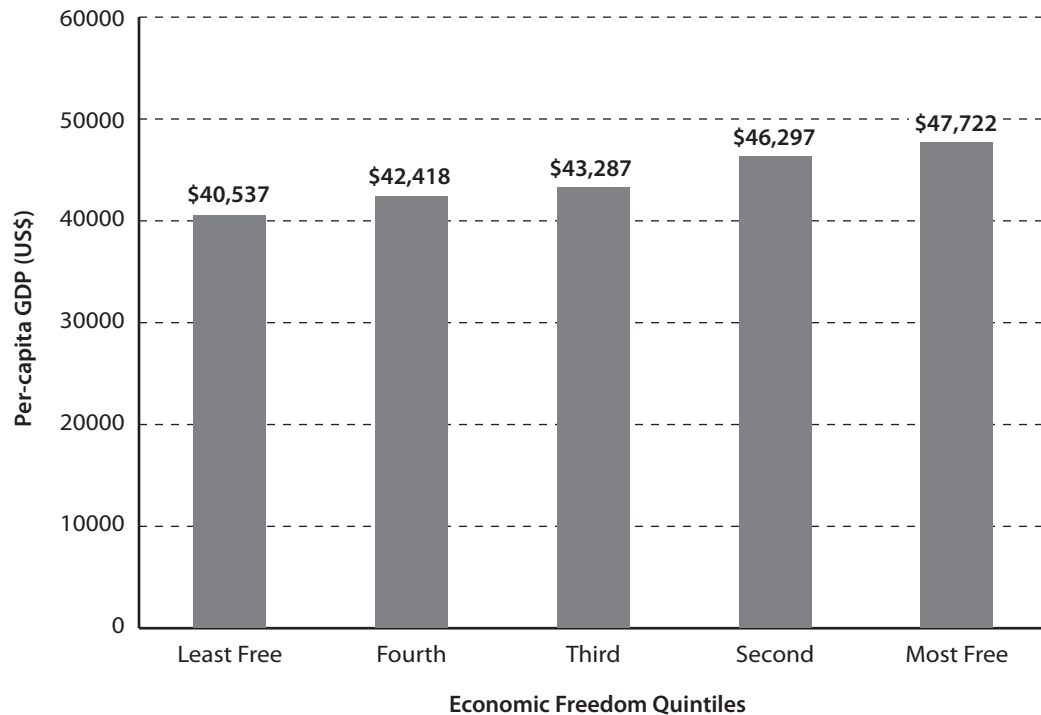


Figure 1.5: Average GDP per Capita and Average Economic Freedom at the All-Government Level, 1981–2009

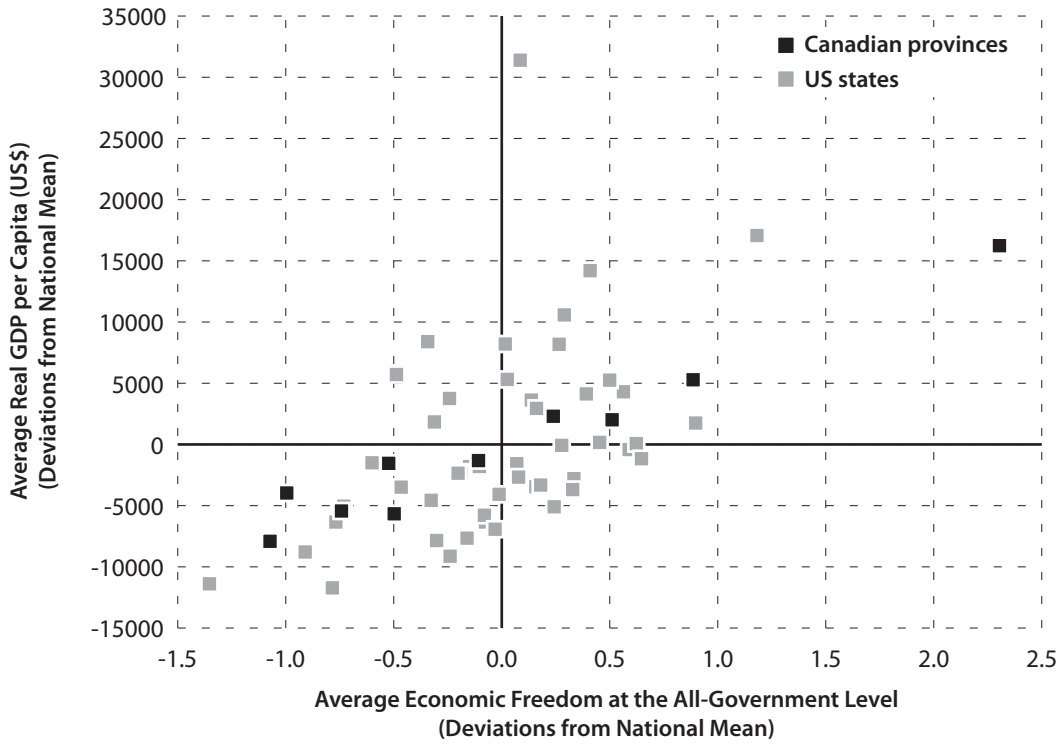


Figure 1.6: Average GDP per Capita and Average Economic Freedom at the Subnational Level, 1981–2009

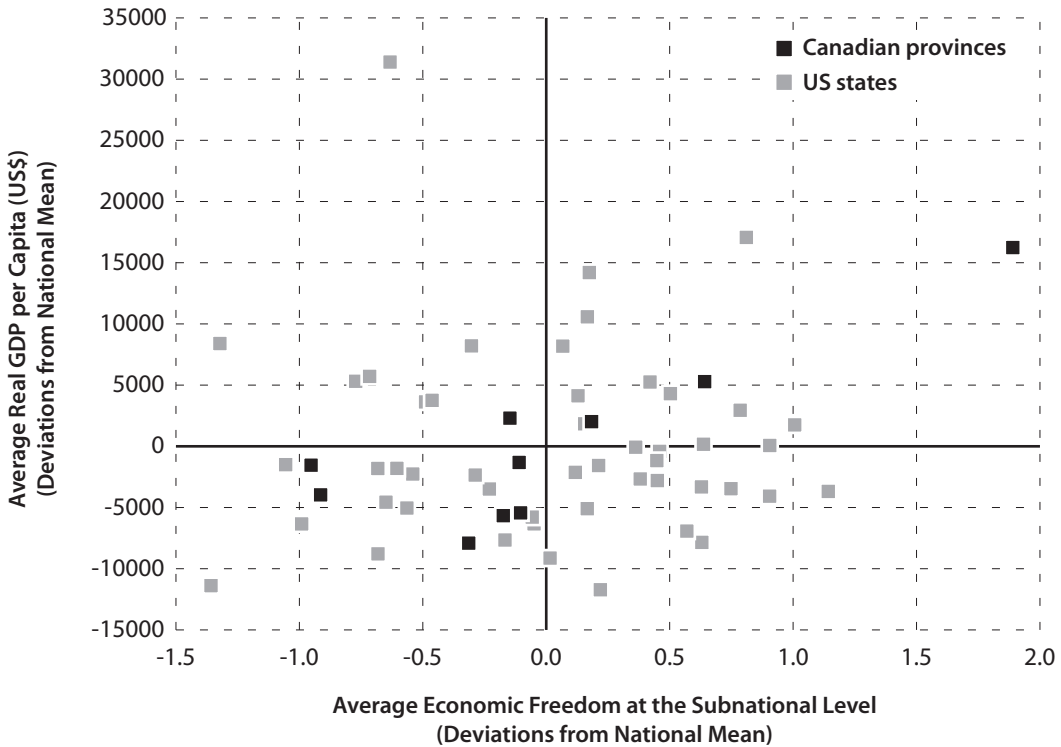


Figure 1.7: Average Growth in GDP per Capita and Average Growth in Economic Freedom at the All-Government Level, 1982–2009

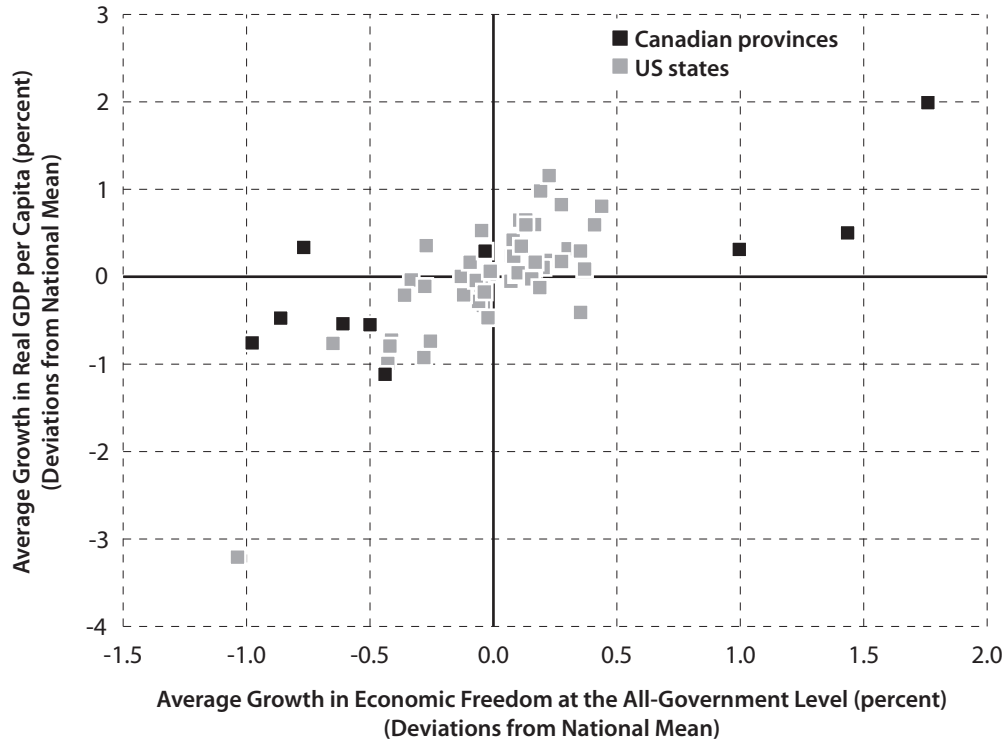
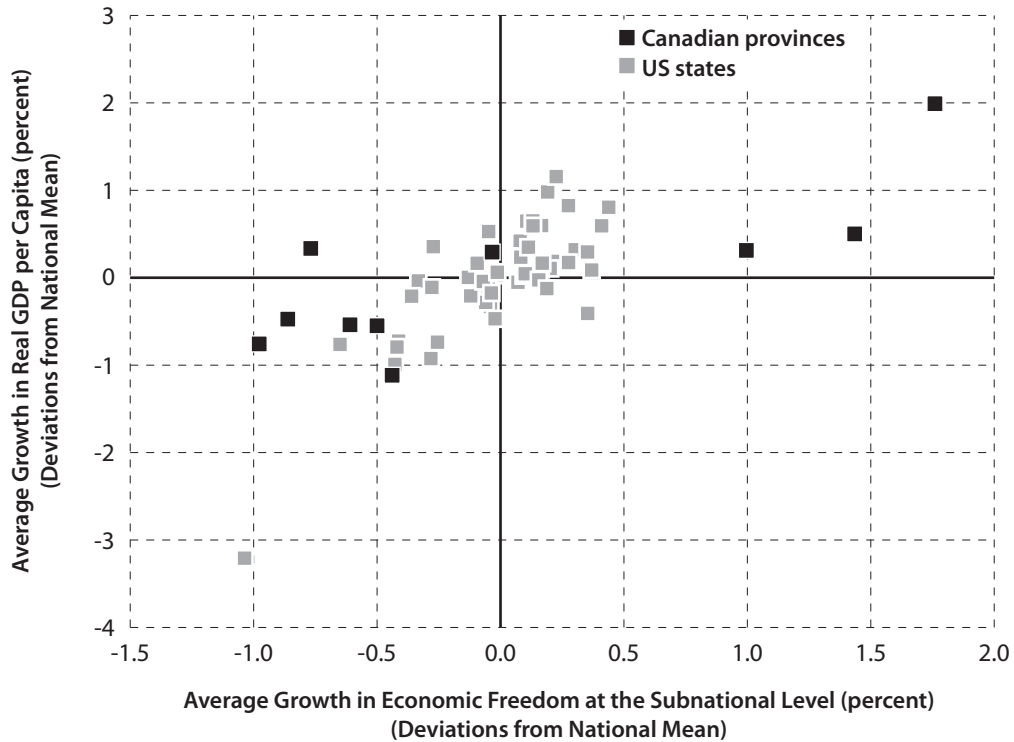


Figure 1.8: Average Growth in GDP per Capita and Average Growth in Economic Freedom at the Subnational Level, 1982–2007



The Evolution of Economic Freedom in Canada and the United States

As can be seen from table 1.1 and table 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.¹⁰

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 2007, 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. As was predicted in *Economic Freedom of North America 2010* (see Campbell, Fayman, and Rogers, 2010), the government response to the financial crisis and the ensuing recession seems to have lowered economic freedom in almost all of the US states and Canadian provinces. Interestingly, the impact seems to be more pronounced in the United States due its more aggressive response. British Columbia, Newfoundland, and Saskatchewan actually improved significantly compared to other Canadian provinces and US states.

Overview of the Results for the United States

Average economic freedom in the US states peaked in 2008. Unfortunately, in 2009 the average dropped to levels last seen in the year 2000. The 10 states at the bottom

[10] 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 of their own.

Table 1.1: Average Economic Freedom Scores at the All-Government Level, 1981–2009

	'81	'82	'83	'84	'85	'86	'87	'88	'89	'90	'91	'92	'93	'94	'95	'96	'97	'98	'99	'00	'01	'02	'03	'04	'05	'06	'07	'08	'09
US	5.8	5.9	6.0	6.3	6.3	6.3	6.6	7.1	7.1	7.1	6.8	6.8	6.7	6.7	6.7	6.8	6.8	6.8	6.8	6.8	6.9	6.9	7.0	7.1	7.0	7.0	7.0	6.8	6.6
Can.	4.5	4.5	4.6	4.7	4.6	4.6	4.7	5.0	5.0	4.8	4.3	4.2	4.3	4.5	4.7	4.7	4.8	4.9	5.0	5.2	5.2	5.3	5.3	5.4	5.5	5.6	5.7	5.8	5.6
Diff.	1.3	1.4	1.5	1.6	1.7	1.7	1.9	2.1	2.1	2.3	2.4	2.6	2.4	2.2	2.1	2.1	2.0	1.9	1.8	1.6	1.6	1.6	1.6	1.6	1.5	1.4	1.2	1.0	0.9

Table 1.2: Average Economic Freedom Scores at the Subnational Level, 1981–2009

	'81	'82	'83	'84	'85	'86	'87	'88	'89	'90	'91	'92	'93	'94	'95	'96	'97	'98	'99	'00	'01	'02	'03	'04	'05	'06	'07	'08	'09
US	6.9	6.8	6.8	7.1	7.1	7.0	7.1	7.2	7.2	7.1	7.0	6.9	6.9	7.0	7.0	7.1	7.1	7.2	7.2	7.2	7.2	7.1	7.1	7.2	7.2	7.3	7.2	7.0	7.0
Can.	5.2	5.0	4.9	5.0	5.0	5.0	5.0	5.2	5.2	5.0	4.8	4.6	4.6	4.9	5.0	5.1	5.2	5.4	5.5	5.7	5.6	5.6	5.6	5.7	5.9	6.0	6.1	6.0	5.9
Diff.	1.8	1.9	1.9	2.1	2.0	2.0	2.1	2.0	2.0	2.1	2.2	2.3	2.2	2.1	2.0	2.0	1.9	1.8	1.6	1.5	1.6	1.5	1.5	1.5	1.3	1.2	1.1	1.0	1.1

of the all-government index were West Virginia, New Mexico, Mississippi, Hawaii, Alaska, Montana, Maine, Vermont, Rhode Island, and Kentucky. Their average per-capita GDP in 2009 was \$41,459 (in constant 2009 dollars) compared to an average of \$45,902 for the other 40 states. The top 10 states were Delaware, Texas, Nevada, Colorado, Georgia, South Dakota, Wyoming, Utah, North Carolina, and Nebraska. Their average per-capita GDP in 2009 was \$49,818 compared to \$43,812 for the lowest 40 states.

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. Until recently, Alberta was the only province that has consistently done better than at least some states. It ranked 1st at the all-government level and 6th at the subnational level in 2009. 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. As mentioned above, Saskatchewan, British Columbia, and Newfoundland have surpassed many US states in recent years.

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 and the

scores are currently similar to the 1981 scores. 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 and the subnational levels.

There is an interesting contrast between Ontario and British Columbia. Between 1993 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 11%, compared to Ontario's 23%. British Columbia suffered from relatively weak economic freedom growth while Ontario benefited from relatively strong growth. In the most recent ten-year period, 2000 to 2009, 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 26%; in Ontario, economic freedom declined during this period and the economy grew at just 11%, the lowest rate of growth of all Canadian provinces. Although Ontario is only 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 2009, 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, 101%, 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.

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 there is a positive relationship between economic growth and economic freedom, we use annual observations on each of the components from 1981 to 2009. 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. Table 1.3 and table 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 human capital in our model is not statistically significant. Since this is the case, the data have to be adjusted. The fixed-effects model captures the unobserved or ignorance effects but does not account for relevant components missing from a model. To provide some adjustment for the missing 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 nation 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.¹⁴

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- [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 (p. 79).
- [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.
- [14] Autoregressive (AR) techniques were used in estimating the regressions. To determine which AR process was most appropriate, we ran regressions until the lagged variables were no longer statistically significant and chose the previous regression as the best fit. For instance, if the AR(3) process yielded insignificant results for at least one of the lagged variables, we considered the AR(2)

Table 1.3: Level of Economic Freedom and GDP per Capita

Regressions at All-Government Level (ALLG)					Regressions at Subnational Level (SUBN)				
Dependent Variable: Real GDP per Capita (1981–2009)					Dependent Variable: Real GDP per Capita (1981–2009)				
Method: Pooled Least Squares					Method: Pooled Least Squares				
Canada									
Variable	Coefficient	Std. Error	t-Statistic	Prob.	Variable	Coefficient	Std. Error	t-Statistic	Prob.
HG	−67.10	106.38	−0.63	0.53	HG	−48.76	114.35	−0.43	0.67
ALLG	6890.91	861.05	8.00	0.00	SUBN	5963.47	832.77	7.16	0.00
Adjusted R ² : 0.96					Adjusted R ² : 0.96				
United States									
Variable	Coefficient	Std. Error	t-Statistic	Prob.	Variable	Coefficient	Std. Error	t-Statistic	Prob.
HG	10.08	36.06	0.28	0.78	HG	−2.93	34.80	−0.08	0.93
ALLG	6339.96	892.56	7.10	0.00	SUBN	5550.75	955.91	5.81	0.00
Adjusted R ² : 0.98					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 2009; ALLG is an economic freedom index at an all government level from 1981 to 2009; SUBN is an economic freedom index at a subnational level from 1981 to 2009.

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 (1981–2009)					Dependent Variable: Growth in Real GDP per Capita (1981–2009)				
Method: Pooled Least Squares					Method: Pooled Least Squares				
Canada									
Variable	Coefficient	Std. Error	t-Statistic	Prob.	Variable	Coefficient	Std. Error	t-Statistic	Prob.
HGG	0.20	0.11	1.74	0.08	HGG	0.14	0.12	1.13	0.26
POPG	0.50	0.38	1.31	0.19	POPG	0.50	0.41	1.24	0.22
ALLGG	0.62	0.08	7.72	0.00	SUBNG	0.68	0.09	7.42	0.00
Adjusted R-squared: 0.36					Adjusted R-squared: 0.29				
United States									
Variable	Coefficient	Std. Error	t-Statistic	Prob.	Variable	Coefficient	Std. Error	t-Statistic	Prob.
HGG	0.00	0.04	−0.04	0.97	HGG	−0.01	0.04	−0.23	0.82
POPG	−0.42	0.20	−2.03	0.04	POPG	0.06	0.21	0.28	0.78
ALLGG	0.96	0.09	10.74	0.00	SUBNG	0.76	0.09	8.40	0.00
Adjusted R2: 0.37					Adjusted R2: 0.30				

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 1981 to 2009; POPG is growth in population from 1981 to 2009; ALLGG is growth in economic freedom at an all government level from 1981 to 2009; SUBNG is growth in economic freedom at a subnational level from 1981 to 2009.

Level of Economic Freedom and GDP per Capita

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 (p. 21). On the whole, the results are statistically significant for both the United States and Canada with a *p* value well below 1% meaning that the results are statistically significant more than 99 times out of 100.

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\$6,340. An increase of one point in economic freedom in a Canadian province will increase its per-capita GDP by US\$6,890 (CA\$7,235)¹⁵ At a subnational level, an increase of one point in economic freedom in a US state will increase its per-capita GDP by US\$5,551, whereas an increase of one point in economic freedom in a Canadian province will increase its per-capita GDP by US\$5,963 (CA\$6,261). Although the significance of the results holds up in this report compared to past reports, there are some notable differences. In the past Canada's fiscal federalism—and the negative impact this has on the effects of economic freedom—has been cited as a key reason that the effects are stronger in the United States. However, in this report the results are actually stronger for Canada. We are not quite sure to what we should attribute this change. Some of the changes in the calculation of the scores may have been more favorable to Canadian provinces in explaining economic prosperity.

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 3.9 points on average at the all-government level. Thus, a US state would have to improve its score by roughly one fourth within this range in order to achieve the one-point increase required to realize the US\$6,340 per-capita gain in income. In Canada, at the all-government level, the range is 5.6 points. At the subnational level, the range in Canada is 4.7; in the United States, it is 3.8.

regression with two lags to be the best fit. For simplicity in reporting the results, we only report the results for the independent variables of interest. The complete results are available upon request.

[15] The exchange rate used is \$1.05 (source: Heston, Summers, and Aten, 2011).

Growth in Economic Freedom and Growth in GDP per Capita

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 0.96% in the growth rate of per-capita GDP for US states and an increase of 0.62% 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 0.76% in the growth rate of per-capita GDP for US states and 0.68% increase in the growth rate for Canadian provinces.

Sensitivity Analysis

In order to determine the stability of the regression results in the table 1.3 and table 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 table 1.5 and table 1.6) is important. Using annual data in regression analysis may produce 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 table 1.5 and table 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.

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

Dependent Variable: Real GDP per Capita (1981–2009) 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	-94.56	-0.77	-9.45	-0.12	-93.38	-1.00	4.66	0.04	46.51	0.54	
ALLG	7673.89	8.15	5566.03	6.56	6506.04	9.10	6450.88	8.06	6788.12	7.74	
Canada at the Subnational Level											
Variable	Coefficient	t-Statistic	Coefficient	t-Statistic	Coefficient	t-Statistic	Coefficient	t-Statistic	Coefficient	t-Statistic	
HG	103.95	0.97	50.73	0.57	-88.82	-0.86	78.10	0.67	55.37	0.64	
SUBN	6269.61	6.93	4856.87	6.37	5283.29	8.25	5125.27	6.97	5333.08	5.94	
United States at the All-Government Level											
Variable	Coefficient	t-Statistic	Coefficient	t-Statistic	Coefficient	t-Statistic	Coefficient	t-Statistic	Coefficient	t-Statistic	
HG	-5.21	-0.22	52.25	1.02	-24.31	-0.50	73.60	1.68	-50.35	-0.94	
ALLG	5635.60	9.35	6515.17	8.33	7814.10	8.69	6150.27	13.06	6434.30	8.24	
United States at the Subnational Level											
Variable	Coefficient	t-Statistic	Coefficient	t-Statistic	Coefficient	t-Statistic	Coefficient	t-Statistic	Coefficient	t-Statistic	
HG	-4.09	-0.17	46.78	1.00	-58.65	-1.18	74.11	1.69	-56.42	-1.03	
SUBN	5163.35	8.61	5782.92	6.30	6757.46	6.96	4797.87	10.15	5340.76	7.11	

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 2009; ALLG is an economic freedom index at an all government level from 1981 to 2009; SUBN is an economic freedom index at a subnational level from 1981 to 2009.

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

Dependent Variable: Growth in GDP per Capita GDP (1981–2009) 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	-0.05	-0.35	0.00	-0.03	0.00	0.01	0.10	0.85	0.23	2.02	
POPG	1.17	2.27	0.81	1.49	0.67	1.20	0.80	1.79	1.08	2.57	
ALLGG	0.83	8.38	0.63	8.25	0.60	6.37	0.73	8.49	0.70	8.79	
Canada at the Subnational Level											
Variable	Coefficient	t-Statistic	Coefficient	t-Statistic	Coefficient	t-Statistic	Coefficient	t-Statistic	Coefficient	t-Statistic	
HGG	-0.10	-0.74	0.12	0.88	-0.19	-1.53	0.18	1.45	0.21	1.60	
POPG	1.24	2.63	0.59	0.98	1.30	2.92	0.86	2.37	0.83	1.89	
SUBNG	0.72	7.60	0.53	7.59	0.63	8.52	0.58	8.66	0.60	7.34	
United States at the All-Government Level											
Variable	Coefficient	t-Statistic	Coefficient	t-Statistic	Coefficient	t-Statistic	Coefficient	t-Statistic	Coefficient	t-Statistic	
HGG	0.02	0.41	-0.02	-0.44	-0.05	-0.97	0.09	1.77	-0.06	-1.27	
POPG	-0.39	-1.00	-0.27	-1.09	-0.13	-0.59	-0.36	-1.07	-0.08	-0.42	
ALLGG	0.66	7.98	0.83	11.08	1.10	13.01	0.84	11.42	0.94	13.31	
United States at the Subnational Level											
Variable	Coefficient	t-Statistic	Coefficient	t-Statistic	Coefficient	t-Statistic	Coefficient	t-Statistic	Coefficient	t-Statistic	
HGG	0.02	0.47	-0.02	-0.34	0.01	0.29	0.11	2.17	-0.05	-1.19	
POPG	-0.01	-0.02	0.06	0.32	-0.17	-0.53	-0.14	-0.50	-0.09	-0.35	
SUBNG	0.61	7.32	0.67	8.29	0.67	9.49	0.68	9.92	0.69	8.67	

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 1981 to 2009; POPG is growth in population from 1981 to 2009; ALLGG is growth in economic freedom at an all government level from 1981 to 2009; SUBNG is growth in economic freedom at a subnational level from 1981 to 2009.

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. Throughout the twentieth century there was vigorous debate about whether planned or free economies produce the best outcomes. 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.

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. 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 compared 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

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.

Economic Freedom in Canada and the United States

Table 2.1 and table 2.2 provide a detailed summary of the scores for 2009. Tables 2.3 to 2.10 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 p. 38 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>>.

Table 2.1: Scores at the Federal, State/Provincial, and Local/Municipal Levels, 2009

	Overall Index	Area 1	Area 2	Area 3	1A	1B	1C	2A	2B	2C	2D	3A	3B	3C
Alberta	7.9	9.3	7.7	6.7	9.3	9.0	9.7	7.2	6	9.6	8.1	8.2	7.6	4.2
British Columbia	6.1	7.6	5.3	5.5	7.2	7.4	8.3	4.1	5	7.8	4.3	6.3	6.8	3.3
Manitoba	5.3	6.7	5.1	4.1	5.9	6.1	8.2	4.5	4	7.8	4.2	5.5	2.0	4.6
New Brunswick	5.0	5.6	4.6	4.8	4.2	6.4	6.3	3.7	4	7.3	3.3	5.2	3.8	5.4
Newfoundland & Labrador	6.4	7.7	7.5	4.0	7.6	8.2	7.4	9.0	5	10.0	5.8	6.6	0.4	5.0
Nova Scotia	4.6	5.2	4.3	4.4	2.7	6.7	6.3	3.0	3	7.4	3.5	4.8	2.8	5.5
Ontario	5.8	7.5	4.6	5.3	6.6	7.5	8.3	2.5	4	7.4	4.4	5.5	5.9	4.5
Prince Edward Island	4.1	4.4	3.9	4.0	2.6	5.9	4.6	2.2	4	7.5	1.7	4.4	2.1	5.6
Quebec	4.7	6.4	3.6	4.1	6.0	5.4	7.7	1.2	3	6.5	3.6	5.2	4.6	2.6
Saskatchewan	6.5	8.2	6.7	4.6	8.1	7.5	9.1	7.1	5	8.5	6.1	7.0	1.8	4.9
Alabama	6.1	5.0	6.7	6.7	4.6	7.5	2.9	7.5	7.0	5.4	6.9	6.0	6.1	7.9
Alaska	5.7	5.7	5.2	6.3	2.8	6.8	7.3	2.8	8.0	0.7	9.1	8.8	3.5	6.7
Arizona	6.6	6.5	6.0	7.3	6.5	7.8	5.2	6.5	6.0	5.7	5.9	6.1	8.3	7.6
Arkansas	6.2	5.6	5.8	7.3	6.5	7.0	3.2	6.7	5.0	5.9	5.5	5.8	7.1	8.9
California	6.6	7.2	5.9	6.9	6.9	8.2	6.5	6.1	4.0	5.9	7.5	7.1	7.9	5.5
Colorado	7.4	7.6	6.8	7.7	7.5	8.9	6.5	7.6	6.0	6.2	7.5	7.6	7.8	7.8
Connecticut	7.1	7.7	6.3	7.3	7.4	8.8	6.9	5.7	6.0	5.6	8.0	8.4	8.3	5.3
Delaware	7.9	8.3	7.5	7.8	9.0	8.9	7.0	9.8	6.0	4.7	9.7	9.0	7.8	6.8
Florida	6.6	6.4	5.8	7.6	6.4	8.4	4.4	5.5	8.0	3.5	6.4	6.4	8.9	7.5
Georgia	7.3	7.0	7.2	7.6	7.2	8.2	5.7	8.3	6.0	7.2	7.1	6.8	7.6	8.4
Hawaii	5.7	5.2	5.6	6.2	1.9	8.2	5.6	7.3	4.0	5.6	5.3	7.7	5.1	5.7
Idaho	6.5	5.9	6.5	7.1	5.6	7.7	4.5	7.7	5.0	6.2	7.1	5.9	7.2	8.2
Illinois	7.0	7.4	6.8	6.9	7.9	8.1	6.1	6.7	7.0	5.3	8.1	7.1	8.4	5.3
Indiana	6.9	6.7	6.7	7.2	6.7	7.9	5.4	6.6	7.0	5.8	7.3	6.8	8.0	6.8
Iowa	6.9	6.8	6.9	7.2	7.4	7.2	5.7	7.8	6.0	6.0	7.7	7.1	7.6	6.8
Kansas	6.7	6.3	6.4	7.3	5.1	8.1	5.6	6.7	6.0	5.9	7.0	7.2	6.2	8.6
Kentucky	6.0	5.1	6.0	7.0	5.1	6.8	3.4	5.9	6.0	4.5	7.6	6.1	7.2	7.6
Louisiana	7.0	6.3	7.0	7.6	6.4	6.9	5.7	7.8	7.0	7.2	6.1	7.5	6.1	9.0
Maine	5.8	5.2	5.4	6.8	5.5	6.5	3.5	5.2	5.0	4.2	7.2	6.1	7.6	6.7
Maryland	6.5	5.9	6.3	7.2	3.6	8.5	5.6	6.1	6.0	4.9	8.3	7.9	6.5	7.1
Massachusetts	6.8	6.9	6.2	7.2	6.6	7.6	6.4	5.1	6.0	5.2	8.5	7.6	8.9	5.1
Michigan	6.1	5.9	6.2	6.4	6.0	7.7	3.9	6.6	6.0	5.3	7.1	5.8	8.1	5.1
Minnesota	6.9	7.4	6.0	7.4	7.7	8.2	6.2	6.4	5.0	5.0	7.8	7.8	8.4	5.9
Mississippi	5.6	4.3	5.8	6.7	3.7	6.2	3.0	6.9	6.0	4.2	6.2	5.4	4.9	9.7
Missouri	6.6	6.0	6.6	7.1	5.7	7.7	4.7	6.6	7.0	5.2	7.5	6.5	7.4	7.5
Montana	5.7	5.0	5.9	6.2	5.6	6.0	3.5	5.5	6.0	2.9	9.5	5.9	6.3	6.4
Nebraska	7.1	7.4	6.6	7.4	7.7	8.0	6.3	7.9	6.0	5.1	7.3	7.7	7.0	7.5
Nevada	7.5	8.1	7.2	7.2	8.7	9.2	6.4	7.9	8.0	5.8	7.0	7.4	9.2	5.1
New Hampshire	7.1	7.2	6.5	7.5	7.6	8.5	5.5	5.5	8.0	3.0	9.5	7.1	9.1	6.2
New Jersey	6.5	7.5	5.1	7.1	7.3	8.9	6.2	4.6	4.0	4.0	7.7	8.1	8.0	5.2
New Mexico	5.4	4.5	5.3	6.5	3.2	6.2	4.1	6.1	6.0	3.2	5.8	6.0	4.3	9.2
New York	6.5	7.0	5.9	6.5	7.2	7.8	6.1	5.5	5.0	5.5	7.5	8.2	7.4	3.9
North Carolina	7.2	7.0	6.7	7.7	7.5	8.1	5.4	8.0	5.0	6.2	7.8	7.2	6.9	9.1
North Dakota	6.4	6.2	5.7	7.4	7.5	4.8	6.2	5.6	6.0	3.7	7.6	7.8	5.7	8.5
Ohio	6.3	6.1	6.0	6.9	6.5	7.7	4.2	5.7	6.0	4.8	7.4	6.4	8.1	6.1
Oklahoma	6.8	6.2	7.1	7.1	6.7	7.5	4.3	8.6	6.0	7.0	7.0	6.6	5.4	9.3
Oregon	6.7	6.8	6.8	6.5	7.7	8.0	4.6	7.3	5.0	5.1	9.7	6.1	7.6	5.7
Pennsylvania	6.5	6.2	6.1	7.1	6.2	8.1	4.4	5.3	7.0	4.2	7.8	7.0	9.0	5.4
Rhode Island	6.0	5.9	5.1	7.0	6.4	6.9	4.5	4.5	5.0	3.2	7.6	7.0	9.1	4.8
South Carolina	6.2	5.2	6.2	7.2	5.0	7.5	3.2	7.1	5.0	5.0	7.6	5.9	6.8	8.9
South Dakota	7.2	6.8	7.1	7.7	7.9	6.4	6.0	7.6	8	5.9	6.8	7.6	6.8	8.7
Tennessee	6.8	6.1	6.8	7.5	6.5	7.0	4.6	7.5	8	5.9	5.8	6.6	7.8	8.1
Texas	7.5	7.7	7.1	7.8	8.0	8.2	6.8	7.7	8	5.6	7.2	7.5	7.5	8.4
Utah	7.2	7.5	6.6	7.4	7.4	8.4	6.7	7.5	6	5.5	7.3	6.8	7.3	8.1
Vermont	5.8	5.3	5.4	6.7	4.8	6.2	4.8	5.1	5	3.7	8.0	5.7	7.8	6.5
Virginia	6.8	5.7	6.7	7.9	2.3	9.1	5.8	7.1	6	5.4	8.5	8.1	6.5	9.1
Washington	6.5	7.2	6.1	6.4	7.5	8.3	5.8	6.7	8	4.3	5.2	6.8	7.1	5.2
West Virginia	5.4	4.5	5.6	6.1	5.3	6.6	1.7	5.5	6	3.6	7.5	5.3	5.6	7.4
Wisconsin	6.3	6.0	5.8	7.1	6.4	6.8	5.0	6.2	5	4.5	7.5	7.1	8.3	5.9
Wyoming	7.2	7.6	6.4	7.6	8.1	7.4	7.2	6.9	8	4.5	6.4	9.1	3.6	10.0

Table 2.2: Scores at the State/Provincial and Local/Municipal Levels, 2009

	Overall Index	Area 1	Area 2	Area 3	1A	1B	1C	2A	2B	2C	2D	3A	3B	3C
Alberta	7.9	8.8	8.9	5.9	8.0	8.7	9.8	9.3	7.0	9.7	9.6	6.6	7.0	4.2
British Columbia	6.3	7.0	6.8	5.0	5.3	7.7	8.0	6.7	6.5	8.7	5.4	5.0	6.5	3.3
Manitoba	5.6	6.9	6.2	3.8	4.1	7.7	8.8	6.0	5.5	8.6	4.7	4.5	2.3	4.6
New Brunswick	5.5	6.0	5.9	4.5	2.6	7.2	8.2	5.7	5.5	8.6	3.9	4.2	3.9	5.4
Newfoundland & Labrador	6.4	8.0	7.8	3.4	6.1	9.1	8.7	9.2	6.0	10.0	6.1	5.3	0.0	5.0
Nova Scotia	5.3	5.8	5.9	4.2	2.6	8.1	6.8	5.3	5.5	8.5	4.4	3.8	3.2	5.5
Ontario	5.9	6.6	6.0	5.0	5.0	7.4	7.5	5.2	5.5	8.1	5.2	4.4	6.0	4.5
Prince Edward Island	5.1	5.6	5.5	4.3	1.3	7.2	8.3	5.5	5.5	8.9	2.0	3.6	3.8	5.6
Quebec	4.7	5.4	5.1	3.6	4.4	5.0	6.8	3.2	5.5	7.4	4.2	4.2	4.1	2.6
Saskatchewan	6.4	8.1	7.3	3.8	6.3	8.8	9.2	7.7	6.5	8.5	6.6	5.6	0.8	4.9
Alabama	7.5	6.7	7.7	8.0	4.5	8.9	6.6	8.0	8.0	9.0	5.9	10.0	6.2	7.9
Alaska	5.5	5.7	4.7	6.1	3.2	8.2	5.8	0.0	10.0	0.0	9.0	7.1	4.6	6.7
Arizona	7.2	7.5	7.1	7.0	6.3	9.2	7.2	7.3	8.0	8.6	4.4	4.9	8.4	7.6
Arkansas	6.8	7.0	6.6	6.9	5.0	8.8	7.1	7.0	6.0	9.2	4.0	5.1	6.8	8.9
California	6.3	6.2	6.3	6.3	5.6	7.9	5.1	6.5	4.0	8.2	6.6	5.7	7.7	5.5
Colorado	7.6	7.9	7.7	7.3	7.3	9.6	6.7	8.1	7.0	8.8	6.7	6.1	7.9	7.8
Connecticut	7.2	7.7	7.3	6.6	7.2	9.1	6.6	6.7	7.0	8.1	7.4	6.7	7.9	5.3
Delaware	8.0	8.3	8.7	7.1	7.3	9.1	8.4	9.5	6.5	9.0	9.7	7.2	7.4	6.8
Florida	7.2	7.2	7.2	7.2	5.5	8.7	7.5	6.7	10.0	6.9	5.1	5.1	8.9	7.5
Georgia	7.5	7.5	7.3	7.6	6.3	9.1	7.2	8.1	6.0	9.1	6.1	6.6	7.7	8.4
Hawaii	6.4	7.0	5.8	6.2	5.1	9.2	6.8	6.7	4.0	8.9	3.6	6.2	6.7	5.7
Idaho	6.8	7.1	6.7	6.7	5.3	9.0	6.9	7.1	5.0	8.5	6.1	4.8	7.0	8.2
Illinois	7.0	7.1	7.6	6.4	6.6	9.3	5.5	7.3	8.0	7.6	7.6	5.7	8.2	5.3
Indiana	7.3	7.5	7.7	6.7	5.8	8.7	8.2	7.7	8.0	8.7	6.4	5.5	7.7	6.8
Iowa	7.1	7.2	7.7	6.5	5.7	8.2	7.6	7.7	7.5	8.4	7.0	5.7	7.1	6.8
Kansas	7.4	7.7	7.0	7.6	5.9	9.5	7.8	7.2	6.0	8.6	6.0	8.4	5.8	8.6
Kentucky	6.7	6.1	7.3	6.6	5.1	7.7	5.4	7.3	6.5	8.6	6.9	4.9	7.1	7.6
Louisiana	7.4	6.6	7.4	8.2	4.6	8.6	6.7	7.8	8.0	9.1	4.8	10.0	5.6	9.0
Maine	6.1	5.9	6.1	6.5	3.3	7.4	6.8	5.6	5.0	7.4	6.3	4.9	7.8	6.7
Maryland	7.3	7.0	7.6	7.3	5.8	7.9	7.1	7.0	7.0	8.6	7.8	6.4	8.5	7.1
Massachusetts	7.2	7.2	7.6	6.7	6.4	9.2	6.1	7.0	7.0	8.4	8.1	6.1	8.8	5.1
Michigan	6.3	6.0	7.1	5.8	4.3	8.5	5.2	6.6	8.0	7.8	6.2	4.7	7.8	5.1
Minnesota	7.0	6.9	7.0	7.0	6.0	8.2	6.5	7.0	5.5	8.4	7.0	7.2	8.0	5.9
Mississippi	6.9	6.0	6.7	8.1	2.4	9.3	6.1	6.8	7.0	8.2	4.9	10.0	4.6	9.7
Missouri	7.3	7.3	7.8	6.7	6.0	9.1	6.7	7.8	8.0	8.7	6.7	5.2	7.5	7.5
Montana	6.6	6.4	7.6	5.9	4.4	8.8	5.9	6.4	8.0	6.5	9.6	4.8	6.6	6.4
Nebraska	7.3	8.1	7.2	6.8	6.2	9.2	8.8	7.6	6.0	8.6	6.5	6.2	6.7	7.5
Nevada	7.6	8.3	7.8	6.7	7.6	9.6	7.7	7.8	10.0	7.4	5.9	6.0	9.1	5.1
New Hampshire	7.8	7.9	8.6	6.9	6.4	9.0	8.3	7.8	10.0	6.8	9.6	5.7	8.8	6.2
New Jersey	6.4	6.8	6.0	6.4	5.8	8.8	5.8	5.8	4.0	7.2	6.9	6.5	7.7	5.2
New Mexico	6.2	5.9	6.5	6.2	3.0	8.7	6.0	6.6	7.0	8.2	4.4	4.8	4.6	9.2
New York	6.1	5.9	6.4	5.8	4.8	8.5	4.6	5.1	6.0	7.9	6.7	6.6	7.0	3.9
North Carolina	7.4	7.7	7.4	7.1	6.2	9.2	7.5	8.0	5.5	9.1	7.1	5.8	6.6	9.1
North Dakota	7.1	7.4	7.1	6.9	6.5	7.9	7.7	6.5	8.0	6.8	6.9	6.3	5.8	8.5
Ohio	6.3	5.3	7.1	6.4	5.1	7.3	3.5	6.2	8.0	7.7	6.6	5.2	7.9	6.1
Oklahoma	7.2	7.5	7.4	6.7	6.2	9.1	7.3	7.9	7.0	8.8	6.1	5.3	5.5	9.3
Oregon	7.0	6.6	8.4	6.0	6.1	9.3	4.4	8.3	7.0	8.3	9.8	4.9	7.4	5.7
Pennsylvania	6.8	6.4	7.4	6.7	5.6	8.2	5.3	6.7	8.0	7.8	7.1	5.6	9.0	5.4
Rhode Island	6.1	5.6	6.2	6.6	4.5	8.7	3.6	6.0	5.0	7.0	6.9	5.6	9.3	4.8
South Carolina	7.1	5.6	7.2	8.4	4.0	6.6	6.1	7.7	6.0	8.2	6.8	10.0	6.3	8.9
South Dakota	8.1	8.4	8.5	7.3	7.5	9.3	8.5	9.2	10.0	9.0	5.7	6.1	7.1	8.7
Tennessee	8.0	7.4	8.0	8.6	6.4	7.5	8.2	8.5	10.0	9.1	4.3	10.0	7.7	8.1
Texas	8.0	8.4	8.3	7.3	7.8	9.4	8.2	8.7	10.0	8.2	6.3	6.1	7.4	8.4
Utah	7.4	7.5	7.6	7.1	6.3	8.2	7.9	8.0	7.0	9.2	6.3	5.4	7.7	8.1
Vermont	6.1	5.8	6.1	6.3	2.7	7.2	7.5	5.6	5.0	6.5	7.4	4.6	7.8	6.5
Virginia	7.9	7.9	7.9	7.8	7.1	8.4	8.4	8.1	7.0	8.6	8.1	6.5	7.8	9.1
Washington	6.8	7.1	7.3	5.9	6.7	7.9	6.5	7.5	10.0	8.2	3.4	5.4	7.2	5.2
West Virginia	6.3	6.3	6.8	5.9	3.5	8.7	6.7	6.1	6.5	7.7	6.8	4.3	5.9	7.4
Wisconsin	6.6	6.4	6.8	6.5	5.2	8.9	5.2	6.5	6.0	7.9	6.8	5.7	7.9	5.9
Wyoming	7.3	7.7	7.1	7.1	5.9	9.4	7.6	6.7	10.0	6.7	5.1	8.0	3.3	10.0

Table 2.3: Overall Scores at the Federal, State/Provincial, and Local/Municipal Levels, 1981–2009, and Rank out of 60 for 2009

	1981	1986	1991	1996	2001	2006	2007	2008	2009	Rank
Alberta	6.9	6.4	6.2	6.9	7.5	7.9	7.9	8.1	7.9	1
British Columbia	5.3	5.2	5.0	4.9	5.4	6.1	6.1	6.2	6.1	43
Manitoba	5.1	4.6	4.3	4.8	5.1	5.2	5.4	5.4	5.3	56
New Brunswick	2.8	4.2	3.8	4.4	5.0	5.2	5.3	5.1	5.0	57
Newfoundland & Labrador	3.4	3.3	2.9	3.2	4.4	6.0	6.5	6.6	6.4	37
Nova Scotia	2.8	4.0	4.0	4.2	4.8	4.8	4.8	4.8	4.6	59
Ontario	5.7	5.8	5.2	5.4	6.0	6.0	6.0	5.9	5.8	49
Prince Edward Island	3.9	3.9	3.4	4.0	4.0	4.3	4.3	4.2	4.1	60
Quebec	4.2	4.4	4.0	4.3	4.7	4.7	4.9	4.8	4.7	58
Saskatchewan	5.1	4.6	4.4	5.2	5.2	5.8	6.1	6.7	6.5	32
Alabama	5.4	6.1	6.6	6.6	6.4	6.7	6.5	6.4	6.1	44
Alaska	6.8	6.7	6.8	7.0	6.3	6.9	6.8	6.2	5.7	51
Arizona	5.9	6.4	6.6	7.0	7.2	7.3	7.1	6.8	6.6	27
Arkansas	5.6	6.1	6.7	6.7	6.5	6.5	6.5	6.4	6.2	40
California	5.9	6.4	6.8	6.7	6.9	7.0	6.9	6.7	6.6	25
Colorado	6.3	6.7	7.0	7.4	7.6	7.7	7.6	7.5	7.4	5
Connecticut	5.9	6.9	7.4	7.2	7.2	7.3	7.3	7.1	7.1	12
Delaware	6.5	7.2	8.0	8.0	8.2	8.2	8.3	7.7	7.9	2
Florida	5.5	6.4	6.7	6.6	6.9	6.9	6.9	6.8	6.6	26
Georgia	6.0	6.9	7.3	7.4	7.5	7.6	7.5	7.5	7.3	6
Hawaii	5.4	6.1	6.7	6.3	6.3	6.4	6.4	6.1	5.7	52
Idaho	5.8	6.0	6.4	6.8	6.7	7.0	7.0	6.9	6.5	31
Illinois	5.9	6.7	7.2	7.2	7.3	7.3	7.4	7.2	7.0	14
Indiana	5.8	6.6	7.0	7.3	7.3	7.4	7.4	7.1	6.9	18
Iowa	5.9	6.2	6.7	6.9	7.0	7.3	7.4	7.1	6.9	16
Kansas	6.0	6.4	6.8	6.8	6.9	7.1	7.2	7.1	6.7	23
Kentucky	5.9	6.3	6.8	6.8	6.6	6.6	6.6	6.1	6.0	45
Louisiana	6.9	7.0	7.3	7.1	6.9	7.2	7.4	7.3	7.0	15
Maine	5.0	5.7	6.0	6.0	6.2	6.1	6.1	6.0	5.8	48
Maryland	5.1	6.0	6.6	6.5	6.7	6.5	6.7	6.6	6.5	33
Massachusetts	5.7	6.7	7.0	7.0	7.2	7.2	7.2	6.9	6.8	22
Michigan	5.4	6.2	6.6	6.7	6.9	6.7	6.5	6.3	6.1	42
Minnesota	5.9	6.5	6.8	6.8	7.1	7.3	7.1	7.0	6.9	17
Mississippi	5.1	5.7	6.2	6.3	5.9	5.2	5.9	5.8	5.6	53
Missouri	5.5	6.4	7.0	6.9	7.0	7.0	6.8	6.7	6.6	28
Montana	5.6	5.3	5.8	5.7	5.8	6.4	6.3	6.2	5.7	50
Nebraska	6.1	6.4	7.0	7.3	7.1	7.3	7.4	7.1	7.1	11
Nevada	6.0	6.6	7.1	7.1	7.4	7.7	7.7	7.6	7.5	4
New Hampshire	5.9	7.1	7.5	7.5	7.6	7.6	7.5	7.1	7.1	13
New Jersey	5.5	6.5	7.0	6.7	7.0	6.9	6.7	6.6	6.5	30
New Mexico	5.7	5.6	6.0	6.3	6.0	6.2	6.0	5.7	5.4	54
New York	5.5	6.0	6.4	6.4	6.6	6.7	6.6	6.5	6.5	35
North Carolina	6.3	7.0	7.5	7.4	7.6	7.5	7.4	7.3	7.2	10
North Dakota	6.1	5.6	5.9	6.7	6.2	6.8	6.9	6.7	6.4	36
Ohio	5.6	6.2	6.6	6.7	6.9	7.0	6.6	6.5	6.3	38
Oklahoma	6.4	6.3	6.5	6.5	6.5	6.9	7.0	7.1	6.8	19
Oregon	5.4	5.9	6.3	6.9	6.8	7.2	7.2	6.9	6.7	24
Pennsylvania	5.1	6.1	6.7	6.6	6.8	6.9	6.7	6.6	6.5	34
Rhode Island	5.1	5.9	6.2	6.1	6.2	6.6	6.3	6.2	6.0	46
South Carolina	5.7	6.4	6.9	6.9	6.9	6.0	6.6	6.5	6.2	41
South Dakota	5.6	6.3	6.8	7.2	7.2	7.2	7.3	7.4	7.2	7
Tennessee	5.7	6.5	7.1	7.2	7.3	7.3	7.3	7.0	6.8	20
Texas	7.0	7.2	7.5	7.5	7.6	7.9	7.9	7.7	7.5	3
Utah	5.6	6.2	6.8	7.2	7.4	7.6	7.7	7.4	7.2	9
Vermont	5.5	6.1	6.7	6.5	6.4	6.3	6.1	6.0	5.8	47
Virginia	5.5	6.5	6.9	7.0	7.2	7.3	7.3	7.1	6.8	21
Washington	5.3	6.0	6.6	6.5	6.6	6.7	6.9	6.6	6.5	29
West Virginia	4.6	4.9	5.5	5.6	5.3	5.8	5.7	5.5	5.4	55
Wisconsin	5.5	6.0	6.7	6.8	6.9	7.0	6.9	6.7	6.3	39
Wyoming	7.1	6.5	7.2	7.1	6.7	7.2	7.1	7.3	7.2	8

Table 2.4: Overall Scores at State/Provincial and Local/Municipal Levels, 1981–2009, and Rank out of 60 for 2009

	1981	1986	1991	1996	2001	2006	2007	2008	2009	Rank
Alberta	7.1	6.1	6.2	7.1	7.4	8.0	8.0	8.0	7.9	6
British Columbia	5.3	5.2	5.3	5.0	5.6	6.4	6.4	6.4	6.3	48
Manitoba	5.7	5.1	4.7	5.2	5.5	5.7	5.8	5.7	5.6	55
New Brunswick	4.6	4.8	4.6	5.1	5.7	5.8	5.8	5.6	5.5	57
Newfoundland & Labrador	3.9	3.8	3.7	3.6	5.0	6.1	6.4	6.7	6.4	42
Nova Scotia	4.6	5.1	4.9	5.2	5.7	5.6	5.6	5.5	5.3	58
Ontario	6.2	6.1	5.4	5.4	6.2	6.3	6.2	6.0	5.9	54
Prince Edward Island	4.7	5.0	4.7	5.1	5.2	5.6	5.5	5.3	5.1	59
Quebec	4.5	4.3	4.1	4.2	4.8	4.9	4.9	4.8	4.7	60
Saskatchewan	5.2	4.7	4.4	5.2	5.3	6.0	6.2	6.6	6.4	41
Alabama	7.8	7.9	7.8	7.8	7.4	7.7	7.6	7.5	7.5	10
Alaska	7.4	6.3	6.3	6.4	6.1	6.5	6.5	5.6	5.5	56
Arizona	8.0	8.0	7.4	8.0	8.1	8.0	7.4	7.2	7.2	24
Arkansas	7.1	7.1	7.3	7.2	7.0	7.0	6.9	6.8	6.8	34
California	6.0	6.3	6.2	6.2	6.5	6.6	6.5	6.3	6.3	46
Colorado	7.7	7.4	7.4	7.6	7.8	7.8	7.7	7.6	7.6	8
Connecticut	7.0	7.7	7.1	7.2	7.3	7.4	7.4	7.2	7.2	22
Delaware	6.9	7.5	7.8	7.9	8.3	8.3	8.3	8.0	8.0	2
Florida	8.3	8.3	7.8	7.9	8.2	7.4	7.4	7.2	7.2	23
Georgia	7.0	7.6	7.4	7.5	7.7	7.7	7.6	7.5	7.5	11
Hawaii	5.9	6.6	6.7	6.1	6.4	6.6	6.6	6.3	6.4	43
Idaho	7.0	7.0	6.8	6.8	6.9	7.1	7.2	6.9	6.8	35
Illinois	6.7	7.0	7.2	7.3	7.5	7.3	7.3	7.1	7.0	29
Indiana	7.3	7.5	7.3	7.8	7.6	7.5	7.6	7.3	7.3	17
Iowa	7.7	7.3	6.8	7.1	7.1	7.4	7.4	7.1	7.1	26
Kansas	7.2	7.3	7.3	7.2	7.4	7.5	7.5	7.4	7.4	12
Kentucky	7.0	7.2	7.0	7.1	6.9	6.9	6.9	6.7	6.7	37
Louisiana	8.4	7.7	7.7	7.8	7.4	7.8	7.6	7.5	7.4	13
Maine	5.7	6.2	5.8	6.1	6.3	6.2	6.2	6.1	6.1	51
Maryland	6.6	7.2	7.2	7.2	7.4	7.4	7.5	7.3	7.3	19
Massachusetts	6.3	7.2	6.8	7.2	7.4	7.4	7.4	7.2	7.2	25
Michigan	5.3	6.1	6.1	6.8	7.0	6.7	6.6	6.4	6.3	45
Minnesota	6.0	6.5	6.4	6.6	6.8	7.0	7.0	6.9	7.0	31
Mississippi	7.6	7.4	7.5	7.4	7.0	6.9	6.9	6.9	6.9	32
Missouri	7.1	7.5	7.5	7.6	7.5	7.5	7.4	7.3	7.3	20
Montana	7.1	6.1	6.0	6.1	6.5	7.0	6.9	6.8	6.6	38
Nebraska	7.4	7.5	7.3	7.5	7.5	7.5	7.6	7.4	7.3	16
Nevada	7.2	7.3	7.0	7.4	7.8	7.9	7.8	7.6	7.6	9
New Hampshire	7.5	8.3	7.7	8.1	8.2	8.1	8.0	7.8	7.8	7
New Jersey	6.2	7.0	6.7	6.6	7.1	6.7	6.6	6.5	6.4	40
New Mexico	7.0	6.6	6.6	6.6	6.4	6.6	6.5	6.3	6.2	49
New York	5.1	5.5	5.5	5.8	6.2	6.2	6.2	6.1	6.1	53
North Carolina	7.2	7.6	7.5	7.5	7.6	7.7	7.7	7.5	7.4	14
North Dakota	7.6	6.5	6.3	7.1	7.1	7.4	7.4	7.2	7.1	27
Ohio	6.5	6.5	6.2	6.4	6.6	6.5	6.4	6.3	6.3	47
Oklahoma	7.5	6.9	6.8	6.9	7.0	7.2	7.3	7.3	7.2	21
Oregon	5.8	6.3	6.2	6.9	6.7	7.2	7.2	7.1	7.0	30
Pennsylvania	6.0	6.7	6.8	7.0	7.1	7.0	6.9	6.8	6.8	33
Rhode Island	5.5	6.3	5.8	5.8	6.2	6.4	6.4	6.2	6.1	50
South Carolina	7.7	7.9	7.7	7.7	7.6	7.3	7.3	7.1	7.1	28
South Dakota	7.0	7.4	7.6	7.8	8.0	8.1	8.1	8.1	8.1	1
Tennessee	8.1	8.2	8.3	8.3	8.3	8.2	8.1	8.0	8.0	4
Texas	8.7	8.2	7.9	7.9	8.0	8.1	8.2	8.1	8.0	3
Utah	6.9	7.1	7.0	7.5	7.4	7.6	7.7	7.5	7.4	15
Vermont	5.7	6.4	6.4	6.6	6.6	6.4	6.3	6.1	6.1	52
Virginia	7.4	8.0	7.7	7.7	8.0	8.0	8.0	7.9	7.9	5
Washington	6.6	6.6	6.4	6.4	6.7	6.9	6.9	6.8	6.8	36
West Virginia	5.5	5.2	5.7	5.9	5.6	6.6	6.7	6.4	6.3	44
Wisconsin	6.1	5.9	6.4	6.6	6.7	6.9	6.9	6.6	6.6	39
Wyoming	8.3	6.6	7.4	7.5	7.1	7.2	7.3	7.3	7.3	18

Table 2.5: Scores for Size of Government at the Federal, State/Provincial, and Local/Municipal Levels, 1981–2009, and Rank out of 60 for 2009

	1981	1986	1991	1996	2001	2006	2007	2008	2009	Rank
Alberta	9.1	7.5	7.5	8.5	8.5	9.2	9.2	9.3	9.3	1
British Columbia	7.9	7.0	6.8	7.2	7.2	7.8	7.8	7.6	7.6	9
Manitoba	7.4	6.3	5.8	6.4	6.6	6.7	6.8	6.7	6.7	27
New Brunswick	3.3	5.3	4.5	5.5	5.8	5.9	5.9	5.6	5.6	47
Newfoundland & Labrador	4.7	4.1	3.2	3.7	5.1	6.7	7.4	7.7	7.7	5
Nova Scotia	2.8	4.8	4.5	4.8	5.6	5.5	5.4	5.2	5.2	50
Ontario	8.2	8.1	7.2	7.6	8.0	7.8	7.7	7.5	7.5	12
Prince Edward Island	4.2	3.6	3.3	4.6	4.3	4.8	4.6	4.4	4.4	59
Quebec	6.5	6.6	6.1	6.4	6.8	6.6	6.5	6.4	6.4	31
Saskatchewan	7.6	5.3	5.4	7.0	6.6	7.2	7.5	8.2	8.2	3
Alabama	6.7	6.8	6.6	6.6	5.9	5.9	5.7	5.6	5.0	56
Alaska	9.3	8.1	7.4	7.4	5.7	6.5	6.7	7.0	5.7	46
Arizona	7.4	7.6	7.0	7.7	7.6	7.6	7.6	7.1	6.5	29
Arkansas	6.6	6.7	6.8	6.9	6.3	6.4	6.3	6.1	5.6	48
California	7.5	7.8	7.8	7.7	7.9	7.9	7.9	7.6	7.2	19
Colorado	8.0	7.9	7.5	8.1	8.4	8.2	8.2	8.1	7.6	8
Connecticut	7.7	8.3	8.0	8.2	8.3	8.3	8.3	7.9	7.7	6
Delaware	8.3	8.6	8.8	8.7	9.0	8.8	8.8	8.6	8.3	2
Florida	6.8	7.3	6.9	7.0	7.3	7.2	7.2	7.0	6.4	30
Georgia	7.6	8.1	8.0	8.1	8.2	7.8	7.7	7.5	7.0	21
Hawaii	7.3	7.8	8.0	7.1	6.8	7.0	7.0	6.8	5.2	51
Idaho	7.2	6.9	6.9	7.3	6.9	7.1	7.0	6.9	5.9	41
Illinois	7.8	8.3	8.2	8.3	8.2	8.1	8.0	7.7	7.4	16
Indiana	7.7	7.9	7.8	8.0	7.9	7.5	7.5	7.2	6.7	28
Iowa	7.3	7.1	7.3	7.5	7.3	7.4	7.6	7.3	6.8	26
Kansas	7.5	7.4	7.4	7.6	7.5	7.3	7.4	7.2	6.3	33
Kentucky	7.2	7.0	7.0	7.2	6.6	6.1	6.3	5.2	5.1	54
Louisiana	8.5	8.0	7.7	7.4	6.9	5.6	6.9	6.8	6.3	32
Maine	6.5	6.9	6.2	6.2	6.3	6.0	5.9	5.8	5.2	53
Maryland	6.3	7.0	6.7	6.8	6.9	6.3	6.7	6.4	5.9	43
Massachusetts	7.2	7.8	7.2	7.8	8.0	7.7	7.6	7.3	6.9	23
Michigan	7.4	7.8	7.3	7.7	7.6	7.0	6.9	6.3	5.9	44
Minnesota	7.7	7.9	7.7	8.1	8.0	8.1	7.8	7.8	7.4	15
Mississippi	5.8	6.1	5.9	6.0	5.2	2.5	4.6	4.9	4.3	60
Missouri	6.6	7.1	7.1	7.2	7.2	6.8	6.7	6.5	6.0	40
Montana	6.8	5.7	5.5	5.3	5.2	5.9	6.1	5.9	5.0	55
Nebraska	7.5	7.4	7.7	8.1	7.6	7.6	7.8	7.5	7.4	14
Nevada	7.8	7.8	7.9	8.4	8.6	8.7	8.7	8.4	8.1	4
New Hampshire	7.4	8.3	8.0	8.2	8.3	7.9	7.8	7.6	7.2	18
New Jersey	7.9	8.3	8.1	8.0	8.2	8.0	7.9	7.7	7.5	13
New Mexico	6.7	5.9	5.9	6.3	5.4	5.6	5.4	5.2	4.5	58
New York	7.5	7.8	7.4	7.3	7.4	7.5	7.5	7.3	7.0	20
North Carolina	7.9	8.3	7.9	7.9	7.9	7.8	7.7	7.5	7.0	22
North Dakota	7.1	5.7	5.8	6.9	5.4	6.5	6.7	6.8	6.2	36
Ohio	7.3	7.5	7.2	7.5	7.4	6.9	6.5	6.7	6.1	37
Oklahoma	7.9	7.3	6.8	6.8	6.4	6.8	6.7	6.9	6.2	35
Oregon	6.8	7.2	7.1	7.4	7.1	7.6	7.5	7.4	6.8	24
Pennsylvania	6.6	7.1	7.2	7.0	7.0	6.8	6.7	6.6	6.2	34
Rhode Island	6.4	7.1	6.5	6.4	6.7	6.8	6.7	6.4	5.9	42
South Carolina	6.9	7.4	6.9	7.0	6.8	6.3	6.2	5.9	5.2	52
South Dakota	6.7	6.7	6.9	7.4	7.0	6.8	7.0	7.2	6.8	25
Tennessee	7.2	7.5	7.4	7.5	7.4	7.1	7.1	6.7	6.1	38
Texas	8.7	8.4	8.2	8.2	8.2	8.2	8.4	8.1	7.7	7
Utah	7.4	7.3	7.4	8.0	7.9	8.0	8.0	8.0	7.5	11
Vermont	6.7	7.4	7.2	7.1	6.8	6.4	6.2	5.8	5.3	49
Virginia	6.5	7.2	7.0	7.1	7.1	6.9	6.8	6.6	5.7	45
Washington	7.2	7.5	7.6	7.5	7.7	7.8	7.8	7.7	7.2	17
West Virginia	5.8	5.8	5.4	5.2	4.5	5.1	5.1	4.8	4.5	57
Wisconsin	7.3	7.6	7.5	7.8	7.6	7.5	7.4	7.2	6.0	39
Wyoming	8.7	7.8	7.8	7.6	7.0	7.5	7.7	7.8	7.6	10

Table 2.6: Scores for Size of Government at the State/Provincial, and Local/Municipal Levels, 1981–2009, and Rank out of 60 for 2009

	1981	1986	1991	1996	2001	2006	2007	2008	2009	Rank
Alberta	7.6	5.3	6.1	7.6	7.3	8.6	8.6	8.8	8.8	1
British Columbia	6.4	5.8	5.8	5.5	6.0	7.3	7.2	7.0	7.0	31
Manitoba	7.2	6.3	5.5	5.9	6.5	6.9	6.9	6.9	6.9	35
New Brunswick	5.4	5.6	4.9	5.6	6.1	6.4	6.2	6.0	6.0	47
Newfoundland & Labrador	4.6	4.6	3.8	3.2	5.7	6.7	7.5	8.0	8.0	8
Nova Scotia	4.7	6.0	5.5	5.8	6.6	6.2	6.0	5.8	5.8	53
Ontario	7.4	7.3	5.8	5.8	7.1	7.2	7.0	6.6	6.6	38
Prince Edward Island	5.0	5.3	4.7	5.3	5.5	6.3	5.8	5.6	5.6	56
Quebec	5.6	5.1	4.8	4.5	5.8	5.8	5.5	5.4	5.4	59
Saskatchewan	5.9	4.8	4.6	6.1	6.2	7.3	7.4	8.1	8.1	6
Alabama	7.9	8.0	7.7	7.4	6.1	7.1	6.8	6.7	6.7	37
Alaska	8.9	6.7	5.9	5.2	4.1	5.2	5.6	5.7	5.7	55
Arizona	8.6	8.6	7.6	8.0	8.0	8.0	7.9	7.5	7.5	16
Arkansas	8.2	8.3	8.1	7.8	7.3	7.3	7.1	7.0	7.0	32
California	6.7	6.7	6.1	5.9	6.6	6.5	6.5	6.2	6.2	45
Colorado	8.4	8.0	7.8	7.8	8.2	8.0	7.9	7.9	7.9	10
Connecticut	7.8	8.5	7.3	7.4	7.7	7.9	7.9	7.7	7.7	14
Delaware	7.7	8.6	8.6	8.4	8.8	8.5	8.5	8.3	8.3	5
Florida	8.8	8.7	7.9	7.9	8.1	7.4	7.6	7.2	7.2	24
Georgia	8.4	8.7	8.2	8.0	8.2	8.0	7.8	7.5	7.5	19
Hawaii	7.1	8.0	8.1	6.4	6.7	7.4	7.3	7.0	7.0	30
Idaho	8.1	7.8	7.8	7.2	7.2	7.3	7.4	7.1	7.1	28
Illinois	7.0	7.5	7.6	7.5	7.6	7.4	7.4	7.1	7.1	27
Indiana	8.2	8.5	8.2	8.3	8.2	7.8	7.7	7.5	7.5	17
Iowa	7.9	7.4	7.6	7.7	7.4	7.6	7.4	7.2	7.2	26
Kansas	8.2	8.3	8.0	7.9	7.8	7.8	7.9	7.7	7.7	12
Kentucky	7.6	8.1	7.6	7.5	7.1	6.4	6.3	6.1	6.1	46
Louisiana	8.9	7.8	7.9	7.6	6.8	7.3	7.1	6.6	6.6	39
Maine	6.7	6.8	5.8	6.0	6.2	6.0	6.0	5.9	5.9	52
Maryland	7.2	7.8	7.2	7.3	7.4	7.3	7.2	7.0	7.0	33
Massachusetts	6.6	7.6	6.5	7.3	7.7	7.5	7.4	7.2	7.2	25
Michigan	5.4	6.1	5.7	6.9	7.2	6.5	6.3	6.0	6.0	48
Minnesota	7.2	7.1	6.7	6.8	6.8	7.1	7.0	6.9	6.9	34
Mississippi	7.6	7.5	7.5	7.3	6.4	6.0	5.9	6.0	6.0	49
Missouri	8.2	8.8	8.4	8.3	7.8	7.6	7.5	7.3	7.3	23
Montana	7.7	6.1	5.9	5.5	6.1	6.5	6.6	6.4	6.4	43
Nebraska	9.0	8.5	8.6	8.6	8.4	8.2	8.2	8.1	8.1	7
Nevada	8.1	8.0	7.3	8.3	8.6	8.7	8.6	8.3	8.3	4
New Hampshire	8.4	9.2	8.2	8.3	8.5	8.2	8.1	7.9	7.9	11
New Jersey	6.8	7.8	7.6	6.9	7.5	6.9	6.8	6.8	6.8	36
New Mexico	8.5	7.6	7.3	6.9	6.1	6.3	6.1	5.9	5.9	51
New York	6.1	6.3	5.6	5.2	6.0	6.1	6.2	5.9	5.9	50
North Carolina	8.1	8.6	8.0	7.8	7.7	8.0	7.9	7.7	7.7	13
North Dakota	8.6	7.1	7.0	7.4	7.1	7.6	7.6	7.4	7.4	22
Ohio	6.5	6.7	6.0	6.3	6.2	5.6	5.7	5.3	5.3	60
Oklahoma	8.8	7.8	7.5	7.4	7.3	7.5	7.4	7.5	7.5	18
Oregon	6.5	7.0	6.8	6.4	5.9	6.8	6.7	6.6	6.6	40
Pennsylvania	5.9	6.7	6.8	6.7	6.9	6.5	6.6	6.4	6.4	42
Rhode Island	5.8	6.7	5.3	5.3	5.8	6.1	5.9	5.6	5.6	57
South Carolina	7.9	8.3	7.7	7.3	7.0	6.1	6.1	5.6	5.6	58
South Dakota	7.9	8.4	8.5	8.5	8.4	8.4	8.3	8.4	8.4	3
Tennessee	8.4	8.7	8.4	8.2	8.0	7.6	7.5	7.4	7.4	21
Texas	9.7	8.8	8.6	8.2	8.2	8.4	8.5	8.4	8.4	2
Utah	8.0	8.1	7.7	8.0	7.5	7.6	7.7	7.5	7.5	20
Vermont	6.4	7.0	6.4	6.7	6.6	6.4	6.1	5.8	5.8	54
Virginia	8.3	8.8	8.3	7.9	8.3	8.1	8.0	7.9	7.9	9
Washington	7.2	7.2	6.8	6.5	6.7	7.4	7.3	7.1	7.1	29
West Virginia	6.6	5.8	5.7	5.5	4.7	6.8	7.0	6.3	6.3	44
Wisconsin	7.3	6.3	6.8	7.1	6.7	6.8	6.7	6.4	6.4	41
Wyoming	9.5	7.1	7.4	7.3	7.0	7.5	7.5	7.7	7.7	15

Table 2.7: Scores for Takings and Discriminatory Taxation at the Federal, State/Provincial, and Local/Municipal Levels, 1981–2009, and Rank out of 60 for 2009

	1981	1986	1991	1996	2001	2006	2007	2008	2009	Rank
Alberta	6.3	6.5	5.7	6.0	7.0	7.2	7.2	7.7	7.7	1
British Columbia	4.5	4.5	4.0	3.2	4.4	4.8	5.0	5.3	5.3	50
Manitoba	4.9	4.3	3.9	3.9	4.3	4.6	4.9	5.1	5.1	53
New Brunswick	3.2	4.0	3.2	3.5	4.4	4.4	4.6	4.6	4.6	56
Newfoundland & Labrador	4.5	4.1	3.0	2.7	4.2	6.3	6.9	7.2	7.5	3
Nova Scotia	3.9	4.2	3.7	3.5	4.2	3.8	4.1	4.3	4.3	58
Ontario	4.3	4.1	3.7	3.5	4.1	4.3	4.5	4.6	4.6	57
Prince Edward Island	5.0	4.7	3.7	3.2	3.3	3.4	3.6	3.9	3.9	59
Quebec	3.8	3.4	2.8	3.0	3.2	3.2	3.5	3.6	3.6	60
Saskatchewan	4.8	5.1	4.0	4.1	4.6	5.3	5.8	6.7	6.7	18
Alabama	5.3	5.9	7.2	6.4	6.4	6.6	6.4	6.4	6.7	17
Alaska	6.1	6.8	7.4	7.4	7.1	7.6	7.1	5.2	5.2	52
Arizona	4.9	5.1	6.2	5.9	6.4	6.2	6.0	5.9	6.0	36
Arkansas	5.4	5.5	7.0	6.0	6.0	5.5	5.6	5.6	5.8	44
California	5.0	5.2	6.3	5.6	5.6	5.6	5.6	5.6	5.9	40
Colorado	5.2	5.6	6.7	6.5	6.6	6.6	6.5	6.5	6.8	11
Connecticut	4.5	5.6	7.1	5.8	5.9	6.1	6.0	5.9	6.3	28
Delaware	5.8	6.3	8.2	7.5	7.8	7.5	7.8	6.8	7.5	2
Florida	4.3	5.2	6.4	5.5	5.8	5.6	5.5	5.5	5.8	41
Georgia	5.4	5.9	7.1	6.4	6.6	6.5	6.7	7.0	7.2	5
Hawaii	4.9	5.4	6.5	5.7	5.8	5.9	5.7	5.2	5.6	47
Idaho	5.4	5.3	6.2	5.9	5.9	6.1	6.0	6.2	6.5	23
Illinois	4.8	5.7	7.0	6.3	6.4	6.5	6.5	6.5	6.8	12
Indiana	5.2	5.8	7.1	6.7	6.7	6.7	6.9	6.7	6.7	19
Iowa	5.2	5.3	6.7	6.3	6.5	6.9	7.0	6.7	6.9	10
Kansas	5.2	5.4	6.7	6.0	6.1	6.2	6.2	6.3	6.4	26
Kentucky	5.5	5.9	7.0	6.4	6.2	6.2	6.1	5.9	6.0	35
Louisiana	6.3	6.5	7.4	6.9	6.5	7.8	7.1	7.1	7.0	9
Maine	4.6	4.8	6.2	5.2	5.3	5.3	5.4	5.2	5.4	49
Maryland	4.6	5.2	6.6	6.0	6.0	5.8	5.8	5.9	6.3	27
Massachusetts	4.9	5.7	7.1	6.0	6.2	6.2	6.2	5.9	6.2	30
Michigan	4.7	5.2	6.7	5.9	6.2	6.1	6.0	6.0	6.2	29
Minnesota	5.1	5.4	6.3	5.5	6.0	6.0	5.8	5.8	6.0	34
Mississippi	5.1	5.4	6.7	6.1	5.8	5.9	5.8	5.4	5.8	42
Missouri	5.2	5.9	7.3	6.5	6.6	6.5	6.3	6.5	6.6	21
Montana	5.3	5.2	6.5	5.6	5.8	6.0	5.9	5.7	5.9	38
Nebraska	5.4	5.6	6.9	6.4	6.3	6.5	6.5	6.1	6.6	20
Nevada	4.7	5.5	6.8	6.0	6.3	6.4	6.6	6.9	7.2	4
New Hampshire	4.9	6.0	7.4	6.8	6.6	6.7	6.7	6.1	6.5	24
New Jersey	4.1	5.1	6.4	5.5	5.5	5.5	5.0	4.8	5.1	55
New Mexico	5.4	5.2	6.3	5.8	5.9	5.8	5.5	4.9	5.3	51
New York	4.6	4.8	6.3	5.5	5.7	5.9	5.6	5.6	5.9	39
North Carolina	5.6	5.8	7.3	6.5	6.9	6.5	6.4	6.5	6.7	16
North Dakota	5.5	5.3	5.8	6.1	6.1	6.0	6.0	5.7	5.7	45
Ohio	4.9	5.3	6.6	5.9	6.2	6.5	6.1	5.9	6.0	37
Oklahoma	5.5	5.7	6.6	6.0	6.0	6.3	6.7	6.9	7.1	6
Oregon	4.9	5.0	6.2	6.6	6.7	6.9	7.0	6.5	6.8	14
Pennsylvania	4.5	5.3	6.8	5.9	6.4	6.1	6.0	5.9	6.1	32
Rhode Island	4.2	4.6	5.9	5.0	5.1	5.4	4.9	5.0	5.1	54
South Carolina	5.1	5.4	6.9	6.2	6.3	3.5	5.8	6.0	6.2	31
South Dakota	5.0	6.0	7.3	6.9	7.0	6.8	6.8	7.1	7.1	8
Tennessee	5.2	6.0	7.4	6.6	6.8	6.7	6.7	6.6	6.8	13
Texas	5.8	6.3	7.3	6.8	6.8	7.0	7.0	7.0	7.1	7
Utah	5.1	5.6	7.0	6.5	6.7	6.8	6.9	6.3	6.6	22
Vermont	4.7	4.7	6.4	5.4	5.4	5.3	5.0	5.3	5.4	48
Virginia	5.1	5.8	7.1	6.4	6.7	6.6	6.6	6.5	6.7	15
Washington	4.4	5.2	6.2	5.5	5.8	5.7	6.0	5.5	6.1	33
West Virginia	4.2	4.5	5.9	5.6	5.0	5.5	5.5	5.4	5.6	46
Wisconsin	4.6	4.7	6.4	5.7	5.8	6.0	6.0	5.5	5.8	43
Wyoming	5.8	5.6	7.6	6.8	5.8	6.0	5.8	6.0	6.4	25

Table 2.8: Scores for Takings and Discriminatory Taxation at the State/Provincial, and Local/Municipal Levels, 1981–2009, and Rank out of 60 for 2009

	1981	1986	1991	1996	2001	2006	2007	2008	2009	Rank
Alberta	9.0	8.5	7.9	8.1	8.7	9.0	8.8	8.9	8.9	1
British Columbia	6.4	6.0	6.2	5.5	6.4	6.8	6.8	6.9	6.8	40
Manitoba	6.6	5.7	5.5	5.9	6.0	6.2	6.3	6.3	6.2	50
New Brunswick	6.3	5.4	5.2	5.4	6.3	6.2	6.1	6.0	5.9	56
Newfoundland & Labrador	5.6	4.9	4.7	4.5	5.8	7.2	7.3	7.8	7.8	9
Nova Scotia	6.6	5.9	5.5	5.7	5.9	5.9	6.0	6.0	5.9	55
Ontario	6.8	6.1	5.8	5.6	6.1	6.2	6.2	6.1	6.0	53
Prince Edward Island	6.5	6.1	5.8	5.5	5.2	5.5	5.5	5.5	5.5	58
Quebec	5.7	4.9	4.6	5.2	4.9	5.1	5.1	5.2	5.1	59
Saskatchewan	6.9	6.4	5.4	5.6	6.1	6.6	7.0	7.4	7.3	26
Alabama	8.2	8.1	7.9	7.8	7.8	7.7	7.7	7.7	7.7	12
Alaska	7.8	6.9	7.2	8.1	8.4	8.2	7.5	4.7	4.7	60
Arizona	7.6	7.1	6.4	7.3	7.5	7.2	7.0	7.0	7.1	37
Arkansas	7.7	7.2	7.4	7.0	6.9	6.5	6.4	6.5	6.6	45
California	6.3	6.3	6.3	6.3	6.5	6.5	6.5	6.3	6.3	48
Colorado	8.2	7.5	7.2	7.5	7.7	7.6	7.6	7.6	7.7	14
Connecticut	8.1	8.1	7.6	7.2	7.3	7.4	7.4	7.2	7.3	28
Delaware	7.1	7.6	8.3	8.3	8.9	8.8	8.9	8.6	8.7	2
Florida	8.1	7.8	7.4	7.3	7.7	7.3	7.2	7.1	7.2	30
Georgia	7.5	7.6	7.3	7.3	7.4	7.3	7.3	7.3	7.3	25
Hawaii	5.9	6.4	6.2	5.7	6.2	6.1	6.0	5.7	5.8	57
Idaho	7.3	6.9	6.6	6.5	6.7	6.6	6.7	6.6	6.7	44
Illinois	7.7	7.9	7.6	7.6	7.7	7.6	7.6	7.5	7.6	19
Indiana	8.2	7.8	7.7	8.0	8.0	7.6	7.9	7.6	7.7	13
Iowa	8.2	7.1	7.1	7.2	7.5	7.7	7.8	7.6	7.7	15
Kansas	7.2	6.7	7.4	6.7	7.0	6.8	6.9	6.9	7.0	39
Kentucky	7.6	7.4	7.2	7.2	7.2	7.3	7.3	7.3	7.3	27
Louisiana	9.0	7.7	7.3	7.9	7.4	7.6	7.3	7.3	7.4	23
Maine	6.3	6.2	6.1	6.0	6.0	6.0	6.0	6.0	6.1	52
Maryland	7.5	7.5	7.5	7.4	7.5	7.5	7.8	7.5	7.6	20
Massachusetts	7.4	7.7	7.6	7.5	7.7	7.5	7.6	7.6	7.6	16
Michigan	6.7	7.1	7.1	7.3	7.5	7.2	7.2	7.1	7.1	35
Minnesota	5.8	6.7	6.7	6.6	6.9	7.0	6.9	6.9	7.0	38
Mississippi	7.5	6.9	7.1	6.8	6.6	6.6	6.7	6.7	6.7	43
Missouri	8.4	8.0	7.9	7.8	7.8	7.7	7.7	7.7	7.8	10
Montana	8.0	7.0	6.9	7.0	7.3	7.6	7.6	7.6	7.6	18
Nebraska	7.1	7.1	7.2	7.2	7.2	7.1	7.1	7.1	7.2	32
Nevada	8.0	7.6	7.6	7.4	7.8	7.8	7.8	7.7	7.8	11
New Hampshire	8.9	9.0	8.5	8.8	8.8	8.6	8.5	8.5	8.6	3
New Jersey	7.5	7.5	6.8	6.8	7.1	6.7	6.5	6.2	6.0	54
New Mexico	7.2	6.5	6.3	6.4	6.3	6.6	6.5	6.5	6.5	46
New York	5.3	5.1	5.9	6.3	6.7	6.4	6.4	6.3	6.4	47
North Carolina	7.7	7.6	7.5	7.4	7.7	7.4	7.5	7.3	7.4	22
North Dakota	8.6	6.4	5.7	7.3	7.2	7.3	7.4	7.0	7.1	36
Ohio	7.7	6.7	6.9	6.7	6.9	6.9	6.9	7.1	7.1	34
Oklahoma	7.8	6.9	6.9	6.8	6.9	7.0	7.3	7.4	7.4	21
Oregon	6.6	6.6	6.6	8.0	7.9	8.3	8.3	8.3	8.4	5
Pennsylvania	7.7	7.7	7.6	7.6	7.8	7.4	7.4	7.3	7.4	24
Rhode Island	5.8	6.2	6.3	5.8	6.3	6.3	6.2	6.2	6.2	49
South Carolina	7.3	7.1	7.2	7.2	7.2	7.1	7.0	7.1	7.2	31
South Dakota	8.0	7.9	8.1	8.1	8.3	8.2	8.3	8.4	8.5	4
Tennessee	8.3	8.1	8.2	8.2	8.3	8.0	7.9	7.9	8.0	7
Texas	9.0	8.3	8.0	8.1	8.2	8.3	8.3	8.2	8.3	6
Utah	7.8	7.2	7.2	7.6	7.7	7.5	7.8	7.5	7.6	17
Vermont	5.8	6.2	6.8	6.5	6.7	6.2	6.0	6.1	6.1	51
Virginia	7.9	7.9	7.8	7.9	8.0	7.9	7.8	7.9	7.9	8
Washington	7.6	7.0	6.9	6.7	7.3	7.2	7.2	7.2	7.3	29
West Virginia	5.6	5.3	6.2	6.5	6.1	6.5	6.7	6.7	6.8	42
Wisconsin	6.6	6.2	6.6	6.6	7.0	7.1	7.1	6.7	6.8	41
Wyoming	8.6	6.3	8.1	8.1	7.4	6.9	7.1	7.1	7.1	33

Table 2.9: Scores for Labor Market Freedom at the Federal, State/Provincial, and Local/Municipal Levels, 1981–2009, and Rank out of 60 for 2009

	1981	1986	1991	1996	2001	2006	2007	2008	2009	Rank
Alberta	5.3	5.1	5.3	6.3	6.8	7.2	7.3	7.2	6.7	40
British Columbia	3.4	4.1	4.3	4.2	4.7	5.6	5.7	5.7	5.5	52
Manitoba	3.0	3.2	3.3	4.0	4.3	4.4	4.5	4.3	4.1	58
New Brunswick	1.9	3.4	3.6	4.4	4.9	5.3	5.4	5.0	4.8	54
Newfoundland & Labrador	0.9	1.7	2.5	3.0	3.9	5.1	5.1	4.9	4.0	60
Nova Scotia	1.8	3.1	3.7	4.2	4.8	5.0	5.0	4.8	4.4	56
Ontario	4.5	5.1	4.8	5.0	5.9	5.9	5.9	5.7	5.3	53
Prince Edward Island	2.4	3.2	3.3	4.3	4.5	4.7	4.8	4.4	4.0	59
Quebec	2.3	3.3	3.1	3.4	4.1	4.4	4.5	4.4	4.1	57
Saskatchewan	3.0	3.4	3.7	4.5	4.5	4.8	5.1	5.2	4.6	55
Alabama	4.2	5.5	5.9	6.8	7.0	7.6	7.5	7.2	6.7	42
Alaska	4.9	5.2	5.6	6.1	6.1	6.5	6.5	6.5	6.3	48
Arizona	5.3	6.6	6.6	7.6	7.8	8.0	7.6	7.5	7.3	18
Arkansas	4.9	6.0	6.2	7.2	7.3	7.8	7.6	7.4	7.3	20
California	5.2	6.3	6.5	7.0	7.0	7.4	7.3	7.0	6.9	36
Colorado	5.7	6.6	6.8	7.6	7.9	8.3	8.0	7.9	7.7	5
Connecticut	5.5	6.9	7.0	7.6	7.5	7.6	7.6	7.5	7.3	19
Delaware	5.3	6.7	7.1	7.7	7.9	8.3	8.2	7.8	7.8	2
Florida	5.3	6.7	6.7	7.4	7.7	8.0	8.0	7.8	7.6	7
Georgia	5.0	6.6	6.9	7.6	7.9	8.3	8.3	8.0	7.6	8
Hawaii	4.1	5.2	5.6	6.0	6.2	6.4	6.5	6.3	6.2	50
Idaho	4.8	5.7	6.2	7.0	7.2	7.8	7.9	7.5	7.1	29
Illinois	5.1	6.1	6.4	7.0	7.3	7.4	7.6	7.2	6.9	35
Indiana	4.6	5.9	6.1	7.1	7.3	7.8	7.8	7.5	7.2	22
Iowa	5.2	6.0	6.2	6.9	7.1	7.7	7.7	7.3	7.2	26
Kansas	5.4	6.3	6.3	7.0	7.2	7.8	7.9	7.6	7.3	17
Kentucky	4.9	5.9	6.3	6.9	7.1	7.6	7.5	7.4	7.0	34
Louisiana	6.0	6.4	6.8	7.1	7.2	8.2	8.2	8.0	7.6	10
Maine	3.9	5.6	5.8	6.7	7.0	7.1	7.1	6.9	6.8	38
Maryland	4.3	5.9	6.4	6.8	7.1	7.5	7.5	7.4	7.2	25
Massachusetts	5.0	6.7	6.9	7.4	7.3	7.7	7.7	7.4	7.2	24
Michigan	4.2	5.5	5.7	6.5	6.8	7.0	6.7	6.6	6.4	47
Minnesota	5.0	6.1	6.2	6.9	7.3	7.7	7.7	7.5	7.4	16
Mississippi	4.4	5.6	5.8	6.8	6.7	7.3	7.2	7.0	6.7	41
Missouri	4.8	6.1	6.5	7.0	7.2	7.7	7.4	7.3	7.1	27
Montana	4.8	5.1	5.3	6.1	6.5	7.3	7.0	6.8	6.2	49
Nebraska	5.4	6.2	6.4	7.3	7.5	8.0	8.0	7.7	7.4	13
Nevada	5.4	6.5	6.6	7.0	7.5	7.9	7.7	7.5	7.2	21
New Hampshire	5.4	7.0	7.0	7.6	7.9	8.1	8.1	7.6	7.5	12
New Jersey	4.6	6.2	6.3	6.7	7.3	7.2	7.2	7.3	7.1	32
New Mexico	4.9	5.6	5.8	6.6	6.7	7.2	7.3	6.9	6.5	44
New York	4.3	5.5	5.6	6.4	6.6	6.8	6.7	6.7	6.5	43
North Carolina	5.5	7.0	7.2	7.8	8.0	8.4	8.2	8.0	7.7	4
North Dakota	5.7	5.9	6.1	7.0	7.2	7.8	7.9	7.7	7.4	15
Ohio	4.7	5.8	6.1	6.8	7.0	7.6	7.2	7.1	6.9	37
Oklahoma	5.8	6.0	6.2	6.7	7.1	7.7	7.6	7.5	7.1	31
Oregon	4.4	5.6	5.6	6.7	6.6	7.1	7.1	6.8	6.5	45
Pennsylvania	4.3	5.8	6.3	6.9	7.1	7.6	7.3	7.2	7.1	28
Rhode Island	4.7	6.1	6.1	6.7	6.9	7.4	7.3	7.1	7.0	33
South Carolina	5.0	6.5	6.8	7.5	7.5	8.0	7.9	7.5	7.2	23
South Dakota	5.0	6.1	6.3	7.2	7.6	8.0	8.1	8.0	7.7	6
Tennessee	4.7	6.1	6.6	7.4	7.6	8.2	8.1	7.9	7.5	11
Texas	6.6	6.9	7.1	7.6	7.9	8.4	8.4	8.2	7.8	3
Utah	4.4	5.7	6.1	7.1	7.5	8.1	8.1	7.8	7.4	14
Vermont	5.1	6.3	6.6	7.1	6.9	7.1	7.1	7.0	6.7	39
Virginia	4.9	6.5	6.7	7.4	7.9	8.4	8.4	8.2	7.9	1
Washington	4.3	5.3	5.9	6.4	6.5	6.7	6.7	6.6	6.4	46
West Virginia	3.6	4.6	5.1	6.0	6.3	6.8	6.6	6.3	6.1	51
Wisconsin	4.7	5.8	6.1	6.9	7.2	7.4	7.4	7.3	7.1	30
Wyoming	6.7	6.2	6.3	7.0	7.2	7.9	8.0	7.9	7.6	9

Table 2.10: Scores for Labor Market Freedom at the State/Provincial, and Local/Municipal Levels, 1981–2009, and Rank out of 60 for 2009

	1981	1986	1991	1996	2001	2006	2007	2008	2009	Rank
Alberta	4.7	4.5	4.8	5.7	6.1	6.4	6.5	6.4	5.9	48
British Columbia	3.1	3.8	4.0	3.9	4.2	5.1	5.2	5.2	5.0	53
Manitoba	3.2	3.2	3.2	3.7	3.9	4.0	4.2	4.0	3.8	57
New Brunswick	2.3	3.5	3.6	4.2	4.6	5.0	5.0	4.7	4.5	54
Newfoundland & Labrador	1.4	2.0	2.6	2.9	3.5	4.4	4.5	4.2	3.4	60
Nova Scotia	2.4	3.5	3.9	4.2	4.6	4.8	4.8	4.6	4.2	56
Ontario	4.4	4.8	4.6	4.8	5.5	5.5	5.5	5.2	5.0	52
Prince Edward Island	2.8	3.6	3.6	4.5	4.8	5.0	5.0	4.7	4.3	55
Quebec	2.2	3.0	2.8	3.1	3.6	3.9	4.0	3.8	3.6	59
Saskatchewan	2.6	3.0	3.3	3.9	3.8	4.0	4.2	4.3	3.8	58
Alabama	7.3	7.6	7.8	8.2	8.3	8.4	8.4	8.2	8.0	5
Alaska	5.3	5.4	5.8	6.1	5.9	6.3	6.3	6.3	6.1	44
Arizona	7.7	8.1	8.3	8.6	8.8	8.6	7.2	7.0	7.0	19
Arkansas	5.5	6.0	6.3	6.8	6.8	7.2	7.1	6.9	6.9	20
California	5.0	6.0	6.1	6.5	6.4	6.8	6.7	6.4	6.3	40
Colorado	6.5	6.5	7.0	7.5	7.4	7.8	7.5	7.4	7.3	12
Connecticut	5.2	6.4	6.5	7.0	6.8	6.9	6.9	6.8	6.6	31
Delaware	5.8	6.4	6.5	7.1	7.2	7.6	7.4	7.1	7.1	15
Florida	7.8	8.3	8.2	8.5	8.7	7.5	7.5	7.3	7.2	13
Georgia	5.0	6.5	6.7	7.2	7.4	7.8	7.8	7.8	7.6	8
Hawaii	4.7	5.5	5.9	6.1	6.2	6.3	6.4	6.2	6.2	42
Idaho	5.6	6.3	6.0	6.7	6.7	7.3	7.4	7.0	6.7	29
Illinois	5.5	5.7	6.3	6.8	7.1	6.9	7.0	6.6	6.4	38
Indiana	5.5	6.4	6.1	7.0	6.7	7.2	7.2	6.9	6.7	30
Iowa	7.1	7.4	5.7	6.4	6.5	7.0	7.0	6.6	6.5	34
Kansas	6.3	6.8	6.5	7.0	7.3	7.7	7.8	7.7	7.6	7
Kentucky	5.8	6.0	6.1	6.6	6.6	7.0	7.0	6.9	6.6	33
Louisiana	7.1	7.6	7.9	7.9	8.0	8.4	8.5	8.4	8.2	3
Maine	4.1	5.6	5.6	6.4	6.6	6.7	6.7	6.5	6.5	36
Maryland	5.0	6.4	6.7	7.0	7.2	7.5	7.6	7.5	7.3	9
Massachusetts	4.8	6.3	6.4	6.9	6.8	7.2	7.2	6.8	6.7	28
Michigan	3.9	5.0	5.6	6.2	6.2	6.4	6.2	6.0	5.8	50
Minnesota	4.9	5.7	5.8	6.4	6.7	7.0	7.1	7.0	7.0	18
Mississippi	7.6	7.9	7.9	8.2	8.1	8.3	8.2	8.2	8.1	4
Missouri	4.8	5.9	6.3	6.6	6.8	7.2	7.0	6.8	6.7	25
Montana	5.6	5.2	5.2	5.9	6.2	6.9	6.6	6.5	5.9	47
Nebraska	6.2	6.8	6.1	6.8	6.9	7.3	7.4	7.1	6.8	23
Nevada	5.5	6.4	6.2	6.5	6.9	7.3	7.1	6.9	6.7	24
New Hampshire	5.2	6.6	6.6	7.1	7.3	7.5	7.4	7.1	6.9	21
New Jersey	4.3	5.7	5.9	6.2	6.7	6.6	6.6	6.6	6.4	37
New Mexico	5.2	5.6	6.1	6.4	6.7	6.8	6.9	6.5	6.2	43
New York	4.0	5.0	5.1	5.8	5.9	6.1	6.1	6.0	5.8	51
North Carolina	5.7	6.6	7.0	7.3	7.4	7.7	7.6	7.4	7.1	14
North Dakota	5.7	5.8	6.1	6.6	6.8	7.3	7.4	7.2	6.9	22
Ohio	5.2	6.0	5.7	6.3	6.7	7.2	6.7	6.5	6.4	39
Oklahoma	5.9	6.0	6.0	6.4	6.8	7.2	7.2	7.0	6.7	27
Oregon	4.5	5.3	5.3	6.3	6.1	6.6	6.6	6.3	6.0	45
Pennsylvania	4.3	5.6	6.0	6.6	6.7	7.2	6.9	6.8	6.7	26
Rhode Island	4.9	5.9	5.8	6.4	6.6	7.0	6.9	6.7	6.6	32
South Carolina	8.0	8.4	8.4	8.6	8.4	8.7	8.6	8.5	8.4	2
South Dakota	5.0	5.9	6.2	6.8	7.2	7.6	7.6	7.5	7.3	10
Tennessee	7.6	7.9	8.2	8.4	8.6	8.8	8.8	8.7	8.6	1
Texas	7.3	7.6	7.1	7.5	7.6	7.7	7.8	7.6	7.3	11
Utah	4.9	6.0	6.2	6.8	7.2	7.7	7.7	7.4	7.1	17
Vermont	4.9	6.0	6.2	6.7	6.5	6.6	6.6	6.5	6.3	41
Virginia	6.0	7.2	7.2	7.5	7.7	8.2	8.2	8.0	7.8	6
Washington	4.9	5.6	5.6	6.0	6.1	6.2	6.3	6.2	5.9	46
West Virginia	4.3	4.5	5.1	5.7	6.0	6.4	6.3	6.0	5.9	49
Wisconsin	4.5	5.3	5.7	6.3	6.5	6.7	6.8	6.6	6.5	35
Wyoming	6.8	6.5	6.6	7.2	6.8	7.2	7.3	7.3	7.1	16

Areas and Components Used in *Economic Freedom of North America 2011*

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 3

US decline and Canadian ascent in the rankings

by Avilia Bueno and Fred McMahon

Canada and the United States have pursued very different economic courses through the first decade plus a year of the 21st century. One course, followed by the United States, has led to decreasing economic freedom, especially as the financial crisis struck; the other has led Canada to a stable level of economic freedom with only small declines during the crisis. Canada's course was set in the mid-1990s, when the federal government dramatically reduced government spending. This led in time to a budget surplus, which disappeared during the recent financial crisis but allowed the federal government in Canada, unlike the American government, to avoid going deeply into deficit.

The United States changed course in the early years of the new millennium, from fiscal responsibility and controlled spending to significant increases in spending and the creation of a huge budget deficit at the federal level, one that will likely lead to decreases in economic freedom in the future as coming generations will be taxed to pay off the debt created by the deficits. These fiscal developments and their impact on economic freedom through Area 1: Size of Government have resulted in Canadian provinces, on average, moving up in the ranks for economic freedom compared to the US states.

However, some developments that have suppressed economic freedom in the United States cannot be captured fully in comparisons of subnational jurisdictions since a number of policy areas—trade, monetary policy, and much of the financial and economic regulatory structure—are constitutionally in whole or in large part the responsibility of the federal governments. Such areas have been particular points of weakness for the United States and, as is clear from the index in *Economic Freedom of the World: 2011 Report* (Gwartney, Lawson, Hall, 2011), have led to a greater decline for the United States than for Canada on a national level than on the subnational level.¹

[1] The most recent data, found in *Economic Freedom of the World: 2011 Report*, is from 2009. In the Summary Economic Freedom Ratings, Canada placed sixth while the United States placed tenth.

As well as the effects of loosened spending controls, the United States has faced several stock-market scandals, such as that brought on by Enron, and a housing bubble, at least in part caused by a failure of policy, the intervention of federal housing agencies in the housing market.² Both developments have led to a spurt of regulatory growth, which has limited economic freedom. In addition, they have brought about numerous criminal prosecutions, which, if some are seen as having an arbitrary nature, may have contributed to a huge drop—from 9.23 in 2000 to 7.30 in 2009—in the United States’ score for Area 2: Legal Structure and Property Rights in *Economic Freedom of the World: 2011 Annual Report*.³

Canada, on the other hand, has been relatively free of stock-market scandals, the effects of the housing bubble, and the type of policies that helped contribute to the bubble in the United States. As a result, there has been little public pressure to increase the regulation in Canada. While the United States has declined in Area 5: Regulation of Credit, Labor, and Business from 8.19 in 2000 to 7.49 in 2009, Canada has increased its score in the area from 7.69 to 8.15 over the same period. As an aside, it is worth noting that Canada achieved a higher economic-freedom score in credit regulations in the period leading up to the financial crisis—the Canadian regulatory climate was less restrictive of economic freedom than that in the United States—indicating that the solution to the crisis is not freedom-limiting regulations but rather properly structured regulations and the absence of the type of policy that can spur a bubble.

Also, during the first decade the millennium, the United States was involved in two formal wars plus the war on terror and the war on drugs; questions about imminent domain and, thus, property rights; and an increasingly acrimonious debate on immigration, with its legal and enforcement ramifications. All these factors may also have contributed to the large decline in the score of the United States for Area 2: Legal Structure and Security of Property Rights in the index of *Economic Freedom of the World*.

While such national factors, which have left the United States trailing Canada on a nation-to-nation comparison in the world report, are at the moment outside the scope of *Economic Freedom of North America*, where the US states still lead

Comparisons over time in the next three paragraphs use the chain-linked index, which is most accurate for historical comparisons. The full dataset for *Economic Freedom of the World: 2011 Report* can be found at <<http://www.freetheworld.com/2011/reports/world/EFWdataset2011.xls>>. The index published in *Economic Freedom of North America* does not include all the measures in the index published in the annual reports, *Economic Freedom of the World*; see Appendix B, p. 78.

- [2] See, for example, Wallison and Calomiris (2008) who argue that requirements that government-sponsored enterprises like Fannie Mae and Freddie Mac support home ownership for a large percentage of borrowers with low incomes and their strong presence in the sub-prime market were major contributing factors to the bubble.
- [3] The scores for Area 2 in *Economic Freedom of the World* are largely based on survey data, which do not provide an explanation of why a nation has moved up or down in the rankings, so only speculative statements can be made. It appears likely, however, that several factors have contributed to the US decline, including those discussed in this and the following paragraph.

the Canadian provinces on average, this subnational report does pick up the overall movement downward of the United States relative to Canada as a result of US problems with the Area 1: Size of Government.

Changes in US state and Canadian provincial scores

Although in *Economic Freedom of North America* the US states, on average, remain ahead of the Canadian provinces, the gap between the two has been narrowing in favour of the Canadian provinces. Aside from Alberta, from 1990 to 1996 all Canadian provinces were clustered at the bottom of the index in *Economic Freedom of North America*. In 1997, Ontario jumped one spot ahead of West Virginia and, in 2000, Ontario, Saskatchewan, and British Columbia ranked above West Virginia. In 2005, the province of Newfoundland & Labrador also ranked above the lowest US state and, in 2006, all the provinces except Nova Scotia, Quebec, and Prince Edward Island ranked above the lowest US state. From 2007 to 2009, Manitoba, New Brunswick, Quebec, Nova Scotia, and Prince Edward Island remained below the lowest US state, while the rest of the provinces moved ahead in the rankings, especially Saskatchewan and Newfoundland & Labrador. Alberta, on the other hand, ranked on the top 10 from 1981 to 1983 but its ranking then dropped and it did not reach the top 10 again until 2000; Alberta attained first rank in 2008 and 2009.

Improved Scores for the Canadian Provinces

The gap between the scores at the all-government level between the United States and Canada has been decreasing over the period from 2005 to 2009. From 2000 to 2004, the difference of 1.6 points stayed constant but began to decrease in 2005; in 2009 it had shrunk to 0.9 point. At the subnational level, the gap also began to decrease in 2005, and went from 1.5 points in 2004 to 1.1 in 2009. At the all-government level, the provinces that show a significant improvement in their scores from 2000 to 2009 are Alberta, British Columbia, Manitoba, Newfoundland & Labrador, and Saskatchewan. At the subnational level, Alberta, British Columbia, Newfoundland & Labrador, and Saskatchewan show a significant improvement in their scores over the same period of time.

Area 1: Size of Government

In Area 1: Size of Government, at the all-government level, Alberta, Newfoundland & Labrador, and Saskatchewan show significant improvements: Newfoundland & Labrador increased its score by 2.4 points during the 10-year period, while Saskatchewan had an increase of 1.2 points. At the subnational level, Newfoundland & Labrador and Saskatchewan also show the most improvement, with an increase of 2.1 and 1.5 points, respectively. All of the provinces show improvements in their scores for Area 2: Takings and Discriminatory Taxation at the all-government level: Newfoundland & Labrador and Saskatchewan have the largest increases of 3.2 and 2.0 points, respectively. At the subnational level, all the provinces except New

Brunswick, Nova Scotia, Ontario, and Prince Edward Island report an increase in their scores and the biggest improvements are again from Newfoundland & Labrador and Saskatchewan. For Area 3: Labor Market Freedom, at both the all-government and subnational levels, only British Columbia shows a significant improvement in its scores: 0.9 at the all-government level and 0.8 at the subnational level.

In Area 1: Size of Government, at the all-government level the gap between the scores of the US states and of Canadian provinces began to shrink consistently from 1999 to 2009; in 2009, Canada, with an average score of 6.9, surpassed the United States, which had 6.4. At the subnational level, the gap in score was reduced from 1.2 points in 1999 to 0.1 in 2009. The greatest improvements were achieved by Newfoundland & Labrador and Saskatchewan, which decreased 1A: General Consumption Expenditures as a Percentage of GDP at the subnational level by 9.1 and 3.7 percentage points, respectively, and at the all-government level by 11.4 and 4.2 percentage points, respectively.⁴ All of the provinces except New Brunswick, Ontario, and Quebec decreased the size of subsidies and transfers (1B: Transfers and Subsidies as a Percentage of GDP) at both the subnational and all-government levels, again with Newfoundland & Labrador and Saskatchewan showing the greatest reduction. In 1C: Social Security Payments as a Percentage of GDP, Alberta, British Columbia, and Saskatchewan showed the greatest improvement in scores at the sub-national level, while Newfoundland showed the greatest improvement at the all-government level, decreasing social security payments from 8.2% in 2000 to 5.1% in 2008.

Area 2: Takings and Discriminatory Taxation

The gap between the scores of the US states and of Canadian provinces for Area 2: Takings and Discriminatory Taxation decreased to 1.0 point in 2009 from 1.9 points in 2000 at the all-government level and, at the subnational level, to 0.7 from 1.2 points.

At the all-government level, scores for Component 2A: Total Tax Revenue as a Percentage of GDP improved in all provinces from 2000 to 2009. The improvement in Newfoundland & Labrador and Saskatchewan was extraordinary: tax revenue as a percentage of GDP decreased from 32.6% in 2000 to 19.7% in 2008 in Newfoundland & Labrador and from 31.4% to 24.3% in Saskatchewan, increasing their scores from 3.7 and 4.2 in 2000 to 9.0 and 7.1 in 2008, respectively. At the subnational level, however, not all the provinces improved over the decade: New Brunswick, Nova Scotia, Ontario, Prince Edward Island, and Quebec had a decrease in their scores.

For Component 2B: Top Marginal Income Tax Rate and the Threshold at Which It Applies all the provinces increased their scores during the decade from 2000 to 2009, since all the rates and thresholds have decreased; the provinces that showed a greater decrease are British Columbia, Newfoundland & Labrador, and Saskatchewan.

[4] For data sources for this and other raw data given in the following paragraphs, please see Appendix B: Explanation of Components and Data Sources under the appropriate area. The data themselves are posted at <<http://www.freetheworld.com/efna.html>>.

In component 2C: Indirect Tax Revenue as a Percentage of GDP at the all-government level, Newfoundland & Labrador and Saskatchewan again had the greatest improvement, with a reduction in indirect taxes at the all-government level as a percentage of GDP from 11.2% and 12.5% to 6.6% and 9.8%, respectively. At the subnational level, the improvement was less pronounced. The same pattern was repeated at the all-government level for component 2D: Sales Taxes Collected as a Percentage of GDP, for which all the provinces showed improvement during the decade. Newfoundland & Labrador and Saskatchewan had the greatest improvement on this measure. However, at the subnational level scores for Alberta, Manitoba, New Brunswick, Nova Scotia, Ontario, and Quebec showed reductions during the decade.

Area 3: Labor Market Freedom

In Area 3: Labor Market Freedom, the Canadian provinces remained less competitive. The gap between the average scores of the United States and Canada increased from 2.2 in 2000 to 2.4 points in 2009 at the all-government level and from 2.4 to 2.5 points at the subnational level. British Columbia showed some improvement, increasing its score at the all-government level to 5.5 in 2009 from 4.6 in 2000. It is also the only province that has decreased the percentage of government employment, which fell from 18% in 2000 to 16.7% in 2005 but began to increase after 2005. By 2009, it had nearly returned to its 2000 level, reaching 17.8%. For component 3C: Union Density, all the provinces showed an improvement in their scores over the decade, with Newfoundland & Labrador, Manitoba, Ontario, and British Columbia showing the greatest improvement.

Figures 3.1 to 3.8 show the number of ranks that each province increased or decreased at the subnational and all-government levels, both overall and in the three areas, during the decade from 2000 to 2009. It is clear that Newfoundland & Labrador and Saskatchewan have propelled the increase of economic freedom in Canada; however, these two provinces are significantly dependent on industries that are very sensitive to exogenous shocks such as oil, mining, and fishing, which have wide fluctuations in price. From 2000 to 2009, real GDP grew by 65% in Newfoundland and by 45% in Saskatchewan; this is an anomalous amount and unfortunately it is difficult to disentangle economic trends from impacts caused by exogenous shocks, especially because many of the measures of economic freedom are analyzed as a percentage of GDP.

Reduced scores in the United States

On average, scores in the United States for economic freedom have decreased during the past few years. At the all-government level, the average score dropped to 6.6 in 2009 from 7.0 in 2007. At the subnational level, the US score dropped from 7.3 in 2006 to 7.0 in 2009. Furthermore, in Area 1: Size of Government at the all-government level, Canada increased its average score from 6.6 in 2000 to 6.9 in 2009, surpassing the United States, where the average score fell to 6.4 in 2009 from 7.4 in 2000. The drop was expected as the US government expanded expenditures as a reaction to the recession.

Figure 3.1: Change in overall ranks of Canadian provinces at the all-government level, 2000–2009

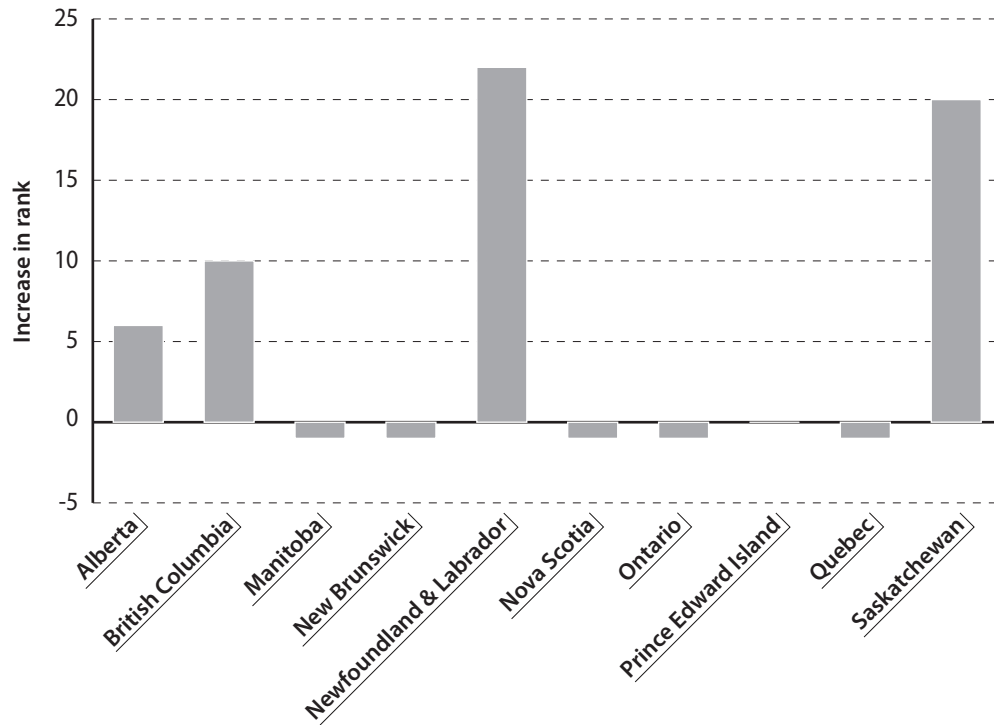


Figure 3.2: Change in overall ranks of Canadian provinces at the subnational level, 2000–2009

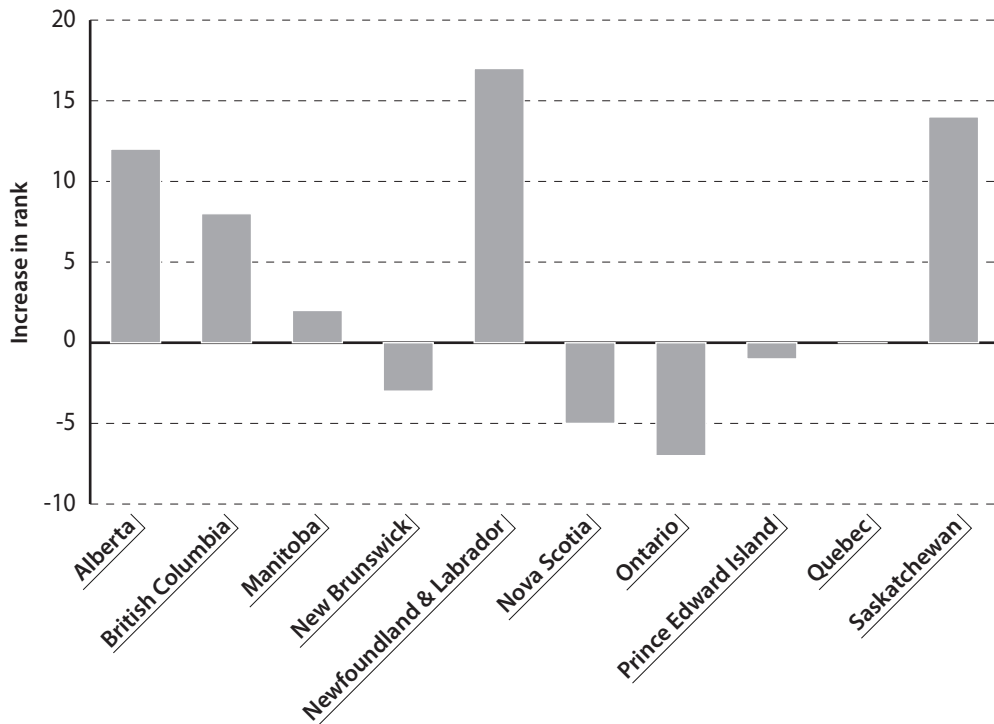


Figure 3.3: Change in ranks of Canadian provinces for Area 1: Size of Government at the all-government level, 2000–2009

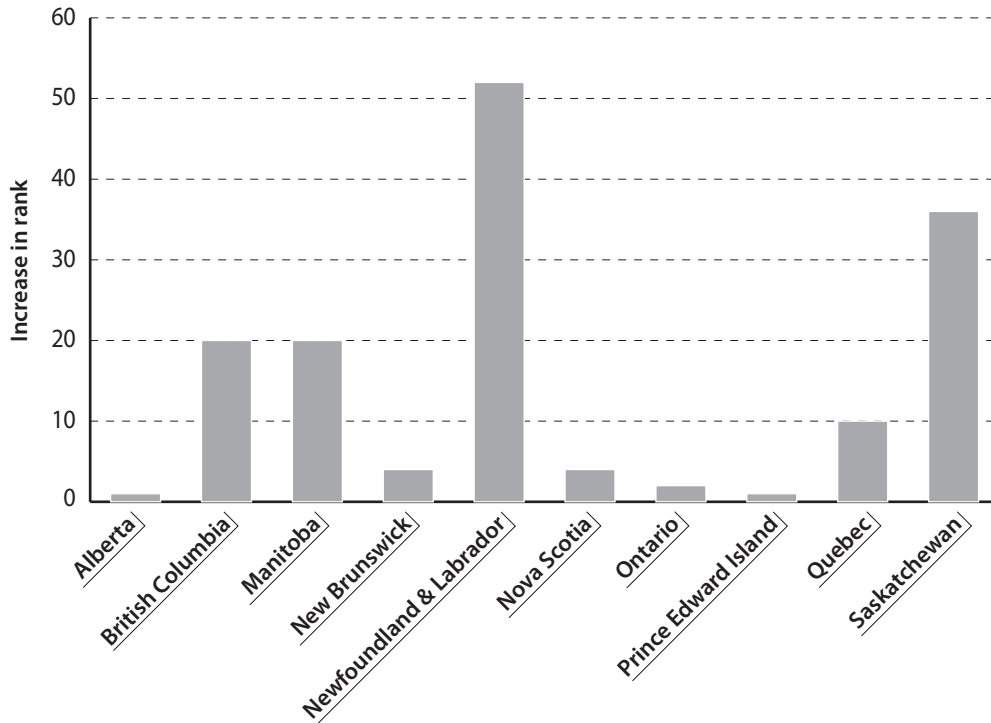


Figure 3.4: Change in ranks of Canadian provinces for Area 1: Size of Government at the subnational level, 2000–2009

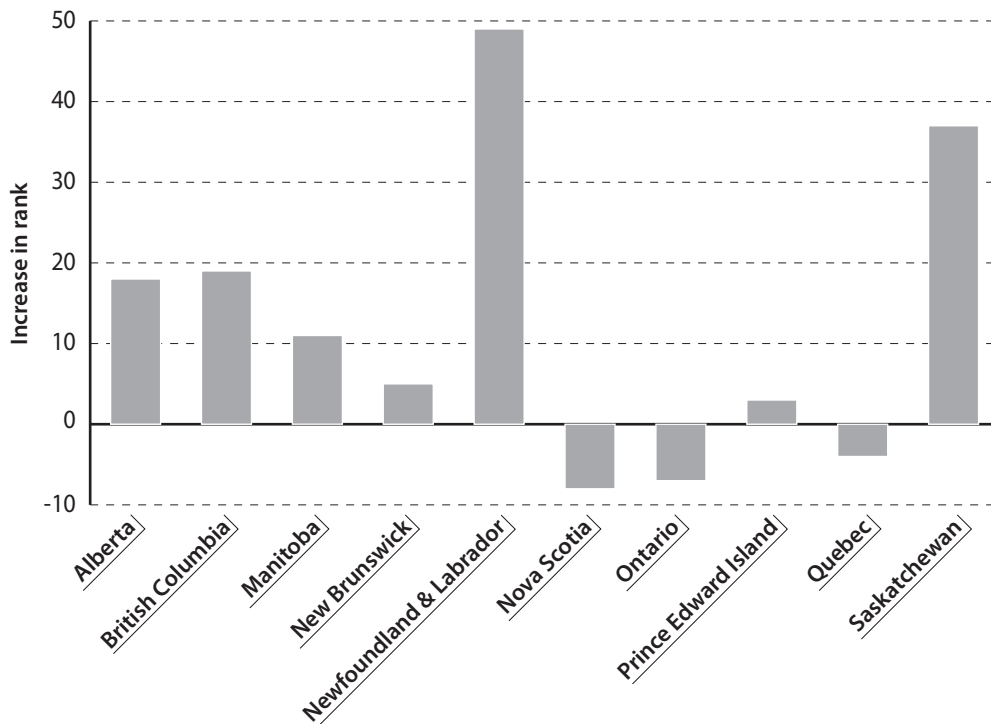


Figure 3.5: Change in ranks of Canadian provinces for Area 2: Takings and Discriminatory Taxation at the all-government level, 2000–2009

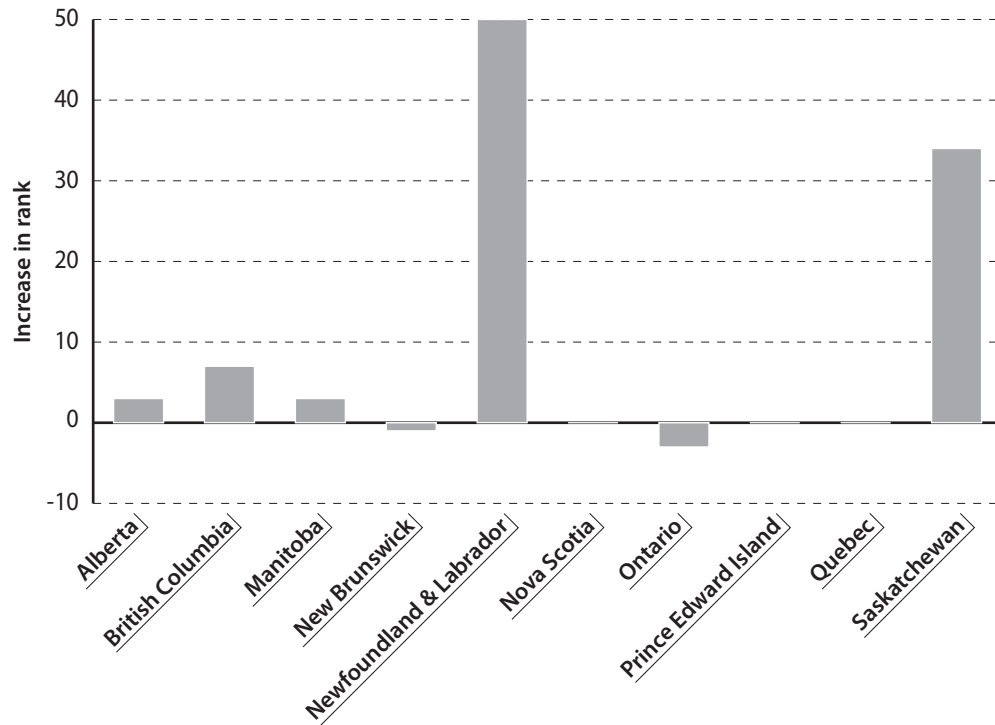


Figure 3.6: Change in ranks of Canadian provinces for Area 2: Takings and Discriminatory Taxation at the subnational level, 2000–2009

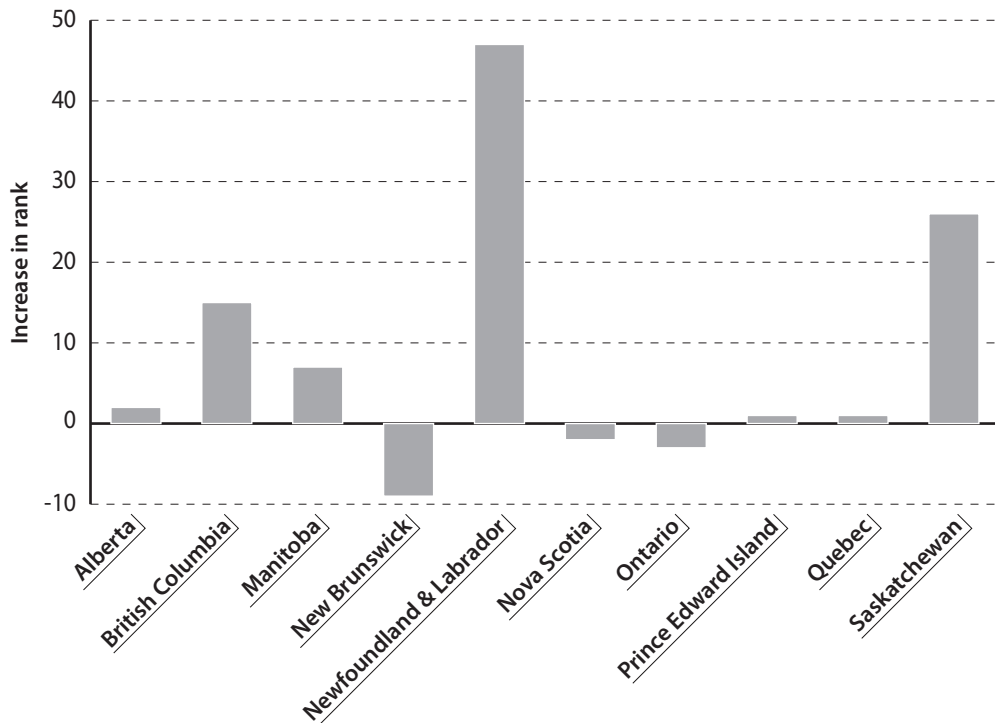


Figure 3.7: Change in ranks of Canadian provinces for Area 3: Labor Market Freedom at the all-government level, 2000–2009

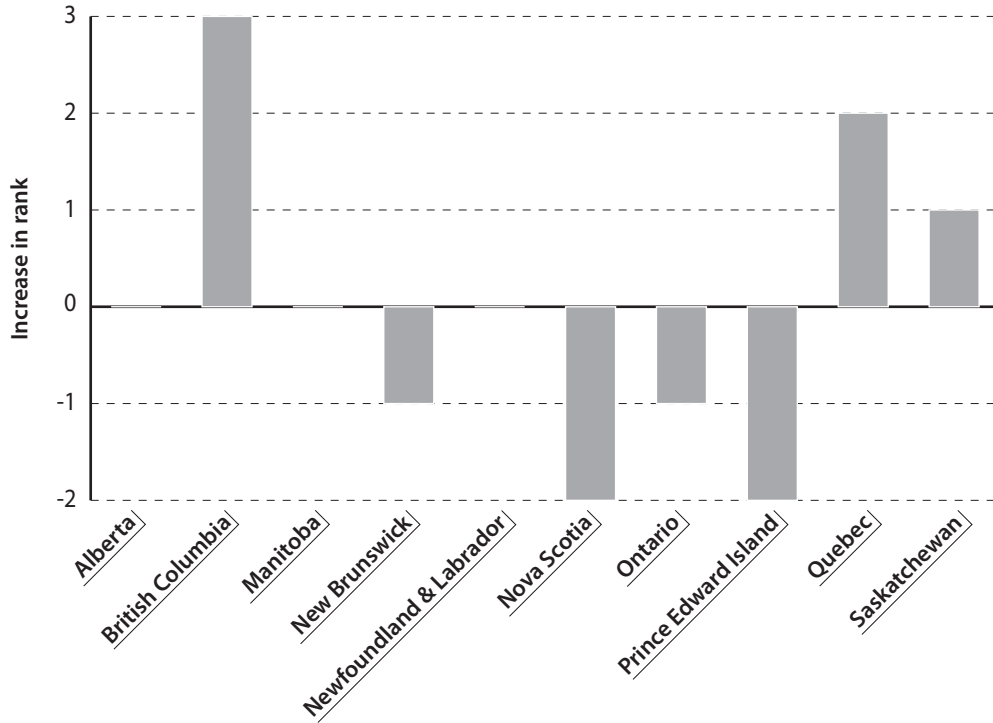
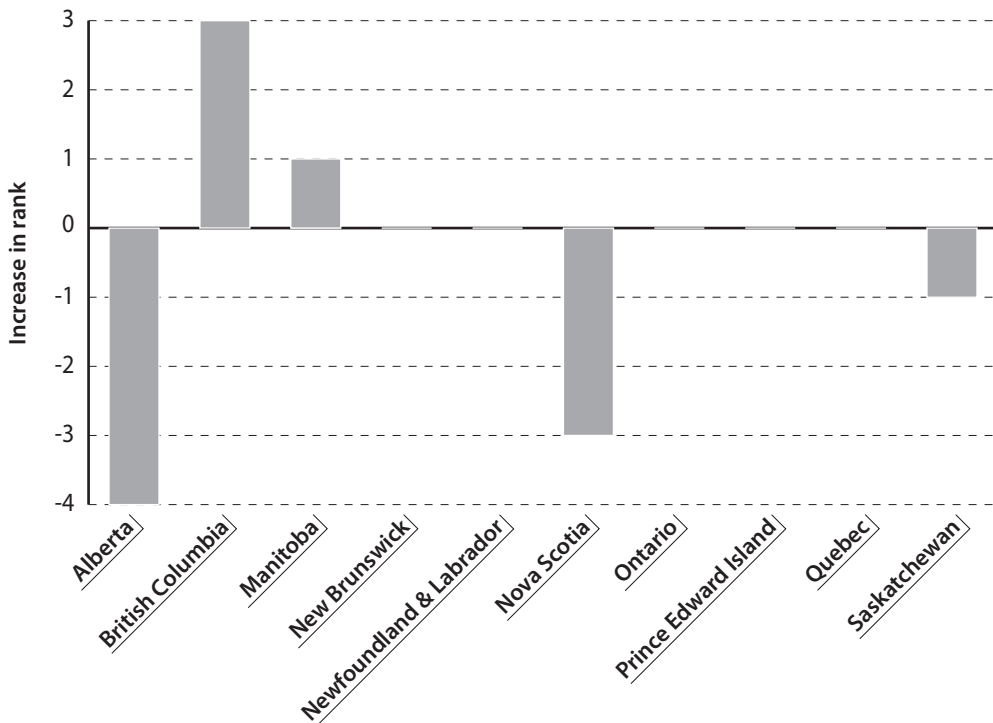


Figure 3.8: Change in ranks of Canadian provinces for Area 3: Labor Market Freedom at the subnational level, 2000–2009



The US states that have suffered the greatest drop in their overall rankings between 2008 and 2009 have been North Dakota, Alaska, Idaho, and Wisconsin. North Dakota, Alaska, and Idaho were among the top ten recipients of funds as a percentage of GDP awarded by the American Recovery and Reinvestment act of 2009 (Recovery Accountability and Transparency Board, 2011). However, our results underestimate the drop in scores because state-level data about government expenditures for 2009 were unavailable.⁵ US states probably suffered a greater decrease in scores than could be captured when we computed the rankings for this edition of the *Economic Freedom of North America*. For Area 1: Size of Government, the states with the greatest drop were Hawaii, Alaska, Wisconsin, Idaho, and Kansas. For Area 2: Takings and Discriminatory Taxation, North Dakota and Indiana had the greatest declines; and for Area 3: Labor Market Freedom, Idaho, Oklahoma, Alabama, Kentucky, and South Carolina had the largest declines.

The expansion in government expenditures has been significantly greater in the United States than in Canada. On average, 1A: General Consumption Expenditures by Government as a Percentage of GDP increased by 5.02 percentage points during the decade from 2000 to 2009 in US states, while decreasing 0.24 percentage points in Canadian provinces. In addition, 1B: Transfers and Subsidies as a Percentage of GDP at the all-government level increased on average 1.93 percentage points in the US states while decreasing 0.84 percentage points in Canadian provinces during the same decade. 1C: Social Security Payments as a Percentage of GDP in the US states on average increased 0.93 percentage points, while Canadian provinces decreased by 0.39 percentage points.

Potential for Improvement by the Canadian Provinces

Canadian provinces could achieve a significant improvement in their rankings relative to the United States if they performed better in Area 3: Labor Market Freedom. The average score of the United States dropped at the all-government level from 7.6 in 2007 to 7.1 in 2009. If Canada had improved its score, it would have decreased the gap between the countries by a significant amount but Canada's average score also decreased from 5.3 in 2007 to 4.7 in 2009. At the national level, the United States gives greater freedom to workers to negotiate contracts voluntarily than does Canada. At the state level, there are 22 states with Right-to-Work laws, which promote flexibility; on the other hand, Canadian provinces have labor laws that inhibit flexibility and favor some groups over others (Karabegović, Gainer, and Veldhuis, 2011). In 2009, the average unionization rate for Canada was 32.7% while the average for the United States was 12.77%; the average minimum-wage burden in Canada was 41.39% of GDP per capita while the average of the United States was 33.80%; and the average government employment rate for Canada was 23.91% and for the U.S. was 18.25%. In 2009, all of the Canadian provinces, except Alberta, ranked at the bottom of the list. It is clear that Canada would benefit from labor laws that were more market friendly.

[5] Where 2009 data were unavailable, 2008 data were used in the index for 2009.

Conclusion

It is important to note that the improvement of Canadian provinces relative to the US states is driven not only by the better performance of the provinces but also by the poorer performance of the states. In fact, US states would have probably fared worse—and Canadian provinces even better—if data on US government expenditures for 2009 were available. Since those data were not available, the full impact of the American Recovery and Reinvestment Act could not be observed. Another caveat is in order for Canada: Newfoundland & Labrador and Saskatchewan, the two provinces that have shown the greatest improvement, are also those for which distinguishing between economic trends and exogenous shock is most difficult. Thus, drawing any conclusion about them would be inappropriate.

Nonetheless, the overall pattern between Canada and the United States is clear, both from the *Economic Freedom of the World* and from this report on US states and Canadian provinces. Economic freedom in the United States is declining relative to Canada. If this trend continues—and increased US government expenditures and the regulatory burden related to health care in the United States suggest it will—then economic growth in the US states will likely suffer a setback, as shown by the econometric results discussed in this report.

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Chapter 4

Economic Freedom in Mexico 2011

by Nathan J. Ashby, Deborah Martinez, and Avilia Bueno¹

In recent years, we have made a significant effort has been made to create an index of economic freedom in the Mexican states comparable to that constructed for the US states and Canadian provinces. In 2008, we published a preliminary measure of economic freedom for Mexican states (Ashby, 2008). Needless to say this project has been rife with challenges, some of which have been resolved, while others continue to be worked out. The long-term goal is to construct an integrated index for the United States, Canada, and Mexico. Unfortunately, such an informative index is not immediately feasible because we have not yet been able to gather the necessary data. This year's index includes measures of economic freedom for all 32 Mexican states between 2003 and 2009.

The most significant concern is how to measure the heterogeneity of property rights and legal structure within the three countries. It is essential that additional measures be used in order for Mexico to be comparable to the United States and Canada. At the very least, measures of property rights would need to be included. There are national indexes constructed for the index published in *Economic Freedom of the World* (Gwartney, Lawson, and Hall, 2011) that could be included for the subnational jurisdictions corresponding to each country. This would capture cross-country variation but would fail to pick up variation within countries. The United States and Canada currently do not have a measure for this area at the state or provincial level. This does not appear to be a significant problem for constructing the index for these countries since there is very little heterogeneity when it comes to property rights and legal structure across US states and Canadian provinces.

Mexico, on the other hand, has significant heterogeneity across states. Some reasonable measures are available at the state level for Mexico but there is an

[1] We acknowledge the University Research Institute at the University of Texas at El Paso for providing a grant for the summer of 2009. Fred McMahon and James Gwartney have provided us with valuable comments. Finally, we thank the two anonymous reviewers for their helpful suggestions.

apparent trade-off between determining how to deal with heterogeneity within Mexico and the heterogeneity among the three countries. It is possible to include the national score for each subnational jurisdiction within a given country, in which case heterogeneity within Mexico would be ignored. Another option is to hold this measure constant for the US states and Canadian provinces while allowing the Mexican index to vary with the mean normalized around its national score. At issue here is how the distribution in Mexico relates to the scores in the United States and Canada. In other words, how do the states in the right tail of the distribution in Mexico relate to the scores in the United States and Canada? Although prior sentiment might be that the Mexican states should be lower, it remains unclear how to determine objectively what the distribution should be. Clearly, this issue needs much more thought.

A lesser problem is that the data for Mexico do not extend as far back as they do for the United States and Canada, at least at the state level. Much of the older data available is not trustworthy in that they demonstrate inconsistencies throughout the years.² In addition, some of the data that are available in Canada and the United States are difficult to obtain at the state level in Mexico.³ Many of these problems have been overcome and we have been able to find data for nine of the ten measures currently included in the index of economic freedom in Canada and the United States. However, given the problems discussed above, it is premature to present an integrated index⁴ and the analysis in this chapter will focus on an index specific to the Mexican states.

This chapter will describe an updated economic freedom index for the Mexican states from 2003 to 2009 using nine of the ten components currently used to calculate economic freedom in the United States and Canada. The new data improve upon the initial data calculated in 2008 by adding two variables that were previously not included, union density and government employment. In addition, the calculations of many of the components that were included in the 2008 index have been improved using more complete data sources from the Mexican government. The 2011 measure also demonstrates a positive relationship with well-being that is demonstrated graphically. In addition, this chapter demonstrates positive relationships using basic regression analysis. Perhaps the greatest contribution is that the index is now available for multiple years and can be used for analyzing the Mexican economy through time. The seven years that are measured are sufficient for many empirical analyses.

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- [2] For instance, union-density rates and government-employment rates prior to 2005 are very volatile over time at the state level. Further investigation revealed that the sample used to estimate these rates were not representative of actual state populations. Beginning in 2005, the Encuesta Nacional de Ocupaciones y Empleo (National Survey of Occupations and Employment) improved its survey methods substantially and the data have been consistent across states since that time.
- [3] The most notable are social-security expenditures.
- [4] It remains to be seen whether, when these problems are dealt with, integration of the indices can include data from past years or will only be feasible for data gathered in the future.

Mexican State-Level Data

The preliminary index of economic freedom in Mexican states (EFM) (Ashby, 2008) was included in the 2008 report, *Economic Freedom of North America* (Karabegović and McMahon, 2008). This index ranked the Mexican states using seven of the ten components included in the measurement of economic freedom in the United States and Canada for 2003. We were unable to find reasonable data for social security expenditures at the state level, government employment, and union density. Distrito Federal (Federal District or Mexico City) was excluded.

The methodology of the current EFM was introduced in 2010 (Ashby, Martinez, and Bueno, 2010) and is displayed in figure 4.1. This report improves upon the original index in two important ways. First, two additional components are included: 3B: Government Employment as a Percentage of Total State/Provincial Employment and 3C: Union Density. The component for union density is constructed as union density is constructed in the index for economic freedom in North America (EFNA), by controlling for the size of the government and manufacturing sectors.⁵ With the exception of social-security expenditures, the measure includes all the components currently included in the index for the United States and Canada. The second improvement is that we calculate the score for additional years from 2003 to 2007. Distrito Federal is included in the current construction. However, one should consider it to be similar to District of Columbia in that it does not have as many levels of government and is atypical of Mexican states. Researchers should use caution when conducting analyses that include Distrito Federal. Nevertheless, given its importance in terms of population size and GDP, it is necessary to include it.

As is the case for the United States and Canada, measures are not available for every year in which the EFM is estimated. Since reasonable data are not available for 3B and 3C prior to 2005 (footnote 2), the 2005 values are used for 2003 and 2004. The data for 4A: Impartiality of Judges and 4B: Institutional Quality of Judicial System are only available in 2003, 2006, and 2008. Component 4C: Trustworthiness and Agility of Public Property Registry is only available in 2003 and 2006. The component measuring Piracy of Software, which was included in the 2008 report, has been omitted due to significant discrepancies in the data through time. For instance, Distrito Federal had a value of 9.65 out of 100 in 2006 and a score of 93.6 on the same scale in 2003; Chiapas had a score of 3.8 in 2003 and a score 22.7 in 2006.

[5] In constructing the EFNA index, the measure of union density takes into consideration the extent to which government employment or manufacturing drives unionization rates in the United States and Canada. To control for this, union density by state was regressed on the size of the manufacturing and government sectors. Manufacturing was found to be insignificant so it was dropped from the regression. The score for union density was calculated by taking the residuals from the latter regression to determine the actual level of union-friendly policies by state. When constructing the EFM index, we could not take it for granted that manufacturing would also be insignificant for Mexico. In fact, it turns out that it is very significant and, for this reason, we calculate the score by controlling for manufacturing and government employment in Mexico.

Figure 4.1: Areas and Components Used in the Index of Economic Freedom in the Mexican States**Area 1 Size of Government**

- Component 1A General Consumption Expenditures by Government as a Percentage of GDP
- Component 1B Transfers and Subsidies as a Percentage of GDP

Area 2 Takings and Discriminatory Taxation

- Component 2A Total Tax revenues at all levels of government as a percentage of Gross State Product
- Component 2B Top Marginal Income Tax Rate and the Income Threshold at Which It Applies
- Component 2C Indirect Tax Revenue as a Percentage of GDP
- Component 2D Total Value-Added Taxes as a Percentage of GDP

Area 3 Labor Market Freedom

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

Area 4 Legal System and Property Rights

- Component 4A Impartiality of Judges
- Component 4B Institutional Quality of Judicial System
- Component 4C Trustworthiness and Agility of Public Property Registry

Notes: 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. Component 1C of the US and Canadian index is not included in the Mexican index.

We use trending to calculate the values for 4A, 4B, and 4C between 2004 and 2005. We also use trending to calculate the values for 2007 for 4A and 4B while using the values in 2008 for 2009. We hold the 2006 scores constant through 2009 because the measure has been unavailable in recent years. Also, federal tax data were not available in 2009. These measures were estimated using 2009 data for state and local taxes and 2008 data for federal taxes.⁶

The rankings for economic freedom in 2009 for the 32 Mexican states and federal entities are displayed in figure 4.2 (p. 56). Guanajuato ranked the highest, followed by Chihuahua and Baja California. The states with the least economic freedom were Colima, Tamaulipas, and Chiapas. The overall scores and rankings between 2003 and 2009 as well as the component scores and rankings in 2009 are displayed in table 4.1, table 4.2, and table 4.3 (pp. 57–59). Guanajuato ranked well due to its

[6] The formula for calculating measures of taxation 2A, 2C, and 2D in state i was as follows: $[(\text{State and Local Taxes}_{2009, i}) / (\text{GDP}_{2009, i}) + (\text{Federal Taxes}_{2008, i}) / (\text{GDP}_{2008, i})] \times 100$.

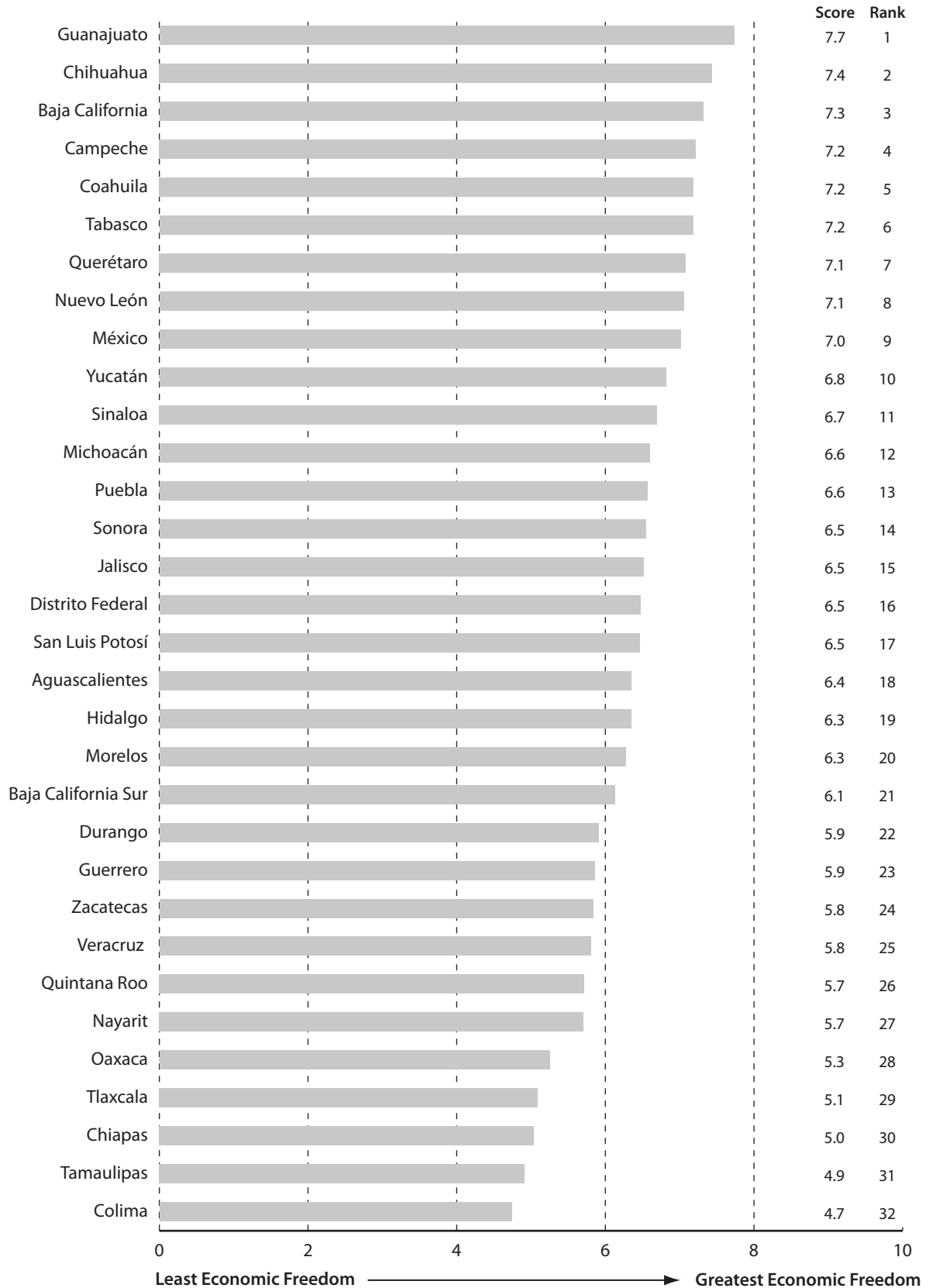
relatively low government employment, relatively strong judicial institutions, and lower dependence on transfers and subsidies. A more trustworthy property-rights registry, lower unionization, lower government consumption and employment helped Chihuahua to rank second. Colima scored poorly mostly because of the significant tax burden that it bears relative to the rest of the country and Tamaulipas' penultimate position was due to its judicial system, unionization, and value-added taxes. Distrito Federal ranked 15th in 2007 due to its high tax burden and government employment. Nuevo León dropped from second in last year's estimate to 8th in this year's estimates.

There is a clear discrepancy between rankings in the 2008 report and those in the subsequent indices. To some extent, this would be expected given the improvements made in the updated construction but there would be differences without the improvements for Components 1A, 1B, 2A, 2B, and 2D, which all are estimated using state GDP in the denominator. Mexico has significantly changed its methodology in computing GDP for states beginning in 2003 and up to 2007 (INEGI, 2010). Presumably, the Instituto Nacional de Estadística, y Geografía (INEGI) will use the same methodology in the future and therefore it was necessary to update the scores with the new GDP measures. It should be noted that the changes in GDP are not trivial. For instance, the improvement in Campeche's ranking from 4th to first in 2003 can be explained to some extent by the new measure of GDP, which in this case results in much lower government expenditures and tax revenues as a percentage of GDP.

These measures are imperfect for many reasons. First of all, it is difficult to determine what expenditures should be included in transfer and subsidies. The accounts of the Mexican government include a category called "Transfers, Subsidies, and Assistance" in the state and local public finance reports. However, since most of the expenditures originate from the central government, it is quite likely that some other expenditures should be included as well. This requires further investigation. Another problem has to do with the way in which payroll taxes for social security are reported. Despite our best efforts, we have been unable to obtain these amounts at the state level. We do have national social-security tax revenues but are unable to get these by state. We calculate national social-security expenditures as a percentage of national GDP and assume these to be constant across all states.

Another problem is that the value-added tax paid by all Telmex customers is consolidated in Distrito Federal even though consumption of this service is taking place throughout the country. Finally, a problem that we discovered this year is that Distrito Federal had negative tax receipts for some tax categories in recent years. These were actually subsidies.⁷ The concept of economic freedom does not include the notion that negative taxes enhances economic freedom. The fact that transfers and subsidies count against states indicates that they actually have the opposite impact. We deal with these cases by replacing the negative values with zeroes in the instances in which they occur and assume that these subsidies are included in the transfers and subsidies reported by the government. The problem is whether some of the positive numbers include some of these subsidies. We have no way of

[7] We are grateful to Adolfo Gutiérrez, who pointed out these two anomalies to us.

Figure 4.2: Summary of Economic Freedom Ratings for Mexico, 2007

Note: For simplicity, we report scores rounded to one decimal while the rankings are based on our unrounded scores. Provinces and states with the same rounded scores will therefore have different rankings. This difference does not imply that higher-ranked states have greatly higher economic freedom.

Table 4.1: Economic Freedom in the Mexican States, Overall Scores and Ranks, 2003–2009

	Score							Rank						
	2003	2004	2005	2006	2007	2008	2009	2003	2004	2005	2006	2007	2008	2009
Aguascalientes	7.2	7.3	7.4	7.4	7.0	6.6	6.4	7	7	7	7	11	19	18
Baja California	7.7	7.8	7.9	7.8	7.6	7.6	7.3	2	2	2	2	3	3	3
Baja California Sur	6.0	6.0	5.9	5.6	5.8	6.4	6.1	24	26	29	29	27	21	21
Campeche	7.7	7.8	7.8	7.7	7.4	7.3	7.2	1	1	3	4	4	6	4
Chiapas	7.2	7.4	7.4	7.5	7.4	7.4	7.2	6	6	6	6	5	5	5
Chihuahua	5.2	5.2	5.3	5.1	5.0	4.8	4.7	32	32	32	32	32	32	32
Coahuila	5.6	5.5	5.6	5.6	5.3	5.4	5.0	29	30	30	30	31	29	30
Colima	7.5	7.7	7.8	7.7	7.7	7.8	7.4	3	4	4	5	2	2	2
Distrito Federal	5.9	6.2	6.5	6.6	6.3	6.7	6.5	26	24	21	20	21	17	16
Durango	6.1	6.3	6.4	6.3	6.3	6.2	5.9	23	23	23	23	24	22	22
Guanajuato	7.5	7.7	7.9	8.0	7.9	7.9	7.7	4	3	1	1	1	1	1
Guerrero	6.3	6.3	6.4	6.0	6.3	6.1	5.9	21	22	24	25	23	23	23
Hidalgo	6.4	6.6	6.5	6.4	6.3	6.6	6.3	19	18	20	22	20	18	19
Jalisco	7.0	7.0	7.1	7.0	6.9	6.8	6.5	10	11	11	12	14	16	15
México	7.0	7.2	7.3	7.3	7.2	7.2	7.0	9	8	9	9	8	9	9
Michoacán	6.5	6.7	6.8	6.7	6.6	6.9	6.6	16	15	17	19	16	12	12
Morelos	6.9	6.9	6.9	6.7	6.6	6.4	6.3	11	12	14	18	18	20	20
Nayarit	5.4	5.9	6.4	6.9	6.4	6.0	5.7	30	27	22	14	19	24	27
Nuevo León	7.3	7.5	7.7	7.7	7.3	7.3	7.1	5	5	5	3	7	8	8
Oaxaca	6.0	6.0	6.1	5.9	5.7	5.6	5.3	25	25	26	26	28	28	28
Puebla	6.7	6.7	6.8	6.7	6.6	6.8	6.6	14	14	16	17	17	14	13
Querétaro	6.9	7.2	7.4	7.4	7.3	7.3	7.1	12	9	8	8	6	7	7
Quintana Roo	6.6	6.6	6.6	6.6	6.3	6.0	5.7	15	19	19	21	22	26	26
San Luis Potosí	6.3	6.5	6.6	6.7	6.7	6.8	6.5	20	20	18	16	15	15	17
Sinaloa	6.5	6.7	6.8	6.8	6.9	7.0	6.7	17	16	15	15	13	11	11
Sonora	6.4	6.6	6.9	7.1	7.0	6.9	6.5	18	17	13	10	12	13	14
Tabasco	6.7	6.9	7.0	7.1	7.1	7.4	7.2	13	13	12	11	9	4	6
Tamaulipas	5.8	5.9	6.0	5.8	5.4	5.2	4.9	28	28	27	28	30	30	31
Tlaxcala	5.2	5.4	5.6	5.5	5.4	5.2	5.1	31	31	31	31	29	31	29
Veracruz	5.9	5.8	5.9	5.9	6.0	6.0	5.8	27	29	28	27	25	25	25
Yucatán	7.0	7.1	7.1	6.9	7.1	7.1	6.8	8	10	10	13	10	10	10
Zacatecas	6.3	6.3	6.3	6.2	6.0	5.9	5.8	22	21	25	24	26	27	24

Table 4.2: Economic Freedom in the Mexican States, Scores for Components, 2009

	1A	1B	2A	2B	2C	2D	3A	3B	3C	4A	4B	4C
Aguascalientes	7.0	6.4	8.5	9.0	9.3	8.9	6.2	2.5	8.0	4.9	1.9	6.0
Baja California	7.4	7.3	8.1	9.0	8.8	8.9	7.2	7.3	7.0	7.7	4.0	6.4
Baja California Sur	6.7	3.8	8.5	9.0	8.6	9.6	6.4	0.0	5.6	8.4	4.2	6.4
Campeche	9.8	9.8	9.9	9.0	9.9	9.9	9.2	0.5	7.4	4.6	2.8	3.7
Chiapas	6.4	8.6	9.1	9.0	9.2	9.7	6.9	5.6	4.8	6.9	4.9	7.0
Chihuahua	6.9	4.2	0.2	9.0	0.9	0.2	6.1	2.4	6.2	8.2	4.4	5.2
Coahuila	1.4	1.3	9.5	9.0	9.4	9.9	3.8	6.2	7.0	6.4	3.8	0.7
Colima	7.4	5.7	8.9	9.0	9.0	9.5	6.7	7.7	7.3	7.7	3.0	10.0
Distrito Federal	8.4	9.0	4.4	9.0	9.4	5.8	10.0	1.3	6.7	6.9	3.7	1.3
Durango	5.6	5.0	9.6	9.0	9.5	10.0	3.9	3.3	5.8	8.2	4.8	0.4
Guanajuato	5.9	7.5	9.2	9.0	9.3	9.7	5.6	8.9	6.8	10.0	8.0	5.3
Guerrero	4.9	0.2	9.5	9.0	9.3	9.7	5.4	6.5	7.6	5.4	3.4	6.4
Hidalgo	6.5	3.8	9.4	9.0	9.4	9.8	5.7	5.8	6.7	7.1	4.8	2.3
Jalisco	6.3	7.4	8.5	9.0	8.8	9.4	6.6	8.3	4.9	4.3	2.5	4.3
México	5.5	5.4	8.7	9.0	9.0	9.5	7.6	6.4	5.7	9.7	6.2	5.0
Michoacán	3.4	7.6	8.5	9.0	8.7	9.1	6.0	6.5	6.1	9.1	5.5	3.0
Morelos	5.6	4.8	8.9	9.0	9.2	9.6	7.4	5.9	6.5	4.5	2.6	5.2
Nayarit	3.6	2.1	9.2	9.0	9.2	9.7	4.4	2.1	5.0	8.3	5.2	7.2
Nuevo León	8.4	8.3	7.5	9.0	8.3	8.9	8.8	7.9	4.1	5.3	3.6	4.6
Oaxaca	0.0	1.4	9.4	9.0	9.1	9.8	5.3	6.6	7.0	8.6	3.9	1.5
Puebla	5.0	7.4	9.4	9.0	9.4	9.9	6.7	9.8	6.4	3.0	0.9	5.2
Querétaro	7.0	6.7	8.9	9.0	8.9	9.9	9.1	7.5	6.0	4.9	4.0	5.3
Quintana Roo	5.9	6.2	8.7	9.0	8.7	9.6	5.2	3.6	5.2	4.8	2.9	1.6
San Luis Potosí	7.0	4.9	9.4	9.0	9.7	9.9	6.2	5.4	4.9	9.2	4.4	0.9
Sinaloa	7.4	4.1	8.9	9.0	9.2	9.6	3.7	6.0	6.7	8.1	6.1	4.9
Sonora	6.5	5.8	8.9	9.0	9.1	9.5	5.1	6.2	5.2	5.9	5.4	4.7
Tabasco	7.4	7.6	9.8	9.0	9.8	9.8	6.4	1.2	7.1	8.1	6.8	5.3
Tamaulipas	5.9	7.0	4.7	9.0	8.4	3.0	6.7	4.2	2.0	2.4	1.6	4.1
Tlaxcala	3.8	1.2	9.5	9.0	9.6	9.8	5.5	6.6	6.1	4.6	2.0	0.1
Veracruz	3.6	7.6	8.2	9.0	9.2	8.3	6.1	5.3	5.2	4.4	1.2	4.7
Yucatán	5.5	6.7	9.0	9.0	9.2	9.5	4.0	6.0	7.3	8.8	4.8	5.1
Zacatecas	2.2	4.5	8.7	9.0	7.9	9.6	5.2	3.4	5.7	8.4	3.4	7.7

Table 4.3: Economic Freedom in the Mexican States, Ranks for Components, 2009

	1A	1B	2A	2B	2C	2D	3A	3B	3C	4A	4B	4C
Aguascalientes	9	15	23	1	11	28	16	26	1	24	29	8
Baja California	4	11	28	1	25	27	7	7	7	14	15	6
Baja California Sur	12	27	25	1	28	17	14	32	23	7	14	5
Campeche	1	1	1	1	1	5	2	31	3	26	25	23
Chiapas	15	3	13	1	13	13	8	19	30	18	8	4
Chihuahua	11	24	32	1	32	32	17	27	16	10	13	14
Coahuila	31	30	4	1	7	6	31	14	8	19	18	30
Colima	5	18	18	1	21	21	9	5	4	14	23	1
Distrito Federal	3	2	31	1	6	30	1	29	13	17	19	28
Durango	21	20	3	1	5	1	30	25	20	10	9	31
Guanajuato	19	8	11	1	10	11	21	2	10	1	1	9
Guerrero	25	32	6	1	12	12	23	11	2	21	21	6
Hidalgo	13	26	9	1	8	10	20	18	12	16	9	25
Jalisco	16	10	26	1	24	24	12	3	29	30	27	21
México	23	19	22	1	22	23	5	12	21	2	3	16
Michoacán	29	5	24	1	26	25	19	10	17	4	5	24
Morelos	20	22	16	1	17	15	6	17	14	28	26	12
Nayarit	28	28	12	1	16	14	28	28	27	9	7	3
Nuevo León	2	4	29	1	30	26	4	4	31	22	20	20
Oaxaca	32	29	8	1	19	9	24	9	9	6	17	27
Puebla	24	9	10	1	9	4	11	1	15	31	32	12
Querétaro	8	13	19	1	23	2	3	6	19	23	15	11
Quintana Roo	17	16	20	1	27	16	25	23	26	25	24	26
San Luis Potosí	10	21	7	1	3	3	15	20	28	3	12	29
Sinaloa	6	25	15	1	15	19	32	15	11	12	4	17
Sonora	14	17	17	1	20	22	27	13	25	20	6	18
Tabasco	7	6	2	1	2	7	13	30	6	12	2	9
Tamaulipas	18	12	30	1	29	31	10	22	32	32	30	22
Tlaxcala	26	31	5	1	4	8	22	8	18	26	28	32
Veracruz	27	7	27	1	18	29	18	21	24	29	31	19
Yucatán	22	14	14	1	14	20	29	16	5	5	11	15
Zacatecas	30	23	21	1	31	18	26	24	22	7	22	2

Note: Ranks in 2B are the same for all states because there are no state and local income taxes and the federal rates and thresholds are the same for all states.

knowing and therefore the level of taxation may be underestimated in some cases. We hope to obtain a better understanding of the accounts in order to calculate these measures with more certainty in the future.

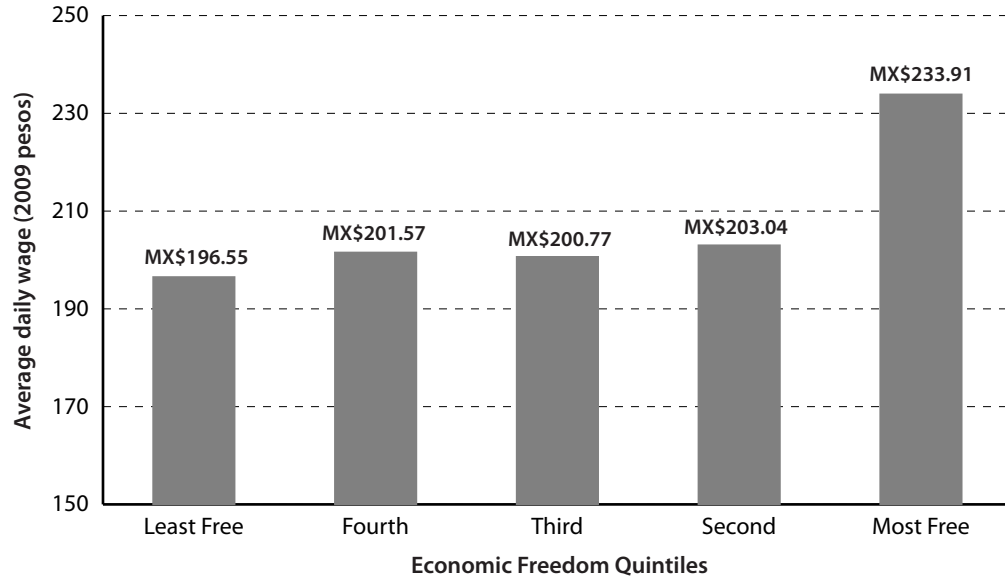
There are no doubt other problems with the measures that will be discovered as individuals knowledgeable of the Mexican accounts become aware of our measures. This project is a work in progress and we welcome constructive criticism on how we can improve the measure in the future. These calculations do pick up most of what we are trying to estimate for a comparison with the United States and Canada. Despite their imperfections, these data should be useful to researchers interested in investigating the impact of economic freedom on various economic factors within Mexico. We will continue to search for ways to improve our estimates in the future and discuss below some measures considered for a future index of economic freedom in Mexico.

The relationship between economic freedom and average wages in Mexico

The 2008 publication demonstrated the relationship between economic freedom and GDP per capita in Mexico in the year 2003. It exhibited a clear positive relationship between the two. As discussed above, the newly up-dated GDP measures are significantly different from the old measures. Although the same positive relationship holds, it is doubtful that GDP per capita can be considered a good measure for the standard of living of the people of Mexico. GDP may still be considered the best measure for the size of the economy but, due to significant dependence on the revenue of PEMEX, the state-owned oil company, which is transferred across the country, it is less useful as a measure of income per capita. For example, using the up-dated measure of GDP results in GDP per capita as high as US\$61,000 per year in a state like Campeche. Since this is not a credible measure of the well-being of the people of Campeche, we have decided to look at a different measure, average daily wages.

Figure 4.3 demonstrates a positive relationship between the two variables by analyzing average salaries by economic freedom quintile. The states belonging to the highest quintile averaged a salary of 233 Mexican pesos while those belonging to the bottom quintile averaged only MX\$197 per day, a difference of 19%. Keep in mind that this graph is just for illustrative purposes and not intended to claim strong statistical relationships. More sophisticated econometric analysis is necessary to determine the actual strength of the relationship between these variables in the case of Mexico. As we did for the United States and Canada, we conducted two regressions analyzing the relationship between economic freedom and wages and the growth in economic freedom and the growth in wages (table 4.4 and table 4.5). We control for human capital using the average years of schooling by state and the growth in the average years of schooling. Unlike the regression reported in the 2008 report, these regressions include data for various years, seven to be exact. This gave us 224 observations to work with. We used autoregressive methods that reduced the sample to 192. Unfortunately, we are unable to use moving-average regressions to test the robustness of our results as we did for the United States and Canada because we do not have very many years of data to work with.

Figure 4.3: Average daily wage (2009 pesos) and average economic freedom of Mexican states, 2003–2009



The results in table 4.4, which analyzes the impact of the level of economic freedom on average wages demonstrates a statistical relationship between economic freedom and average wages. Schooling does not appear to be significant in this regression. The coefficient on economic freedom suggests that a one-point increase in economic freedom would increase average daily wages by 1.46 pesos. Assuming 350 working days a year, which is reasonable since the average employee works six days a week and employers are required to pay workers for the seventh day even when they do not work, and the 2009 exchange rate of 13.06 Mexican pesos per US dollar, this results in an increase of about US\$39 per year (Heston, Summers, and Aten, 2011). Although this may not seem like much, it is a substantial amount to many workers in Mexico.

There also appears to be a statistically significant relationship between growth in economic freedom and growth in wages shown in table 4.5. An increase of 1% in economic freedom appears to increase average daily wages by 0.05%. Admittedly, growth in economic freedom in Mexican states seems to have a weaker impact than in the United States and Canada, which have coefficients of 0.96 and 0.62, respectively. Also, an increase in years of schooling appears to have a statistically significant impact on wages in Mexico in this regression. The impact, however, appears to be even smaller than economic freedom with a coefficient of 0.03 for every additional year of schooling.

The results are not as economically significant as they are in the United States and Canada possibly due to a federalist system in Mexico, where it is difficult for state and local governments to differentiate from the federal policies. The shorter time series and the difficulties in constructing the index may also be factors in the lower level of significance. Nonetheless, the results are significant at a level above the 10% level, meaning they are accurate more than 9 times out of 10. Moreover, the results are consistent with global and North American results showing that

Table 4.4: Level of Economic Freedom and Real Wages

Dependent Variable: Real Mexican Wages (2003–2009)

Method: Pooled Least Squares

Variable	Coefficient	Std. Error	t-Statistic	Prob.
EFM	1.46	0.81	1.80	0.07
SCHOOL	0.21	0.42	0.51	0.61
Adjusted R ² : 0.99				

Note: School is the average number of years of schooling.**Table 4.5: Growth in Economic Freedom and Real Wages**

Dependent Variable: Growth in Real Mexican Wages (2003–2009)

Method: Pooled Least Squares

Variable	Coefficient	Std. Error	t-Statistic	Prob.
EFM	0.05	0.03	1.78	0.08
SCHOOL	0.03	0.02	1.76	0.08
Adjusted R ² : 0.26				

Note: School is the average number of years of schooling.

economic freedom is a powerful driver of growth and prosperity. Future improvements to the index for Mexico and increases in the time covered may well increase the significance even more in coming years.

Measures considered for a future index of economic freedom in Mexico

The methodology of the index of economic freedom in Mexican states (EFM) as currently constructed is consistent with the original index with the few minor adjustments that have already been discussed. There are various measures under consideration as components in future indexes. The World Bank (2010), as part of its “Doing Business” project, publishes subnational indices for various countries including Mexico. These reports include measures for all Mexican states of the cost of doing business, obtaining construction permits, registering property,⁸ and enforcing contracts. Unfortunately, these measures do not extend back many years for all states and are constructed using major cities from each state rather than the states as a whole. However, beginning in 2007, there are measures for all states and we intend to update the index of economic freedom in Mexican states by including some of these measures.

Issues with the methodology that need to be sorted out are whether to consider additional areas of economic freedom for the index and how these components should be included in the future. Rather than construct an improvised index at this time, it would be better to wait for feedback in determining how to go forward on

[8] Component 4C of the current index is one of these measures.

this issue. The biggest concern is that many of the years for which economic freedom has been constructed could no longer be estimated and there would be fewer measured years of economic freedom. The simplest way to deal with this would be similar to the solution used by Gwartney and Lawson (2011) in constructing the world indices. They impute missing values by analyzing correlations of the measures in the years when all the data are available. This, admittedly, is not the perfect solution but would most likely be the best available given the lack of data.

Another important issue for an index of economic freedom in Mexico is how one measures the impact of minimum wage controls in Mexico. The central government in Mexico mandates minimum daily wages for 84 professions. In the future, it may be better to measure the impact of the minimum wages by occupation based on the relative number of those working in an occupation in each state.⁹

Conclusion

This report has presented the latest version of the index of economic freedom in Mexico, for the years 2003 to 2009. These results are much improved from the initial version of the index published in 2008 (Ashby, 2008). However, the project is still developing and the methodology and results may change based on any short-comings in the data that are discovered. Some of the components that are introduced in this paper may very well not be included in future constructions of the index if they are deemed unreliable or more suitable substitutes are found. But, it is encouraging that the data have improved significantly in recent years, which suggests that the index will only get better through time. In the meantime, this index should serve as a valuable tool in analyzing the institutions of Mexican states.

In 2009, Guanajuato, Chihuahua, and Baja California ranked highest in economic freedom in Mexico while Colima, Tamaulipas, and Chiapas had the lowest levels of economic freedom. Although scores for economic freedom in Mexican states are slightly different in this updated version, the overall correlation between economic freedom and well-being seems to hold as demonstrated in figure 4.3, table 4.4, and table 4.5. Individuals in the most free states have higher wages than those in lower quintiles. We also provide some regressions that demonstrate a statistically positive relationship between economic freedom and wages and growth in economic freedom and growth in wages.

Global research shows that economic freedom is a powerful driver of growth and prosperity. This study reports strong and significant results showing the same positive effects for US states and Canadian provinces. In this chapter, we have reported results for Mexico consistent with global and North American results; they show that economic freedom in the Mexican states increase the prosperity of Mexicans. Thus, the results here should be of value to Mexican policy makers as a guide to better policy as they strive to build the Mexican economy.

[9] We thank James Gwartney for this suggestion.

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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 2009 Canadian dollars by using the Consumer Price Index and then converted into US dollars using the Purchasing Power Parity between Canada and the United States for each year. US nominal thresholds were converted into real 2009 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, the cause is typically the imposition of a relatively small surcharge on those

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

Top Marginal Tax Rate	Income Threshold Level (US\$2009)		
	Less than \$54,925	\$54,925 to \$109,850	More than \$109,850
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

Top Marginal Tax Rate	Income Threshold Level (US\$2009)		
	Less than \$54,925	\$54,925 to \$109,850	More than \$109,850
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%."

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 \$54,925. Let us say the jurisdiction imposes a surcharge for income earners above \$109,850, 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 judgment. 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 ($0.63/0.79 = 0.80$). 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, $\frac{19}{37}$ 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.

Other adjustments

Many data sources that are used to calculate tax burdens and government expenditures are not available for every year for Canada and the United States. In some cases these data are available at the subnational level but not at the federal level or vice versa. When this is the case, we use the values for the most recent year available.

The Tax Foundation has calculated the federal tax burden by US state up to the year 2005 using sophisticated techniques but these have not been updated in recent years. We impute the federal tax burden by using the federal tax collections by US state provided by the Internal Revenue Service. We calculate the percentage change in tax revenues between each year after 2005 up to 2009 and assume that the tax burden increased by this same percentage. Using the data provided by the Tax Foundation in 2005, we are able to estimate the tax burden for 2006 to 2009. It should be noted that tax revenues are not conceptually identical to the tax burden. As a simple illustration, an income-tax rate of 100% would certainly cause a significant tax burden but would yield virtually no tax revenue. We analyzed the correlation of tax revenues from the IRS and the tax burden from the Tax Foundation in years when both were available and found the correlation to be high. Given this finding, the method discussed herein is considered to be a reasonable, albeit imperfect, method of estimating the tax burden until updated data are provided by the Tax Foundation or another entity.

Finally, we made an adjustment to how we calculate the union score (3C). In past reports, we calculated the union score by regressing the unionization rate on government employment for each given year using the following equation: $\text{Unionization}_i = \alpha + \beta \text{Government}_i + \text{residual}_i$. Previously, we calculated the score for 3C using the residual only. However, by definition the mean of the residual will always be zero and therefore the score does not vary through time even though unionization rates declined significantly over the past 30 years. For this report, we took the estimated intercept, α , and we added it to the residual. Consistent with our prior assumptions, we found that this did seem to account for the changes in unionization rates through time and average union scores increase through time.

Appendix B

Explanation of Components and Data Sources

Area 1 Size of Government

Component 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

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

Statistics Canada, *Provincial and Territorial Economic Accounts, 2011*.

Statistics Canada, Public Institutions Division, Financial Management System, 2005, 2007, 2008.

Sources for Mexico

Instituto Nacional de Estadística Geografía e Informática [INEGI] (various years a). *Estadística de Finanzas Públicas Estatales y Municipales*. <<http://www.inegi.org.mx/inegi/default.aspx?c=10961&s=est>>, as of June 24, 2011.

Sources for the United States

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

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

US Census Bureau (2011). *Annual Survey of State and Local Government Finances and Census of Governments (1981–2008)*. <<http://www.census.gov/govs/estimate/>> as of June 2, 2011.

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

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

US Department of Commerce, Bureau of Economic Analysis. <<http://www.bea.gov/>> (July 6, 2011).

Component 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, and so on. Foreign aid is excluded. Data for Quebec is adjusted for Quebec abatement at the subnational level.

Sources for Canada

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

Statistics Canada, *Provincial and Territorial Economic Accounts, 2011*.

Sources for Mexico

Instituto Nacional de Estadística Geografía e Informática [INEGI] (various years a). *Estadística de Finanzas Públicas Estatales y Municipales*.

<http://www.inegi.org.mx/inegi/default.aspx?c=10961&s=est>, as of June 24, 2011.

Sources for the United States

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

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

US Census Bureau (2011). *Annual Survey of State and Local Government Finances and Census of Governments (1981–2008)*. <http://www.census.gov/govs/estimate/>.

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

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

US Department of Commerce, Bureau of Economic Analysis, <http://www.bea.gov/> (July 6, 2011).

Component 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 and Territorial Economic Accounts, 2011*.

Sources for the United States

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

US Census Bureau (2011). *Annual Survey of State and Local Government Finances and Census of Governments (1981–2008)*, <http://www.census.gov/govs/estimate/>.

US Department of Commerce, Bureau of Economic Analysis, <http://www.bea.gov/> (December, 2009).

Area 2 Takings and Discriminatory Taxation

Component 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 various other taxes. Note that natural resource royalties are not included. Data for Quebec is adjusted for Quebec abatement at the subnational level.

Sources for Canada

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

Statistics Canada, *Provincial and Territorial Economic Accounts, 2011*.

Sources for Mexico

Centro de Estudio de las Finanzas Públicas [CEFP] (2009). *Estadísticas Estatales Indicadores de Finanzas Públicas*.

Instituto Nacional de Estadística Geografía e Informática [INEGI] (various years a). *Estadística de Finanzas Públicas Estatales y Municipales*. <<http://www.inegi.org.mx/inegi/default.aspx?c=10961&s=est>>, as of June 24, 2011.

Special request from Secretaría de Hacienda y Crédito Público. (various years). *Impuestos Federales* (August 26, 2011).

Sources for the United States

US Census Bureau (2011). *Annual Survey of State and Local Government Finances and Census of Governments (1981–2008)*. <<http://www.census.gov/govs/estimate/>>.

US Department of Commerce, Bureau of Economic Analysis, <<http://www.bea.gov/>> (July 6, 2011).

Internal Revenue Service (Washington, DC), *SOI Tax Stats—Internal Revenue Gross Collections*, <<http://www.irs.gov/taxstats/article/0,,id=206488,00.html>> (July 5, 2011)

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

Component 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

Baldwin, John, and Ryan Macdonald (2010). *PPPs: Purchasing Power or Producing Power Parities?* Economic Analysis Research Paper Series. Cat. 11F0027M. No. 058. Statistics Canada.

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

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

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

Statistics Canada, *CANSIM, 2011*.

Statistics Canada, *National Economic Accounts, 2011*.

Statistics Canada, *Provincial Economic Accounts, 2011*.

Sources for Mexico

Organisation of Economic Co-Operation and Development. (2011). *Purchasing Power Parities for GDP and Related Indicators*. <<http://stats.oecd.org/Index.aspx?DataSetCode=PPPGDP>>, as of September 27, 2011.

Servicio de Administración Tributaria (various years). *Tarifa para el Cálculo del Impuesto Sobre la rent Annual Correspondiente*. <http://www.sat.gob.mx/sitio_internet/asistencia_contribuyente/informacion_frecuente/isr_anual/default.asp>, as of August 31, 2011.

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; December, 2009).

US Department of Labor, Bureau of Labor Statistics, <<http://www.bls.gov/cpi/>> (December, 2009).

US Census Bureau (2011). *Annual Survey of State and Local Government Finances and Census of Governments (1981–2008)*, <<http://www.census.gov/govs/estimate/>>.

Component 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 various other taxes. Income-tax revenue, sales-tax revenue, and natural resource royalties are not included in this component.

Sources for Canada

Statistics Canada, *Provincial and Territorial Economic Accounts, 2011*.

Sources for Mexico

Centro de Estudio de las Finanzas Públicas [CEFP] (2009). *Estadísticas Estatales Indicadores de Finanzas Públicas*.

Instituto Nacional de Estadística Geografía e Informática [INEGI] (various years a). *Estadística de Finanzas Públicas Estatales y Municipales*. <<http://www.inegi.org.mx/inegi/default.aspx?c=10961&s=est>>, as of June 24, 2011.

Secretaría de Hacienda y Crédito Público.(various years). *Impuestos Federales*.

US Department of Labor, Bureau of Labor Statistics, <<http://www.bls.gov/cpi/>> (June 10, 2011)

Sources for the United States

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).

US Census Bureau (2011). *Annual Survey of State and Local Government Finances and Census of Governments (1981–2008)*, <<http://www.census.gov/govs/estimate/>>.

Component 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 and Territorial Economic Accounts, 2011*.

Sources for Mexico

Centro de Estudio de las Finanzas Públicas [CEFP] (2009). *Estadísticas Estatales Indicadores de Finanzas Públicas*.

Instituto Nacional de Estadística Geografía e Informática [INEGI] (various years a). *Estadística de Finanzas Públicas Estatales y Municipales*. <<http://www.inegi.org.mx/inegi/default.aspx?c=10961&s=est>>, as of June 24, 2011.

Secretaría de Hacienda y Crédito Público.(various years). *Impuestos Federales*.

Sources for the United States

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

US Census Bureau (2011). *Annual Survey of State and Local Government Finances and Census of Governments (1981–2008)*, <<http://www.census.gov/govs/estimate/>>.

Area 3 Labor Market Freedom

Component 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/dimt-wid/sm-mw/rpt2.aspx?dec=5>> (May 24, 2011).

Statistics Canada, *Provincial Economic Accounts, 2011*.

Sources for Mexico

Comisión Nacional de los Salarios Mínimos [Conasami] (various years). *Tabla de Salarios Mínimos Generales y Profesionales por Área Geográfica*. <http://www.conasami.gob.mx/t_sal_mini_prof.html>, as of May 25, 2011.

Sources for the United States

Division of External Affairs, Wage and Hour Division, Employment Standards Administration, US Department of Labor, <<http://www.dol.gov/whd/state/state.htm>> (May 24, 2011).

Special requests from various state Labor Departments.

US Department of Commerce, Bureau of Economic Analysis, <<http://www.bea.gov/>> (July 6, 2011).

Component 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, *Provincial and Territorial Economic Accounts, 2011*.

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

Sources for Mexico

Instituto Nacional de Estadística Geografía e Informática [INEGI] (various years b). *Encuesta Nacional de Ocupación y Empleo: Indicadores Trimestrales*. <http://interdsap.stps.gob.mx:150/302_0058enoe.asp>, as of September 19, 2011.

Sources for the United States

Regional Economic Information System, Bureau of Economic Analysis, US Department of Commerce, <<http://www.bea.gov/>> (May 25, 2011).

US Department of Labor, Bureau of Labor Statistics, <<http://www.bls.gov/lau/>> (June 22, 2011).

Component 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, 2011.

Statistics Canada, *Labour Force Historical Review 2010* (CD-ROM).

Statistics Canada, *Provincial and Territorial Economic Accounts, 2011*.

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

Sources for the United States

Barry T. Hirsch and David A. Macpherson (2009). *Union Membership and Coverage Database from the Current Population Survey*, <<http://www.unionstats.com/>> (May 26, 2011).

Regional Economic Information System, Bureau of Economic Analysis, US Department of Commerce, <<http://www.bea.gov/>> (May 25, 2011).

US Dept. of Labor, Bureau of Labor Statistics, <<http://www.bls.gov/lau/>> (June 22, 2011).

Area 4 Legal System and Property Rights (Mexico only)

Component 4A Impartiality of Judges

Consejo Coordinador Financiero (2011). *Ejecución de Contratos Mercantiles e Hipotecas en las Entidades Federativas*. <http://www.abm.org.mx/temas_actualidad/estado.htm>, as of August 16, 2011.

Consejo Coordinador Financiero (2011). *Indicadores de Confiabilidad y Desarrollo Institucional Local*. <http://www.abm.org.mx/temas_actualidad/estado.htm>, as of August 16, 2011.

Consejo Nacional de Población (2011). *De la Población de México 2005-2050*. <http://www.conapo.gob.mx/index.php?option=com_content&view=article&id=36&Itemid=234>, as of May 24, 2011.

Instituto Mexicano Para la Competividad [IMCO] (2006). *Competividad Estatal 2006*.

Instituto Mexicano Para la Competividad [IMCO] (2008). *Competividad Estatal de Mexico 2008*. <<http://www.imco.org.mx/imco/recursos/webestados/home.html>>, as of September 15, 2009.

Instituto Mexicano Para la Competividad [IMCO] (2010). *Competividad Estatal de Mexico 2010*. <<http://www.imco.org.mx/imco/recursos/webestados/home.html>>, as of September 15, 2011.

Component 4B Institutional Quality of the Judicial System

Consejo Coordinador Financiero (2011). *Ejecución de Contratos Mercantiles e Hipotecas en las Entidades Federativas*. <http://www.abm.org.mx/temas_actualidad/estado.htm>, as of August 16, 2011.

Consejo Coordinador Financiero (2011). *Indicadores de Confiabilidad y Desarrollo Institucional Local*. <http://www.abm.org.mx/temas_actualidad/estado.htm>, as of August 16, 2011.

Consejo Nacional de Población (2011). *De la Población de México 2005-2050*. <http://www.conapo.gob.mx/index.php?option=com_content&view=article&id=36&Itemid=234>, as of May 24, 2011.

Instituto Mexicano Para la Competividad [IMCO] (2006). *Competividad Estatal 2006*.

Instituto Mexicano Para la Competividad [IMCO] (2008). *Competividad Estatal de Mexico 2008*. <<http://www.imco.org.mx/imco/recursos/webestados/home.html>>, as of September 15, 2009.

Instituto Mexicano Para la Competividad [IMCO] (2010). *Competividad Estatal de Mexico 2010*. <<http://www.imco.org.mx/imco/recursos/webestados/home.html>>, as of September 15, 2011.

Component 4C Trustworthiness and Agility of Public Property Registry

Consejo Coordinador Financiero (2011). *Indicadores de Confiabilidad y Desarrollo Institucional Local*. <http://www.abm.org.mx/temas_actualidad/estado.htm>, as of August 16, 2011.

Additional Data Sources Used in Regression Analysis

Sources for Canada

Baldwin, John, and Ryan Macdonald (2010). *PPPs: Purchasing Power or Producing Power Parities?* Economic Analysis Research Paper Series. Cat. 11F0027M. No. 058. Statistics Canada.

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

Statistics Canada, CANSIM, 2011.

Statistics Canada, *Labour Force Historical Review, 2001, 2006, 2008, 2010* (CD-ROM).

Statistics Canada, *Provincial and Territorial Economic Accounts, 2011*.

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

Regional Economic Information System, Bureau of Economic Analysis, US Dept. of Commerce, <<http://www.bea.gov/>> (May 25, 2011).

US Census Bureau, American Community Survey, <http://factfinder.census.gov/home/saff/main.html?_lang=en> (September 29, 2011)

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/>> (June 22, 2011).

Differences between *Economic Freedom of North America* and *Economic Freedom of the World*

The index published in *Economic Freedom of North America* (EFNA) does not include all the measures in the index published in the annual reports, *Economic Freedom of the World* (EFW). This is because there are some measures of the EFW index that have too little variance from one state or province to another to be measured accurately, while other measures have significant variance but subnational data are unavailable. For example, the EFNA index does not include measures of legal structure and secure property rights and business regulation, not because there is no variation between states and provinces but because there are no appropriate data to quantify these areas. On the other hand, policies that affect the areas of access to sound money, freedom to trade internationally, and regulation of credit are set at the national level so there is little variation among states and provinces. Thus, the EFNA index concentrates on the areas that vary the most from one state or province to another and for which data are available: the size of government, takings and discriminatory taxation, and labor market freedom.

The differences between the indices explain the discrepancy between the results of *Economic Freedom of North America*, where the US states receive a higher score than Canadian provinces, and *Economic Freedom of the World*, where Canada ranks above the United States in 2009. For example, in the areas of legal structure and property rights (Area 2) and regulation of credit, labor, and business (Area 5), Canada has a significantly higher rating than the United States in the *Economic Freedom of the World* and these areas are not included in *Economic Freedom of North America*. In addition, Area 3 of EFNA (labor market freedom), where Canada ranks significantly lower than the United States, has a much higher weight in EFNA than in EFW, where it is only one third of Area 5.

Economic Freedom of the World is a superior measure of differences among countries since it includes more areas. However, *Economic Freedom of North America* is a valuable tool for measuring differences within the two countries. A long-term goal of the EFNA project is to have measures that capture the subnational heterogeneity of all the areas included in *Economic Freedom of the World*, though there are no data to do so at this time.

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.

Ashby, Nathan J., Avilia Bueno, and Deborah Martinez (2011). The Determinants of Immigration from Mexico to the United States: A State-to-State Analysis. Working Paper. Department of Economics and Finance, The University of Texas at El Paso.

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.

Bezmen, Trisha L., and Craig A. Depken II (2006). Influences on Software Piracy: Evidence from the Various United States. *Economics Letters* 90: 356–61.

Calcagno, Peter, and Edward Lopez (2011). Divided We Vote. *Public Choice*. Forthcoming.

Campbell, Noel D., Alex Fayman, and Kirk Heriot (2010). Including U.S. State Government Regulation in the Economic Freedom of North America Index. *Journal of Private Enterprise* 25, 2: 165–186.

Campbell, Noel D., K.C. Heriot, and A. Jauregui (2008). Housing Prices and Economic Freedom. *Journal of Private Enterprise* 23,2: 1–17.

Campbell, Noel D., K.C. Heriot, and Tammy M. Rogers. (2007/2008). The Economic Freedom Index as a Determinant of Firm Births and Firm Deaths. *Southwest Business & Economics Journal* 16: 37–51.

Campbell, Noel D., 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>>.

Clark, J.R., and D. Pearson (2007). Economic Freedom, Entrepreneurship, Migration, and Economic Growth. *Clarion Business and Economic Review* 6: 10–23.

Compton, Ryan A., Giedman, Daniel C., and Gary A. Hoover (2011). Panel Evidence on Economic Freedom and Growth in the United States. *European Journal of Political Economy* 27, 3: 423-35.

Corey, Joab (2009). *Development in US States, Economic Freedom and the "Resource Curse."* Fraser Institute Studies in Mining Policy. Fraser Institute. <<http://www.fraserinstitute.org/researchandpublications/publications/7088.aspx>>.

Cumming, Douglas, and Dan Li (2009). Public Policy and Business Creation in the United States. Social Science Research Network Working Paper Series. <http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1443508>.

Garrett, Thomas A., and Russell M. Rhine (2011). Economic Freedom and Employment Growth in U.S. States. *Federal Reserve Bank of St. Louis Review* 93, 1: 1–18. <<http://research.stlouisfed.org/publications/review/11/01/1-18Garrett.pdf>>.

Gohmann, Stephan F., Bradley K. Hobbs, and Myra McCrickard (2008). Economic Freedom and Service Industry Growth in the United States. *Entrepreneurship Theory and Practice* 32, 5: 855–874.

Hafer, RW (2011). Entrepreneurship and State Economic Growth. Working Paper. Department of Economics, Southern Illinois University. <http://www.siu.edu/business/econfin/pdf/HAFER_Entrepreneurship_and_state_economic_growth__April_2011__.pdf>.

Hall, Joshua C., and Russell S. Sobel (2008). Institutions, Entrepreneurship, and Regional Differences in Economic Growth. *Southern Journal of Entrepreneurship* 1: 70–96.

Harris, Mike, and Preston Manning (2005). *A Canada Strong and Free*. Fraser Institute. <<http://www.fraserinstitute.org/research-news/display.aspx?id=12776>>.

Jones, Samuel K., and Michael D. Stroup (2011). Economic Freedom and Mispricing of Single-State Municipal Bond Closed-End Funds. *Journal of Economics and Finance*. Published at <<http://www.springerlink.com/content/flj25xg1206854n5/>>, April 5, 2011.

Kerekes, Carrie (2011). Government Takings: Determinants of Eminent Domain. *American Law and Economics Review* 13,1: 201–219.

- 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>>.
- Lawson, R.A., and S. Roychoudhury (2008). Economic Freedom and Equity Prices among U.S. States. *Credit and Financial Management Review* 14: 25–35.
- Lee, Jim (2010). Trade Integration and Business Cycle Co-movement: Evidence from the U.S. *International Trade Journal* 24, 4: 361–388.
- Lopez, Edward, Todd Jewell, and Noel Campbell (2009). Pass a Law, Any Law, Fast! State Legislative Response to the Kelo Backlash. *Review of Law & Economics* 5, 1: 101–135. <<http://www.bepress.com/rle/vol5/iss1/art5/>>.
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About the Authors

Nathan J. Ashby

Nathan J. Ashby is an assistant professor of economics at the University of Texas at El Paso (UTEP). He obtained his B.A. in economics with a minor in Spanish at Utah State University and went on to receive his M.A. and Ph.D. in economics from West Virginia University. He has published articles in the *Southern Economic Journal*, *Public Choice Journal*, and *Eastern Economic Journal*. His published research focuses on the impact of economic freedom on migration, inequality, and other economic outcomes. He is currently studying the impact of crime on foreign direct investment in Mexico and the relationship between economic freedom policies and immigration from Mexico to the United States.

Avilia Bueno

Avilia Bueno is a research assistant at the University of Texas at El Paso (UTEP). She obtained her B.B.A. in economics and marketing in 2010 and is currently working towards her M.S. in economics at UTEP. Her paper, *The Determinants of Immigration from Mexico to the United States: A State-to-State Analysis* (with Nathan Ashby and Deborah Martinez), is currently being reviewed for publication. Her plan is to pursue a doctorate in economics.

Fred McMahon

Fred McMahon is the vice president of international research at the Fraser Institute. He manages the Economic Freedom of the World Project and examines global issues, such as development, trade, governance, and economic structure. The Centre coordinates the Economic Freedom Network, an international alliance of independent think tanks in 85 nations and territories, and publishes the Fraser Institute's *Annual Survey of Mining Companies*. Mr McMahon is the author of numerous research articles and several books, including *Looking the Gift Horse in the Mouth: The Impact of Federal Transfers on Atlantic Canada*, which won the Sir Antony Fisher International Memorial Award for advancing public policy debate, *Road to Growth: How Lagging Economies Become Prosperous*, and *Retreat from Growth: Atlantic Canada and the Negative Sum Economy*. He has written for numerous publications, including the *European Journal of Political Economy*, the *SAIS Journal* (School of Advanced International Studies, Johns Hopkins University), the *Wall Street Journal*, *Policy Options*, *National Post*, *Time* (Canada), *Globe & Mail*, *Ottawa Citizen*, and most other major Canadian newspapers. Research studies he has recently authored or co-authored include: *Quebec Prosperity: Taking the Next Step*, *The Unseen Wall: The Fraser Institute's Annual Trade Survey*, and *Economic Freedom of the Arab World*. He has an M.A. in Economics from McGill University, Montreal.

About the Contributor

Deborah Martinez

Deborah Martinez is a research assistant at the University of Texas at El Paso (UTEP). She obtained her B.B.A. in economics and finance in 2010 and is currently working towards her M.S. in economics at UTEP. Her plan is to pursue a doctorate in economics. Her paper, *The Determinants of Immigration from Mexico to the United States: A State-to-State Analysis* (with Nathan Ashby and Avilia Bueno), is currently being reviewed for publication. Her plan is to pursue a doctorate in economics.

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