Economic Freedom of North America
2004 Annual Report

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Amela Karabegović, Fred McMahon
& Dexter Samida

with

Glenn Mitchell

The Fraser Institute
Canada

National Center for Policy Analysis
United States of America

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Executive Summary

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

Economic Freedom of North America presents the first comprehensive economic freedom ratings for US states and Canadian provinces. The study rates economic freedom on a 10-point scale for two indexes. An all-government index captures the impact of restrictions on freedom by all levels of government. A subnational index captures the impact of restrictions by state or provincial and local governments. *Economic Freedom of North America* employs 10 variables in three areas: 1. Size of Government; 2. Takings and Discriminatory Taxation; and 3. Labor Market Freedom. This year's report adds a new variable to Area 3: Labor Market Freedom that is designed to measure how much policy affects workers' freedom to join, or not to join, unions. This variable is discussed in the main body of the report and its appendixes.

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.

The econometric testing shows that a one-point improvement in economic freedom on the all-government index increases per-capita GDP by US$6,235 for US states and by US$3,276 (C$4,368) for Canadian provinces. On the subnational index, a one-point improvement increases per-capita GDP by US$2,954 for US states and by US$1,737 (C$2,316) for Canadian provinces.

A 1.00% increase in the growth rate of economic freedom in the all-government index (e.g., from 4.00% per year to 4.04% per year), will induce an increase of 1.09% in the growth rate of per-capita GDP for US states and an increase of 0.64% in the growth rate of per-capita GDP for Canadian provinces. A 1.00% increase in the growth rate of economic freedom in the subnational index will induce an increase of 0.53% in the growth rate of per-capita GDP for US states and 0.47% increase in the growth rate for Canadian provinces.

The econometric results are remarkably stable and consistent through a number of sensitivity tests presented in this paper, with more to be found on the website, www.freetheworld.com. The importance of these results is reinforced by their consistency with those of last year, despite the addition of data from a further year (2001) and of new variable in Area 3: Labor Market Freedom. The similarity of results regardless of the structure of the index or year of the tests is quite remarkable.

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

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

All provinces, except Alberta, are clustered at the bottom of the rankings of both the all-government

and the subnational economic freedom indexes and also have low levels of prosperity. Canada's next freest province, Ontario, is the only province ahead of at least one state, West Virginia, in both the sub-national and all-government indexes. Yet, its level of prosperity is ahead of only West Virginia and Mississippi, which also score poorly in economic freedom. This is not an encouraging message considering that Ontario is usually thought of as Canada's economic powerhouse; one would never think of calling West Virginia or Mississippi an economic powerhouse even though their levels of prosperity are similar to Ontario's.

Although exceptions occur, changes in prosperity closely follow changes in economic freedom. Massachusetts is an interesting example. In 1981, the beginning of the period under study, Massachusetts had a low economic-freedom score and an economy that performed below the national average. Massachusetts' economic freedom increased through the 1980s and its economy caught up to the national average. Economic freedom declined in the early 1990s and relative prosperity fell back. Massachusetts' economic freedom again increased from the mid-1990s onwards and, by 1998, it was tied as the fourth wealthiest state in the union.

In Canada, Alberta followed a similar pattern. Economic freedom and economic activity weakened into the early 1990s. The province then recorded strong gains in economic freedom through the rest of the 1990s. During this period, the province's economic health was restored.

Measuring economic freedom, however, does not capture all influences on economic activity. A few exceptions are found, such as Alaska, which is wealthier than its level of economic freedom would suggest; and Louisiana, which is poorer than its level of freedom would suggest. Factors such as resource wealth, proximity to transportation routes, even a culture of corruption can affect growth rates.

The evolution of economic freedom in North America follows the expected pattern. In the United States, at the all-government level, economic freedom increases through the 1980s, coinciding with the Reagan era. It fell in the early 1990s, following tax increases under the Bush and early Clinton administrations and then begins to rise again. At the subnational level, the pattern is the same but less pronounced. 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 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. In both indexes, economic freedom falls in Canada in the early 1990s and then begins to rise. In early 1990s, Canadian governments began to address debt and deficit problems but more often through increased taxation than through lower spending. As debts and deficits were brought under control, governments began to reduce some tax rates through the mid- and, particularly, late 1990s. Also in this period, fiscally conservative governments were elected in Canada's two richest provinces, Alberta and Ontario.

Overall patterns in Canada and the United States are similar. However, during the late 1980s and early 1990s, Canadian governments relied on taxes to solve the deficit problem more than US governments did. Thus, the gap between Canada and the United States in economic freedom grew through this period, before returning to about its 1981 level in the late 1990s.

Chapter 1: Economic Freedom & the Index

The index of the Economic Freedom of North America is an attempt to gauge the extent of the restrictions on economic freedom imposed by governments in North America. This study employs two indexes. The first is the subnational index, which measures the impact of provincial and municipal governments in Canada and state and local governments in the United States. The second index, called the all-government index, includes 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 in both indexes. Although this study does not rank Mexican states, future research will endeavour to do so.

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 paper shows that in North America economic freedom fosters prosperity and growth. Economic freedom increases the affluence of individuals. This finding is consistent with other studies of economic freedom.[1] The results are highly significant and remarkably stable through a number of different sensitivity tests.

The majority of US states have high levels of economic freedom and prosperity. Only a handful of states, most notably West Virginia, have consistently low levels of economic freedom. Other states, such as Colorado, Tennessee, Nevada, Indiana, Georgia, Connecticut, Louisiana, and Texas, have consistently high levels of economic freedom. All states with high scores for economic freedom, with the exception of Louisiana, either exceed the United States' average per-capita GDP or have been exceeding average economic growth in the United States. The states that have consistently low levels of economic freedom—West Virginia, Maine, New Mexico, Arkansas, Alaska, and Rhode Island—either suffer from a GDP that is below the national average or that is declining against the national average.

Some states have dramatically changed their economic freedom rating over the period. Massachusetts went from 49th to the top ten in all-government rankings over the period. During this period, its economy, which had been under-performing the national average, became one of the four richest in the United States. Alaska, Oklahoma, North Dakota, and Montana all fell by 30 or more places in the ranking of US states—the four largest declines.

Unfortunately, Canadian provinces are poorly positioned to benefit from economic freedom. With the exception of Alberta and, to a lesser extent, Ontario, they are all clustered at the bottom of the economic freedom ratings and are the poorest jurisdictions in North America. Figures 1 and 2 illustrate economic freedom scores and the large differences between US states and Canadian provinces.

Alberta's economic freedom scores put it tenth on the all-government index and 25th on the subnational index. It also has a middling level of economic activity within the North American context, hardly the star performer usually visualized in Canada. Ontario has a more typically Canadian score in economic freedom. As for wealth, in 2001, the most recent year for which comprehensive data are available, Ontario places ahead only of the two poorest US states, West Virginia and Mississippi. This is a very disappointing result for the province that is normally considered Canada's industrial heartland, though its prosperity ranks far behind advanced, industrial US states.

What is Economic Freedom?

Gwartney et al. defined economic freedom as follows:

> 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. (1996: 12)

The freest economies operate with a minimal level of 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, the level of economic freedom declines.

The research flowing from the data generated by the *Economic Freedom of the World* reports,[2] a project The Fraser Institute initiated almost 20 years ago, shows that economic freedom is important to the well-being of a nation's citizens. This research has found that economic freedom is positively correlated with per-capita income, economic growth, greater life expectancy, lower child mortality, the development of democratic institutions, civil and political freedoms, and other desirable social and economic outcomes. Just as *Economic Freedom of the World* seeks to measure economic freedom on an international basis, *Economic Freedom of North America* has the goal of measuring differences in economic freedom among the Canadian provinces and US states.

This study looks at the 10 Canadian provinces—excluding Yukon, the Northwest Territories, and Nunavut—and the 50 US states from 1981 to 2001. Each province and state is ranked on economic freedom at the subnational and all-government levels. This helps isolate the impact of different levels of government on economic freedom in North America.

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 among North American jurisdictions to measured 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. Variables 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 North America, particularly at a subnational level.

However, economic freedom varies across North America in three important aspects, which we attempt to capture in this index: size of government; takings and discriminatory taxation; and labor market freedom. A fourth, potentially important, area of difference, restriction on the movement of goods within North America, had to be left out due to lack of data. This may be particularly important in the Canadian context, since Canada retains a number of internal trade barriers.[3]

Data limitations also create difficulties in testing relationships between economic freedom and key economic variables. For example, we are only partly able to construct a growth model. Data on investment for individual states, an important part of any growth model, are not available. Fortunately, as discussed later, the effect of omitting investment variable 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 variable often does not have the expected sign and is seldom significant in the regressions in which it is included.

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

The *theory* of economic freedom[4] is no different at the subnational and all-government level than it is at the global level, although different proxies consistent with the theory of economic freedom must be found that suit subnational and all-government measures. The 10 variables chosen fall into three areas: Size of Government, Takings and Discriminatory Taxation, and Labor Market Freedom. Before we discuss what each area includes, it should be noted that most of the variables we use are calculated as a ratio of gross domestic product (GDP) in each jurisdiction and thus do not require translation between exchange rates.

Figure 1: Summary of 2001 Ratings—All-Government

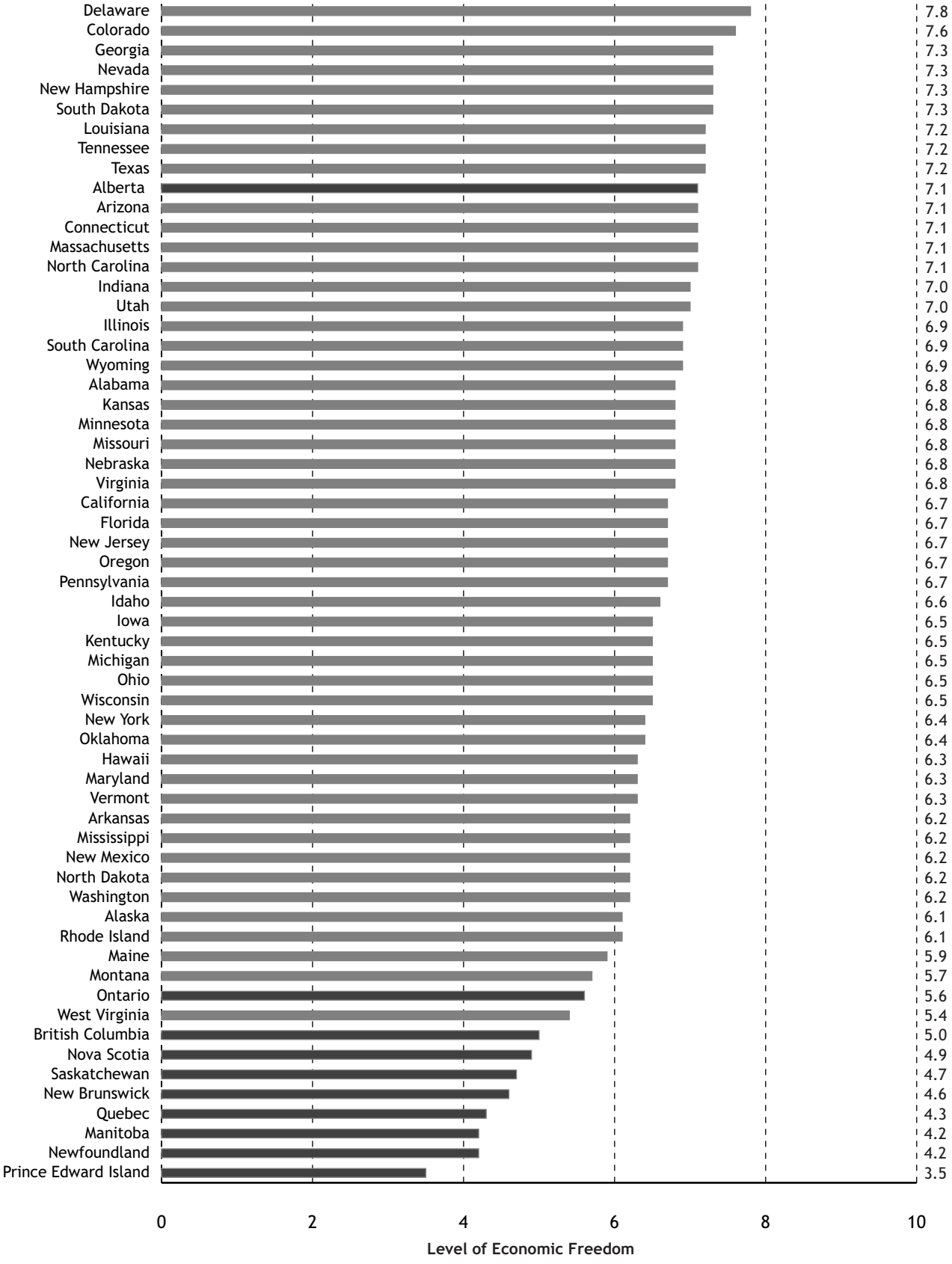
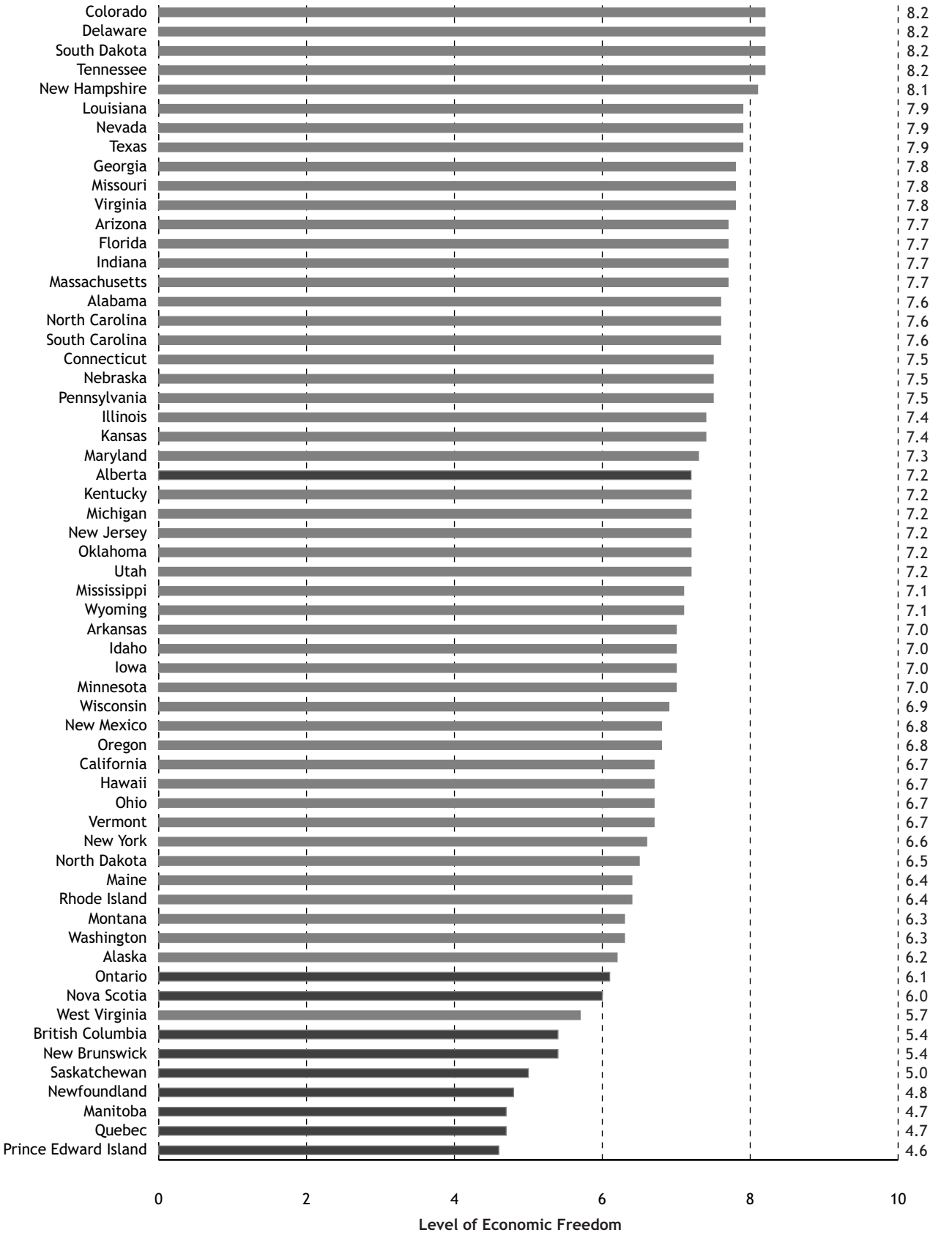


Figure 2: Summary of 2001 Ratings—Subnational



The exception is the income-tax rate variable, where the exchange rate is used to calculate equivalent top thresholds in Canada and the United States.

Description of Variables

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 variables in the index. The highest possible score is 10, which indicates a high level 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 variable, each area was equally weighted and each variable within each area was equally weighted (see Appendix C: Methodology (p. 48) for more details).

The index developed in this paper assigns a higher score of economic freedom when the variable, size of government, 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 the theory of economic freedom requires is that governments be large enough to undertake an adequate but minimal level of the "protective" and "productive" functions of government, discussed in the next section. It is unlikely that any government considered in this sample is too small to perform these functions at the minimum required level.

In examining the areas below, it may seem that Areas 1 and 2 create a double counting, in that they capture the two sides of the government ledger sheet, revenues and expenditures, which presumably should balance over time. However, in examining subnational jurisdictions, this situation does not hold. In the United States, and even more so in Canada, a number of intergovernmental transfers break the link between taxation and spending at the subnational level.[6] 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 Newfoundland and West Virginia than they raise through taxation in these jurisdictions. The opposite pattern occurs for Alberta and Connecticut.

As discussed below, 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 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. According to Gwartney et al. "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" (1996: 22).

These two broad functions of government are often called protective and productive functions of government. Once government moves beyond these two functions into provision of private goods, goods that can be produced by private firms and individuals, they restrict consumer choice and, thus, economic freedom (Gwartney et al. 1996). In other words, government spending, independent of taxation, by itself reduces economic freedom once this spending exceeds what is necessary to provide a minimal level of protective and productive functions. Thus, as the size of government consumption grows a jurisdiction receives a lower score in this component.

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.

Area 2: Takings and Discriminatory Taxation

2A: Total Government Revenue from Own Source as a Percentage of GDP;

2B: Top Marginal Income Tax Rate[7] 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 the above variables, a higher rate lowers a jurisdiction's score in this component. Top personal income tax rates are also 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 own-source revenue is included to pick up the impact of taxes, particularly various corporate and capital taxes, not included in the other three variables.

Area 3: Labor Market Freedom

3A: Minimum Wage Legislation

High minimum wages restrict the ability of employers and employees to negotiate contracts to their liking. In particular, minimum wage legislation restricts the ability of low-skilled workers and workforce entrants to negotiate for employment they might otherwise accept, and thus minimum wage laws most restrict the economic freedom of workers in these groups and the employers who might otherwise hire 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 no impact on economic freedom; set at 50% of average productivity, the legislation would limit the freedom of workers and firms to negotiate employment to a much greater extent. Put another way, a minimum wage requirement of $2 an hour for New York will have little impact but, for a third world nation, it might remove most potential workers from the effective workforce. The same idea holds, though in a narrower range, for jurisdictions within North America.

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

Economic freedom decreases for several reasons as government employment increases beyond what is necessary for government's productive and protective functions. Government, in effect, is using expropriated money to take an amount of labor out of the labor market. This restricts the ability of individuals and organizations to contract freely for labor services since potential employers have to bid against their own tax dollars in attempting to obtain labor. High levels of government employment may also indicate that government is attempting to supply goods and services that individuals contracting freely with each other could provide on their own. It may also be that the government is attempting to provide goods and services that individuals would not care to obtain if able to contract freely. It may also indicate that government is engaging in regulatory and other activities that restrict the freedom of citizens. Finally, high levels of government employment suggest government is directly undertaking work that could be contracted privately. When government, instead of funding private providers, decides to provide directly a good or service, it reduces economic freedom by limiting choice and by typically creating a government 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: Occupational Licensing

As the number of regulated occupations expand, the mobility of labor is reduced. Often those certified in one jurisdiction have difficulty getting certified in another. If there are barriers to movement of qualified labor from one place to another within a country, then economic freedom is reduced. Moreover, in many cases restrictions on entry into a profession serve little public benefit; instead, they may be enacted for the benefit of the regulated group, which is able to maintain a monopoly on certain types of work so that other individuals may not freely contract with whom they might choose. These laws often protect the interests of "insiders" from potential competition. A greater number of regulated occupations results in a lower score for a jurisdiction.

3D: Union density

Workers should have the right to form and join unions, or not to do so, as they choose. However, labor-market laws and regulations 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 for public voting), and may make decertification difficult even when a majority of workers would favour 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.

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

Thus, we ran statistical tests to determine the significance of government employment on unionization—it is highly significant—and hold this factor constant in calculating the variable. We also ran tests on whether the size of the manufacturing sector was significant. It was not and, therefore, we did not correct for this factor in calculating the variable. It may also be that the size of the rural population has impact on unionization. Unfortunately, consistent data from Canada and the United States are not available. Despite this limitation, the authors believe this proxy variable is the best available at the moment. Its results are consistent with the published information that is available (see, for example, Karabegović, Clemens, and Veldhuis 2003).

Most of the variables above exists in the two dimensions we have already mentioned: the subnational and the all-government level. 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.

Notes

1 See Easton and Walker 1997, De Haan and Sturm 2000, and other related papers at www.freetheworld.com.

2 A listing of many of these books and additional information can be found at www.freetheworld.com.

3 Knox 2002.

4 See Gwartney et al. 2002. The website www.freetheworld.com has references to a number of important papers and books that explore the theory of economic freedom.

5 Due to the way variables are calculated, a mini-max procedure discussed in Appendix C: Methodology (p. 51), 10 is not indicative of perfect economic freedom.

6 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.

7 See Appendix C: Methodology (p. 51) for further discussion of how the variable for the top marginal tax rate and its threshold was derived.

Chapter 2: Overview of the Results

Prior to a detailed discussion of the econometric testing, we will present some simple graphics for illustrative purposes. These charts dramatically demonstrate the important links between prosperity and economic freedom, links that are more fully explored in the econometric testing.

Figure 3 breaks economic freedom into quintiles at the all-government level. For example, the category on the far left of the chart, "Bottom," represents the jurisdictions that score in the lowest fifth of the economic freedom ratings, the 12 lowest of the 60 North American jurisdictions. Nine of these are Canadian provinces—all except Alberta. The jurisdictions in this bottom quintile have an average per-capita GDP of just US$20,891 (C$27,855). This compares to an average per-capita GDP of US$36,878 (C$49,170) for the 12 top-ranked jurisdictions.

Figure 4 is the same chart type as Figure 3 but represents economic freedom at the subnational level. Here, the bottom quintile has an average per-capita GDP of $23,237 (C$30,983) compared to the top quintile with an average per-capita GDP of $36,237 (C$48,316). As will be noted in the econometric testing, economic freedom has a smaller impact at the subnational level than at the all-government level. This is expected since only at the all-government level are all government restrictions on economic freedom captured.

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 3 and 4.

Figure 3: Economic Freedom at an All-Government Level and per-Capita GDP, 2001

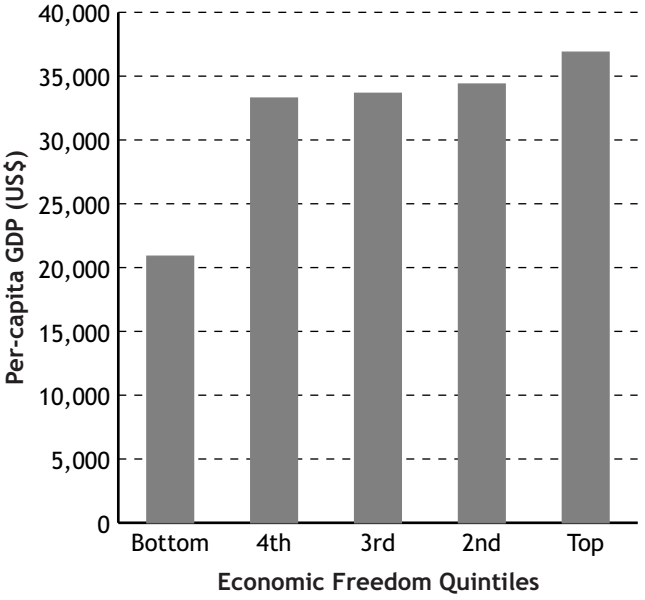
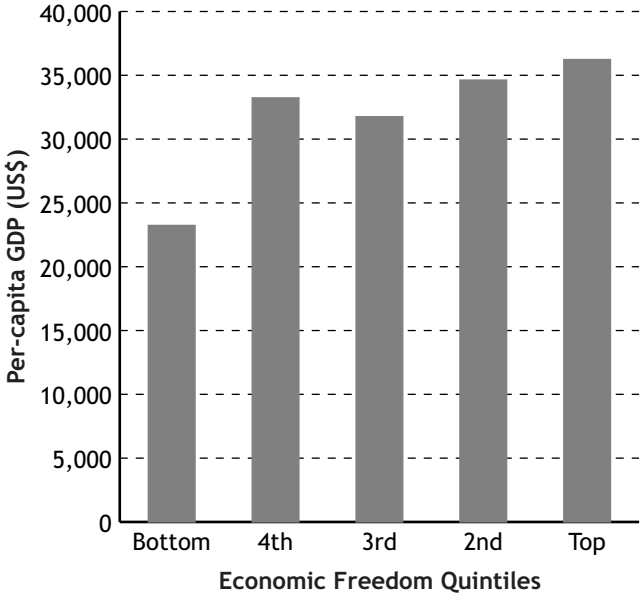


Figure 4: Economic Freedom at a Subnational Level and per-Capita GDP, 2001



Figures 5 and 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. Here too, as expected, the subnational relationship is weaker than the all-government one.

Finally, in this illustrative section, we look at the relationship between growth of economic freedom and the growth of a jurisdiction's economy, another topic more fully explored in the following testing. In Figures 7 and 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 Two Indexes

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 variable is constructed. Subnational responsibilities in Canada and the United States differ. Thus, government spending and taxation patterns cannot be directly compared. Instead, an "adjustment factor," explained in Appendix D: Adjustment Factors (p. 53), is used. One effect of this adjustment factor is to give Canadian provinces, on average, similar relative rankings to US states in both indexes. Nonetheless, the two indexes produce different results when the rankings of individual states and provinces is examined.

For most Canadian provinces and US states, rankings do not change radically between the all-government and the sub-national index. For Canada, Alberta is the only exception to this rule, falling from 10th on the all-government index to 25th on the sub-national index. This is because the federal government spends so little money in Alberta that on the all-government index Alberta does very well on the in Area 1: Size of Government.

In the United States, only one state, Maryland—24th on the sub-national index and 39th on the all-government index—changes position as much as Alberta. For Maryland, high federal spending in the state is the key reason its rank in the all-government index is substantially lower than in the sub-national index. Two states, California and Wyoming, are 14 ranks higher on the all-government index than the sub-national index, and one state, Florida, is 14 points lower. Wyoming's all-government advantage lies in a relatively low federal spending. California has "all-government" advantages in all areas. Florida ranks considerably better on sub-national index in Area 1 and Area 2 than on the all-government index. The reader is directed to the tables at the back of this report, also available at <http://www.freetheworld.com>, to examine other differences in individual scores and ranks between the two indexes.

The Evolution of Economic Freedom in North America

As can be seen from Tables 1 and 2 (page 14), the evolution of economic freedom in North America 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 Bush and early Clinton administrations and then begins to rise again. At the subnational level, the pattern is the same 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.[1]

In Canada through the 1980s, economic freedom remained fairly constant at the subnational level 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. In both indexes, 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 typically more 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.

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

Figure 5: Average per-Capita GDP and Average Economic Freedom at an All-Government Level

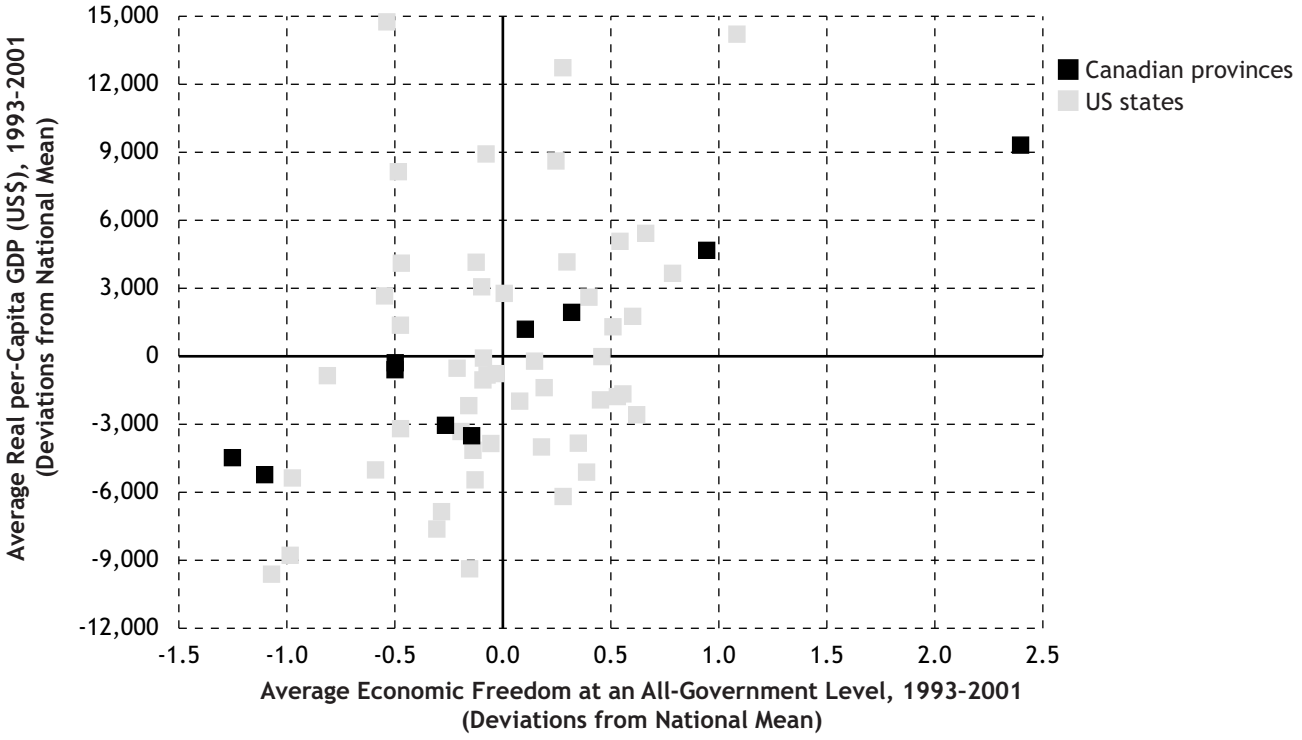


Figure 6: Average per-Capita GDP and Average Economic Freedom at a Subnational Level

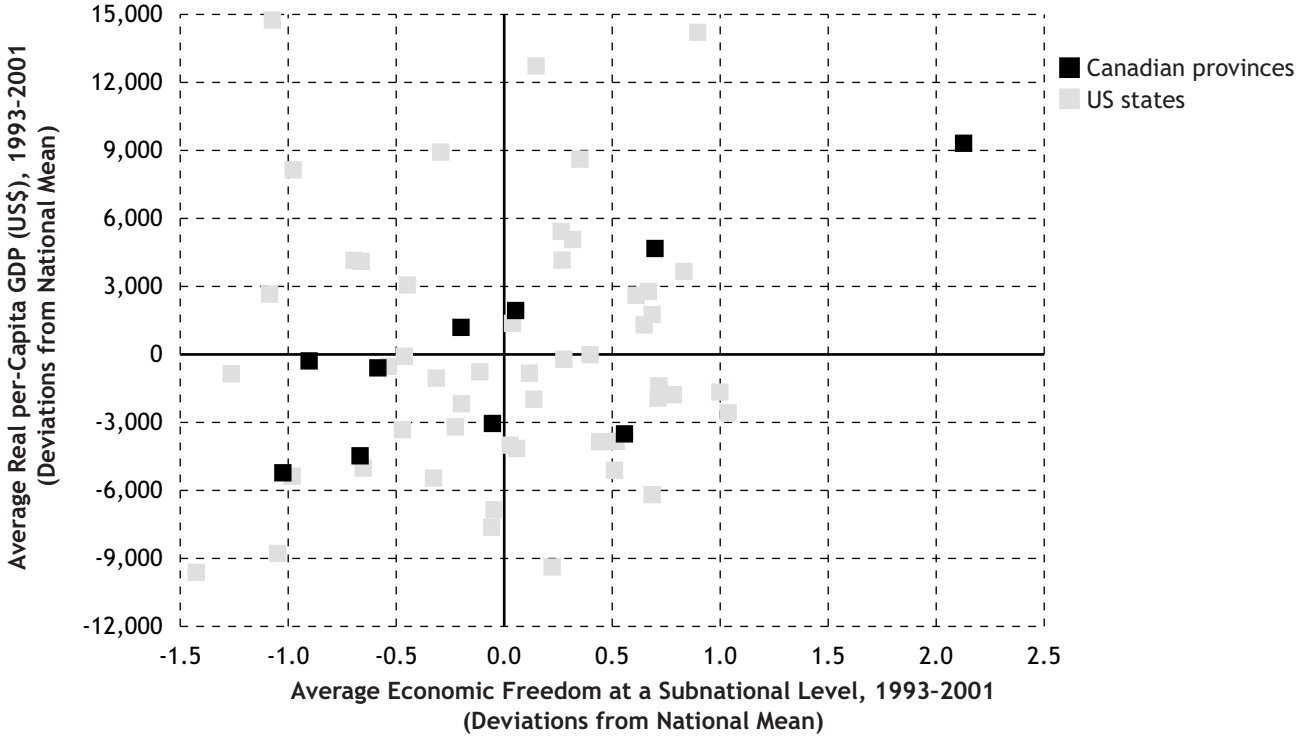


Figure 7: Average Growth in per-Capita GDP and Average Growth in Economic Freedom at an All-Government Level

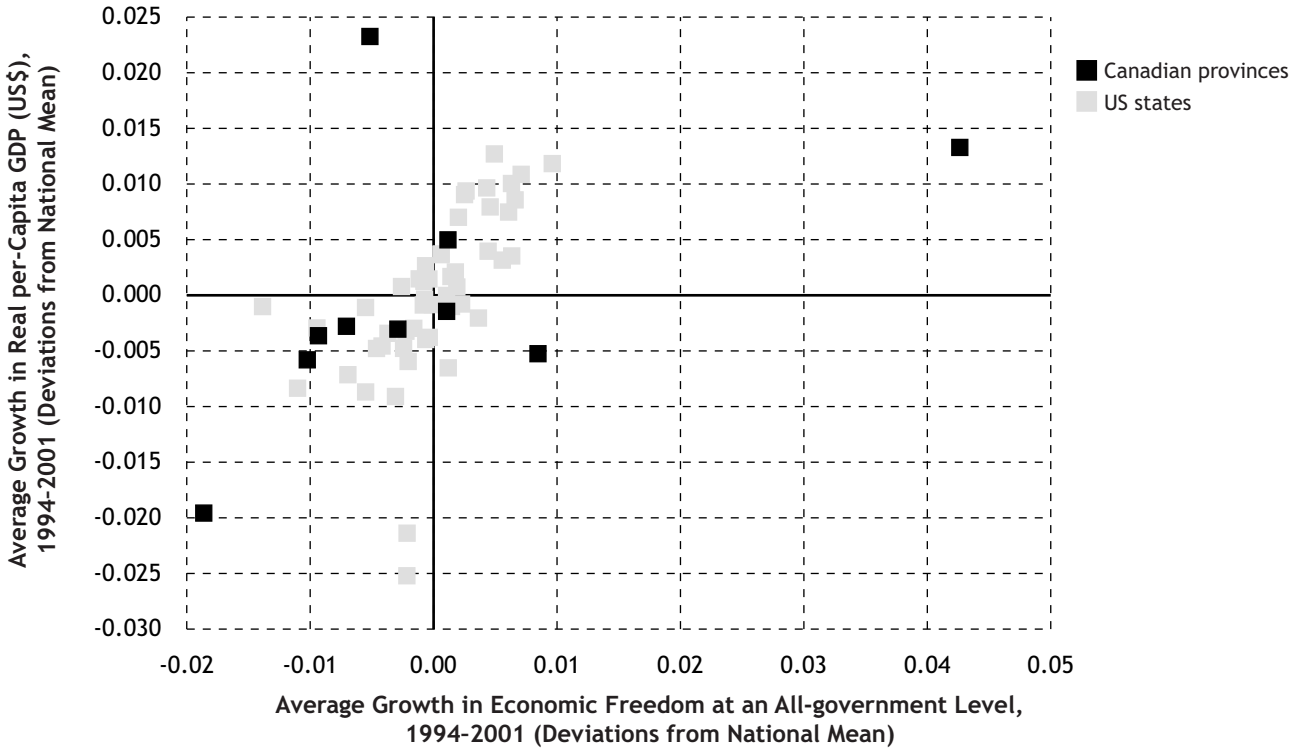


Figure 8: Average Growth in per-Capita GDP and Average Growth in Economic Freedom at a Subnational Level

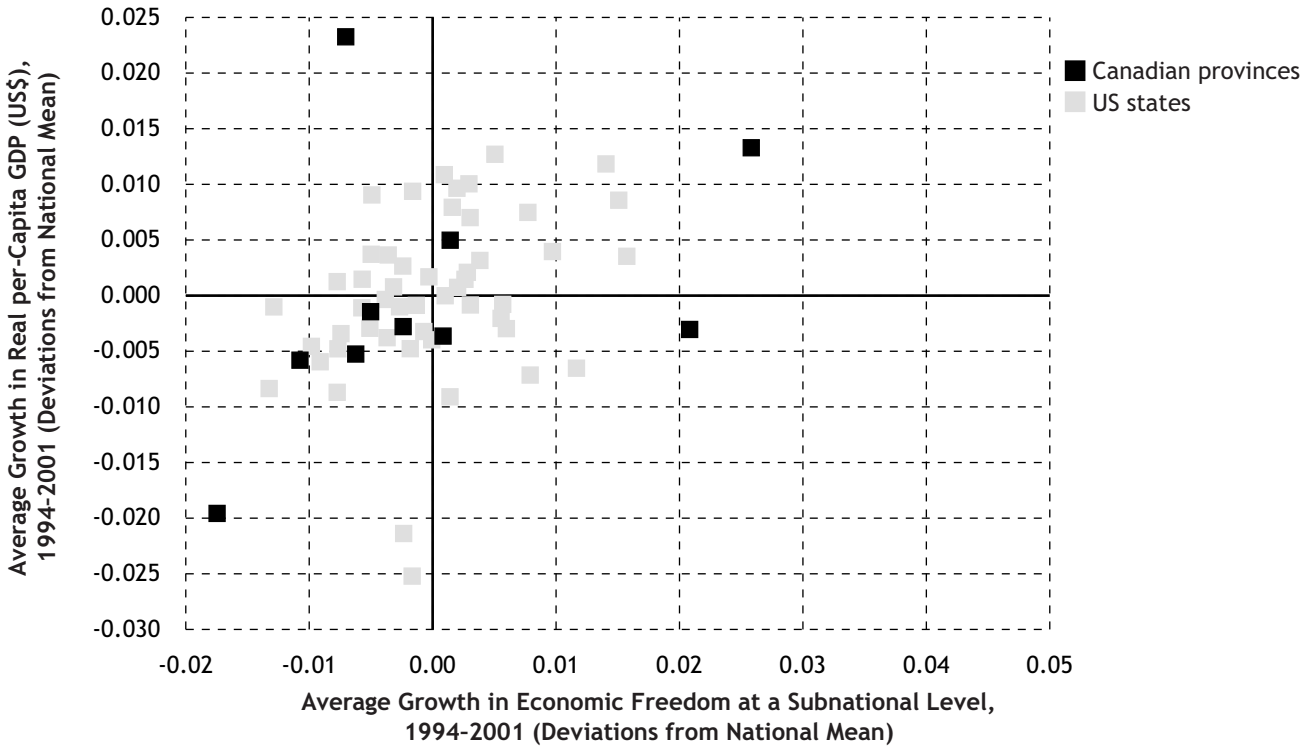


Table 1: Average Economic Freedom Scores at an All-Government Level

	1981	1985	1989	1993	1994	1995	1996	1997	1998	1999	2000	2001
Canada	4.0	4.1	4.5	3.9	4.0	4.2	4.3	4.4	4.5	4.6	4.8	4.8
United States	6.0	6.3	6.9	6.6	6.5	6.6	6.6	6.7	6.7	6.7	6.7	6.7
Difference	2.0	2.2	2.4	2.7	2.5	2.4	2.3	2.3	2.2	2.1	1.9	1.9

Table 2: Average Economic Freedom Scores at a Subnational Level

	1981	1985	1989	1993	1994	1995	1996	1997	1998	1999	2000	2001
Canada	4.7	4.7	4.9	4.2	4.4	4.6	4.8	5.0	5.2	5.3	5.5	5.4
United States	6.8	6.9	7.0	6.7	6.9	6.8	7.0	7.0	7.2	7.2	7.3	7.2
Difference	2.1	2.2	2.1	2.5	2.5	2.2	2.2	2.0	2.0	1.9	1.8	1.8

Canada raised taxes more aggressively as can be seen in the increasing gaps in economic freedom in the two nations during this period. From 1981 to 2001, the gap between Canada and the United States in economic freedom at the subnational and the all-government level first rose and then fell back to just below its 1981 level in the late 1990s and stabilized at that.

Overview of the Results for the United States

US states can move up and down in the rankings quite substantially. We will focus on the all-government index in this section, for simplicity's sake since this index captures the full impact of economic freedom, while the sub-national index only captures restrictions put in place by province/state and local governments.

The econometric work in this paper provides the substance of the link between economic freedom and prosperity since individual examples may not be typical. Nonetheless, for illustrative purposes, it is interesting to look at those states that moved by more than 30 ranks on the all-government index in the two decades from 1981 to 2001. During this period, the average increase in inflation-adjusted per-capita GDP was 41% in the United States. Four states fell on the index by 30 ranks or more—Alaska, Oklahoma, North Dakota, and Montana. Leaving aside Alaska for the moment, all under-performed the national average increase in income: Oklahoma's per-capita GDP actually fell by one percentage point; North Dakota's increased by only 7%, and Montana's by 4%. Alaska's per-capita GDP was cut in half over this period but this is largely due to swings in the resource sector.

On the other hand, two states moved up the index by more than 30 ranks or more. New Hampshire climbed 30 spots and Massachusetts, 37 spots. Both roughly doubled average per-capita GDP from 1981 to 2001. New Hampshire's per-capita GDP grew 78% over the period while Massachusetts' grew by 84%.

Although the econometric work in this paper shows a strong and highly significant link between economic freedom and economic activity, a link found in the vast majority of states, exceptions to this relationship also occur, since any number of external factors such as resource wealth and proximity to transportation routes affect economic growth. Such outriders will be discussed below.

Top States

Several states have remained in the top third of the rankings through all or most of the period. They are Delaware, Colorado, Tennessee, Nevada, Indiana, Georgia, Connecticut (since the late 1980s), Texas (though its relative rank among the top 16 states has deteriorated), and Louisiana. A few of the states in the top third have per-capita GDP below the national average though, on average, the states in the top third exceed the US average per-capita GDP by 12%. As a group, the top-ranked states do very well economically, as would be expected. While the average increase in per-capita GDP across US states was $8,600 between 1981 and 2001, in the top third of states it increased by $11,600. On average, US states saw an increase of 34% in per-capita GDP. The top-rated states increased average GDP by 43%.

The Middle Ranks

The middling states, roughly speaking, have remained middling in both economic freedom and eco-

nomic activity through most of the period. Since the late 1980s, most of these 17 states have had more or less stable economic freedom rankings while the average per-capita GDP of these states has not varied from the national average by much more than five percentage points.

The middling states saw an increase of per-capita GDP of 38%, slightly higher than the national average. Per-capita income also is virtually identical to the national average, though these states slightly exceeded the national average in per-capita GDP growth, gaining $9,290, almost $700 above the national average. (Readers should remember that percentages are calculated over the average per-capita GDP in each third of states, so the base GDP on which increases are calculated will be highest in the top third and lowest in the bottom third.)

The Worst Performers

Some states seem to want to keep economic freedom at bay. West Virginia has by far the worst record. It also has the the second lowest per-capita GDP in the United States, just above Mississippi, though only by about $50. For Oklahoma, North Dakota, and Mississippi, the rejection of economic freedom is a relatively new taste. All four states have suffered declines against the national average of economic activity, with the declines in Mississippi being the least severe. On average, the bottom third of states have significantly under-performed other states. Average per-capita GDP in the least economically free third of states is only 94% of the state average. Per-capita GDP has grown by only 17%, or about $4,583, over this period, both significantly below the national rate of growth.

The Outriders

Economic freedom does not, nor is it meant to, capture all things that affect economic activity. Thus other factors, resource wealth for instance, will break the strong relationship between economic freedom and economic activity discussed here and shown in the econometric testing. Among the outriders are Louisiana, with a weaker economy than its level of economic freedom would suggest, and Alaska and New York, with the opposite pattern. Indiana has weak economic growth compared to its high level of economic freedom. The purpose here is not to explain these anomalies—that would require a detailed discussion of each of state's economy—but rather to draw the reader's attention to the fact that exceptions exist.

Overview of the Canadian Results

Canadian provinces consistently have lower scores than US states and thus are clustered near the bottom of the ranking.

Top Provinces

Alberta is the only province that has consistently done better than at least some states. It ranked 10th at an all-government level and 25th at a subnational level in 2001. 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 of both indexes. Alberta's lowest scores and rankings were 1989 and 1993. Since then, Alberta's score and ranking in both indexes have improved considerably.

Ontario placed ahead of six states at the all-government level in 1981 and one state, West Virginia, in 1985. At the subnational level, it ranked ahead of several states in the 1980s. However, in the late 1980s and early 1990s, Ontario's economic freedom declined sharply. Economic freedom recovered through the mid- and late 1990s but only the scores for 2000 and 2001 show Ontario regaining, roughly speaking, the level of economic freedom it had in 1981. Over the same period, average scores in the United States also rose, leaving Ontario further behind the US average than it was two decades ago. Ontario is now behind all states, except West Virginia, in both indexes.

Nova Scotia is ahead of West Virginia on the sub-national index but the huge size of federal spending in the province pushes it below West Virginia on the all-government index. The three top-rated provinces on the all-government index, Alberta, Ontario, and British Columbia, have an average per-capita GDP of $25,560 (C$34,080), compared to a national provincial average of $20,490 (C$27,320), 25% above the provincial average.

The Middle Ranks

Despite declines in economic freedom relative to the rest of the nation in the 1990s, this deterioration was not large enough to push British Columbia below the 4th highest ranking among Canadian provinces in both rankings throughout the full period discussed in this report. The three provinces that are middling in economic freedom on the all-government index—Nova Scotia, Saskatchewan, and New Brunswick—have a middling economic performance

with an average per-capita GDP of $18,640 (C$24,860) or 91% of the provincial average.

The Worst Performers

The four lowest ranking provinces in the all-government index are Quebec, Manitoba, Newfoundland, and Prince Edward Island. The same four occupy the bottom ranks of the sub-national index. Prince Edward Island, in fact, comes dead last in both the sub-national and all-government index. Average per-capita GDP in these four provinces is $18,080 (C$24,100) or 88% of the provincial average.

Canadian Fiscal Federalism

The Government of Canada may well be unique in the amount of money it transfers among provinces and regions. For example, in Canada's Atlantic Provinces, the nation's most economically depressed region, *net* federal spending—the difference between federal revenues raised in the region and the amount of federal spending—typically equaled between 20% and 40% of regional GDP during the period under consideration. Although transfers between levels of government occur within the United States, the magnitude of these transfers is much smaller than in Canada.[2]

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

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

Explaining a Puzzle

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

To understand the impact of Canada's fiscal federalism, consider a province that reduces economic freedom by, for example, increasing taxes. This will likely have a negative impact on the provincial economy, as both the following results and international testing show. However, the weaker provincial economy means the province will receive an increase in federal payouts (or a reduction in the fiscal outflow if the province in question is a "have" province). The greater the reduction in economic freedom, the greater the negative impact on the economy and the greater the amount of money the province will receive from the federal government. This inflow of funds will, at least in the short term, partly offset the negative impact on GDP and mute the impact of economic freedom, or its loss, on the economy. (In the longer term, the inflow of funds will also weaken the economy but this impact is likely beyond the time horizon of the tests conducted here.)

On the other hand, if a province increases economic freedom, for example by reducing taxes, and its economy grows, the result is an increased outflow of government revenues to other jurisdictions and a heavier tax burden, given the progressively of Canadian taxes, which in turn suppresses increases in economic freedom and economic growth. In other words, fiscal federalism mutes the impact of economic freedom in Canada. Economic growth itself, because of Canada's fiscal structure, reduces a province's economic freedom and thus brakes further growth. Despite the problems created by Canada's fiscal structure, economic freedom still proves to be a powerful stimulant for increasing prosperity in Canada.

Impact of Fiscal Federalism

Unfortunately, Canada's fiscal federalism seems to harm both rich and poor provinces. The discussion above shows how fiscal federalism frustrates the ability of some provinces to improve their economic freedom and, thus, their prosperity. However, the effects are at least as unfortunate in the poorer provinces, where a rich menu of government spending pushes out other economic activity and politicizes the economy. As a result, the rate of convergence[3] of Canada's

poorer regions is about a third to a half of the rate of convergence of poor regions in the United States, Europe, and Japan. (See Barro and Sala-I-Martin 1995 for international results on convergence.)

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

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

While all segments of the population would deny being influenced by such incentives, there has been no significant economic reform movement in Atlantic Canada, even though there is much evidence from around the world that the region's policy mix damages growth.

Notes

1 Gwartney and Lawson (2003) show steadily rising scores for Canada and the United States through this period. This is because of variables that can only be examined at the national level, such as price level. Obviously, states and provinces do not have their own independent monetary policy.

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

3 The rate of convergence is the rate at which poorer jurisdictions catch up to richer ones.

Chapter 3: The Relationship between Economic Freedom and Economic Well-Being

A number of studies have linked levels of economic freedom with higher levels of economic growth and income. 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.

De Haan and Sturm (2000) show that positive and negative changes in economic freedom lead to positive and negative changes in economic growth rates. Using the economic freedom index 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. The calculation of the index of the economic freedom of North America allows us for the first time to investigate the relationship between economic freedom and prosperity within North America.

To test whether or not there is a positive relationship between economic growth and economic freedom, we use annual observations on each of the variables from 1993 to 2001. We run separate regressions for Canada and the United States to determine if economic freedom has different effects in the two nations. As the data for all US states and all Canadian provinces were used, the study is one of a defined population rather than a random sample of states and provinces, implying that the appropriate estimation technique is the fixed effects, rather than the random effects, model.

Tables 3 and 4 show the regression results of the semi-growth models. Please note that the coefficients on regressions testing the level of GDP and economic freedom represent US dollars. In the regressions for Canadian provinces, these coefficients are translated into Canadian dollars, using the exchange rate in the year 2001.

Average investment share of GDP is missing from the model because investment data for separate US states is not available.[1] The proxy variable for human capital in our model is not statistically significant. Since the investment variable is missing from the model and the proxy variable for human capital is not significant, the data have to be adjusted. The fixed effects model captures the unobserved or ignorance effects. It does not, however, account for missing relevant variables from a model.

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

The results from the regression analysis in Table 3 indicate that the economic freedom level has a substantial impact on per-capita GDP at a subnational and all-government level. The high school variable 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 Sensitivity Analysis section, later in this paper. On the whole, the US results are more statistically significant than the Canadian results, though even the Canadian results typically have a p-value well below 1%, meaning the results, roughly speaking, are statistically significant more than 99

Table 3: Economic Freedom Level and Per-Capita GDP

Regressions at All-Government Level (ALLG)					*Regressions at Subnational Level (SUBN)*				
Dependent Variable: Per-Capita GDP (1993-2001)					**Dependent Variable: Per-Capita GDP (1993-2001)**				
Method: Pooled Least Squares					**Method: Pooled Least Squares**				
Sample: 1993-2001					**Sample: 1993-2001**				
Canada									
Total panel (balanced) observations: 90					**Total panel (balanced) observations: 90**				
Variable	Coefficient	Std. Error	t-Statistic	Prob.	**Variable**	Coefficient	Std. Error	t-Statistic	Prob.
HG	13.27	7.89	1.68	0.10	**HG**	−0.38	8.63	−0.04	0.96
ALLG	3275.97 (C$4,368)	512.39	6.39	0.00	**SUBN**	1736.72 (C$2,316)	517.53	3.36	0.00
Adjusted R^2: 0.97					Adjusted R^2: 0.97				
United States									
Total panel (balanced) observations: 450					**Total panel (balanced) observations: 450**				
Variable	Coefficient	Std. Error	t-Statistic	Prob.	**Variable**	Coefficient	Std. Error	t-Statistic	Prob.
HG	−0.62	3.09	−0.20	0.84	**HG**	1.46	3.66	0.04	0.96
ALLG	6234.59	369381	16.86	0.00	**SUBN**	2954.15	316.83	9.32	0.00
Adjusted R^2: 0.98					Adjusted R^2: 0.97				

Notes

HG is the number of high school graduates per 10,000 people (25 years and older) from 1993 to 2001; ALLG is an economic freedom index at an all-government level from 1993 to 2001; SUBN is an economic freedom index at a subnational level from 1993 to 2001.

times out of 100. Somewhat lower statistical significance on the Canadian tests may reflect both the nature of Canada's fiscal federalism, which mutes the effects of economic freedom, and the fact there are obviously more data points for 50 states than 10 provinces.

At an all-government level, holding other variables constant, an increase of one point in economic freedom in a US state will increase that state's per-capita income by US$6,235. An increase of one point in economic freedom in a Canadian province will increase its per-capita GDP by US$3,276 (C$4,368). (As this study is being prepared, the Canadian dollar is fluctuating significantly; we have used 0.75 as the exchange rate.) At a subnational level, an increase of one point in economic freedom in a US state will increase its per-capita GDP by US$2,954, whereas an increase of one point in economic freedom in a Canadian province will increase its per-capita GDP by US$1,737 (C$2,316).

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 variable 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 might appear at first notice. The difference in scores between the highest and lowest rated state over the full period is only 2.5 points at the all-government level. Thus a US state would have to improve its score by roughly one quarter within this range in order to achieve the one point increase required to realize the $6,235 per-capita gain in income. In Canada, at the all-government level, the range is 4.0. At the subnational level, the range in Canada is 3.8; in the United States, it is 3.0.

The broader range of variation in Canada may help explain part, though not all, of the differences in the size of the coefficients on economic freedom between the two nations. The coefficient is the number that describes the economic impact of economic freedom. The coefficient on economic freedom at the

all-government level is 90% larger for the US states than for Canadian provinces (6235 versus 3276). However, the Canadian range of variation is only 60% greater than the US range of variation (2.5 versus 4.0). Similarly, at the subnational level, the US coefficient is 70% greater than coefficient for Canadian provinces while the range of variation in Canada is only 27% greater than the US range of variation. Thus, the difference in the range of variation cannot completely explain the difference in the magnitude of the coefficients. As discussed earlier, the structure of Canada's fiscal federalism is the likely explanation for the weaker impact of economic freedom in Canada, particularly at the all-government level.

Table 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 a subnational and all-government level. The main conclusion of the regression analysis results 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 in the all-government index (e.g., from 4.00% per year to 4.04% per year), will induce an increase of 1.09% in the growth rate of per-capita GDP for US states and an increase of 0.64% in the growth rate of per-capita GDP for Canadian provinces (e.g., from 6.00% to 6.04%). A 1.00% increase in the growth rate of economic freedom in the subnational index will induce an increase of 0.53% in the growth rate of per-capita GDP for US states and 0.47% increase in the growth rate for Canadian provinces.

At a subnational level, growth in economic freedom has a very similar impact on US states and the Canadian provinces. As noted, the impact of Canada's fiscal federal will be smaller at the subnational than all-government levels. This could be due to the adjustment of the Canadian data at a sub national level (see Appendix D, Adjustment Factors, p. 53). Note that for the US states and the Canadian provinces growth in economic freedom has a larger impact at an all-government level than at a subnational level.

Table 4: Growth in Economic Freedom and Growth in Per-Capita GDP

Regressions at All-Government Level (ALLG)					***Regressions at Subnational Level (SUBN)***				
Dependent Variable: Growth in Per Capita GDP (1994-2001)					**Dependent Variable: Growth in Per Capita GDP (1994-2001)**				
Method: Pooled Least Squares					**Method: Pooled Least Squares**				
Sample: 1994-2001					**Sample: 1994-2001**				
Canada									
Total panel (balanced) observations: 80					**Total panel (balanced) observations: 80**				
Variable	Coefficient	Std. Error	t-Statistic	Prob.	**Variable**	Coefficient	Std. Error	t-Statistic	Prob.
HGG	0.08	0.05	1.56	0.12	**HGG**	0.08	0.06	1.23	0.22
POPG	0.91	0.62	1.46	0.15	**POPG**	1.14	0.81	1.41	0.16
ALLGG	0.64	0.08	8.21	0.00	**SUBNG**	0.47	0.10	4.64	0.00
Adjusted R^2: 0.49					Adjusted R^2: 0.23				
United States									
Total panel (balanced) observations: 400					**Total panel (balanced) observations: 400**				
Variable	Coefficient	Std. Error	t-Statistic	Prob.	**Variable**	Coefficient	Std. Error	t-Statistic	Prob.
HGG	0.00	0.01	0.31	0.76	**HGG**	0.01	0.02	0.33	0.74
POPG	−0.17	0.26	−0.65	0.51	**POPG**	0.04	0.33	0.14	0.89
ALLGG	1.09	0.06	17.43	0.00	**SUBNG**	0.53	0.06	8.57	0.00
Adjusted R^2: 0.47					Adjusted R^2: 0.18				

Notes

HGG is growth in the number of high school graduates per 10,000 people (25 years and older) from 1994 to 2001; *POPG* is growth in population from 1994 to 2001; *ALLGG* is growth in economic freedom at an all-government level from 1994 to 2001; *SUBNG* is growth in economic freedom at a subnational level from 1994 to 2001.

Sensitivity Analysis

In order to determine the stability of the regression results in the Tables 3 and 4, further testing was done using moving averages rather than annual data. These results can be found below. Further sensitivity analysis, including tests using Canadian dollars and tests using different income tax calculations, can be found on www.freetheworld.com.

The use of moving averages (reported in Tables 5 and 6) is important. Annual data in regression analysis may lead to misleading results because, depending on the period of study, business cycles may inflate or deflate the estimated coefficients. The data used in the regression analyses in Tables 5 and 6 are smoothed out through use of a moving average, minimizing the impact of business cycles. The variables are the same as before. Significance levels remain high except for some of the longer moving averages for Canadian data. 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.

Levels

The regression results in Table 5 indicate that the level of economic freedom has a strong impact on per-capita GDP regardless of period used for calculating the moving averages. The significance of the coefficient stays 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 level of economic freedom has a stronger impact on US states than on the Canadian provinces.

For US states, in general the longer the time period covered by the moving average, the greater the impact of economic freedom. This is likely because the impact of economic freedom is not instantaneous and, therefore, within reasonable limits the longer the period under consideration, the greater the impact of economic freedom.[3] As well, gains in economic growth, like savings, compound over time and, thus, longer time periods show larger effects.

Yet, this pattern—a positive correlation between the coefficient on economic freedom and the length of time over which it is calculated—is reversed for the Canadian data at both the all-government level and subnational levels. This strongly suggests that fiscal federalism, by transferring funds from provinces that have a high degree of economic freedom to those with less economic freedom and effectively increasing the tax burden in freer provinces, mutes the effect of economic freedom over time. In other words, fiscal federalism not only imposes an immediate penalty upon relatively free provinces in comparison with US states, but a penalty that becomes greater over time. Thus, economic freedom has a weaker impact in Canada than in the United States and the gap grows over time.

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 regardless of time period.

Growth

The regression results in Table 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.

For both Canada and the United States, there is no clear relationship between the size of the coefficient and the length of the moving average. This is to be expected since the compounding effects of economic freedom will affect only levels and not growth rates, just as compounding of interest affects only the sum being saved and not the interest rate.

Additional sensitivity tests were run using data back to 1981 using four-year time periods. In other words, data for 1981, 1985, 1989, 1993, 1997, and 2001 were used. Here again the results in Tables 7 and 8 are consistent with what has already been found.

Interestingly, the results for Canada in both level and growth testing show weaker results at the all-government level than yearly testing while the subnational coefficients are about the same. This again may reflect the way fiscal federalism mutes the impact of economic freedom over time, particularly, though not exclusively, at the all-government level. The US results show bigger coefficients in the four-year interval testing at both the subnational and all-government level. This probably reflects the compounding effects (in the absence of Canada's fiscal federalism) discussed earlier. Again, because compounding does not affect growth rates, the results in growth testing are very close to the yearly testing results.

Table 5: Level of Economic Freedom and Per-Capita GDP: Moving Averages

Dependent Variable: Per Capita GDP (1993-2001)

Method: Pooled Least Squares

	2-period backward moving average		3-period backward moving average		4-period backward moving average		5-period backward moving average	
Canada at an All-Government Level								
Total panel (balanced) observations:	80		70		60		50	
Variable	Coefficient	t-Statistic	Coefficient	t-Statistic	Coefficient	t-Statistic	Coefficient	t-Statistic
HG	12.86	1.47	4.04	0.44	0.17	0.02	5.60	0.43
ALLG	3104.77	5.48	2488.63	4.25	2201.19	3.29	2458.83	2.79
	Adjusted R^2: 0.98		Adjusted R^2: 0.99		Adjusted R^2: 0.99		Adjusted R^2: 0.99	
Canada at a Subnational Level								
Total panel (balanced) observations:	80		70		60		50	
Variable	Coefficient	t-Statistic	Coefficient	t-Statistic	Coefficient	t-Statistic	Coefficient	t-Statistic
HG	−2.39	−0.26	−8.82	−0.95	−13.01	−1.30	−12.28	−0.98
SUBN	1523.62	2.78	1193.70	2.33	913.94	1.65	800.67	1.07
	Adjusted R^2: 0.98		Adjusted R^2: 0.99		Adjusted R^2: 0.99		Adjusted R^2: 0.99	
United States at an All-Government Level								
Total panel (balanced) observations:	400		350		300		250	
Variable	Coefficient	t-Statistic	Coefficient	t-Statistic	Coefficient	t-Statistic	Coefficient	t-Statistic
HG	−0.49	−0.14	−0.73	−0.19	−1.30	−0.29	−1.05	−0.21
ALLG	6648.85	17.07	6892.13	16.12	7113.59	14.94	7015.03	13.22
	Adjusted R^2: 0.99		Adjusted R^2: 0.99		Adjusted R^2: 0.99		Adjusted R^2: 0.99	
United States at a Subnational Level								
Total panel (balanced) observations:	400		350		300		250	
Variable	Coefficient	t-Statistic	Coefficient	t-Statistic	Coefficient	t-Statistic	Coefficient	t-Statistic
HG	1.64	0.39	1.33	0.29	0.17	0.03	0.96	0.16
SUBN	3062.48	9.14	3068.07	8.49	3120.54	7.83	3114.48	6.95
	Adjusted R^2: 0.98		Adjusted R^2: 0.98		Adjusted R^2: 0.99		Adjusted R^2: 0.99	

Notes

HG is the number of high school graduates per 10,000 people (25 years and older) from 1993 to 2001;
ALLG is an economic freedom index at an all-government level from 1993 to 2001;
SUBN is an economic freedom index at a subnational level from 1993 to 2001.

Table 6: Growth in Economic Freedom and Growth in Per-Capita GDP: Moving Averages

Dependent Variable: Growth in Per Capita GDP (1994-2001)

Method: Pooled Least Squares

	2-period backward moving average		3-period backward moving average		4-period backward moving average		5-period backward moving average	
Canada at an All-Government Level								
Total panel (balanced) observations:	80		70		60		50	
HGG	0.06	1.14	0.02	0.45	−0.01	−0.21	0.02	0.48
POPG	1.32	2.87	1.58	4.75	1.75	6.17	2.06	6.04
ALLGG	0.65	8.23	0.70	9.95	0.73	11.50	0.74	9.30
	Adjusted R^2: 0.57		Adjusted R^2: 0.73		Adjusted R^2: 0.83		Adjusted R^2: 0.85	
Canada at a Subnational Level								
Total panel (balanced) observations:	80		70		60		50	
HGG	0.03	0.50	0.00	0.04	−0.04	−0.84	−0.01	−0.25
POPG	1.66	2.92	1.92	4.51	1.98	5.45	2.09	4.61
SUBNG	0.52	5.62	0.54	7.02	0.55	8.44	0.52	6.10
	Adjusted R^2: 0.42		Adjusted R^2: 0.60		Adjusted R^2: 0.75		Adjusted R^2: 0.75	
United States at an All-Government Level								
Total panel (balanced) observations:	400		350		300		250	
HGG	0.01	0.48	0.01	0.97	0.02	1.01	0.01	0.61
POPG	0.15	0.78	0.22	1.26	0.31	1.77	0.29	1.46
ALLGG	1.17	18.99	1.09	16.71	0.97	12.81	1.07	11.78
	Adjusted R^2: 0.59		Adjusted R^2: 0.68		Adjusted R^2: 0.75		Adjusted R^2: 0.82	
United States at a Subnational Level								
Total panel (balanced) observations:	400		350		300		250	
HGG	0.01	0.27	0.02	0.896	0.02	1.05	0.01	0.63
POPG	0.38	1.59	0.43	2.09	0.54	2.75	0.56	2.45
SUBNG	0.57	10.14	0.54	10.30	0.51	8.63	0.49	6.85
	Adjusted R^2: 0.35		Adjusted R^2: 0.54		Adjusted R^2: 0.68		Adjusted R^2: 0.75	

Notes

HGG is growth in the number of high school graduates per 10,000 people (25 years and older) from 1994 to 2001; *POPG* is growth in population from 1994 to 2001; *ALLGG* is growth in economic freedom at an all-government level from 1994 to 2001; *SUBNG* is growth in economic freedom at a subnational level from 1994 to 2001.

Table 7: Level of Economic Freedom and Per-Capita GDP—Four-Year Periods

Regressions at All-Government Level
Dependent Variable: Per-Capita GDP
Method: Pooled Least Squares
Sample: 1981, 1985, 1989, 1993, 1997, 2001

Regressions at Subnational Level
Dependent Variable: Per-Capita GDP
Method: Pooled Least Squares
Sample: 1981, 1985, 1989, 1993, 1997, 2001

Canada

Total panel (balanced) observations: 60

Variable	Coefficient	Std. Error	t-Statistic	Prob.
HG	−18.62	15.04	−1.24	0.22
ALLG	1479.14	470.61	3.14	0.00

Adjusted R^2: 0.92

Total panel (balanced) observations: 60

Variable	Coefficient	Std. Error	t-Statistic	Prob.
HG	−18.63	15.42	−1.21	0.23
SUBN	1569.90	588.94	2.67	0.01

Adjusted R^2: 0.91

United States

Total panel (balanced) observations: 300

Variable	Coefficient	Std. Error	t-Statistic	Prob.
HG	−24.15	10.77	−2.24	0.03
ALLG	10636.29	660.13	16.11	0.00

Adjusted R^2: 0.87

Total panel (balanced) observations: 300

Variable	Coefficient	Std. Error	t-Statistic	Prob.
HG	−25.43	12.26	−2.07	0.04
SUBN	7772.08	644.37	12.06	0.00

Adjusted R^2: 0.83

Notes

HG is the number of high school graduates per 10,000 people (25 years and older); ALLG is an economic freedom index at an all-government level; SUBN is an economic freedom index at a subnational level.

Table 8: Growth in Economic Freedom and Growth in Per-Capita GDP—Four-Year Periods

Regressions at All-Government Level
Dependent Variable: Growth in Per-Capita GDP
Method: Pooled Least Squares
Sample: 1985, 1989, 1993, 1997, 2001

Regressions at Subnational Level
Dependent Variable: Growth in Per-Capita GDP
Method: Pooled Least Squares
Sample: 1985, 1989, 1993, 1997, 2001

Canada

Total panel (balanced) observations: 50

Variable	Coefficient	Std. Error	t-Statistic	Prob.
HGG	0.11	0.12	0.87	0.39
POPG	1.43	0.63	2.28	0.03
ALLGG	0.37	0.08	4.55	0.00

Adjusted R^2: 0.36

Total panel (balanced) observations: 50

Variable	Coefficient	Std. Error	t-Statistic	Prob.
HGG	0.30	0.14	2.07	0.05
POPG	1.38	0.67	2.07	0.05
SUBNG	0.54	0.14	3.74	0.00

Adjusted R^2: 0.28

United States

Total panel (balanced) observations: 250

Variable	Coefficient	Std. Error	t-Statistic	Prob.
HGG	0.02	0.06	0.32	0.75
POPG	−0.03	0.18	−0.18	0.86
ALLGG	1.09	0.09	12.03	0.00

Adjusted R^2: 0.51

Total panel (balanced) observations: 250

Variable	Coefficient	Std. Error	t-Statistic	Prob.
HGG	0.10	0.06	1.56	0.12
POPG	0.23	0.19	1.22	0.23
SUBNG	0.75	0.08	9.28	0.00

Adjusted R^2: 0.41

Notes

HGG is growth in the number of high school graduates per 10,000 people (25 years and older); *POPG* is growth in population; *ALLGG* is growth in economic freedom at an all-government level; *SUBNG* is growth in economic freedom at a subnational level.

The Importance of Economic Freedom

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

In many ways, this debate goes back to the beginnings of modern economics when Adam Smith famously argued that each of us, freely pursuing our own ends, create the wealth of nations and of the individual citizens. However, the twentieth century was much consumed by a debate about whether planned or free economies produce the best outcomes. The results of the experiments of the twentieth century should be clear. Free economies produced 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 economic freedom spectrum, a considerable body of research shows the relationship between prosperity and economic freedom holds in narrower ranges of the spectrum. While sophisticated econometric testing backs up this relationship, examples are also interesting. So, for example taking two peripheral European nations, the relatively free Ireland does much better than the relatively unfree Greece. In the United States, the relatively free Georgia does much better than the relatively unfree West Virginia. In Canada, an unfree Quebec does much worse than its freer neighbour, Ontario. 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, which 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. A producer must constantly improve its price and quality to meet customer demands or customers will not freely enter into transactions with the producer. 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 free 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 favouring economic freedom match intuition. Intuitively it makes sense that the drive and ingenuity of all citizens, harnessed to better outcomes through the mechanism of mutually beneficial exchange, will surely do better for themselves than will a small coterie of government planners, who hardly have knowledge of everyone's values and who, being human, are likely to consider their own well-being and 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 level of economic freedom have a significant impact on the growth in per-capita GDP and the level of per-capita GDP. Since Canadian provinces have relatively low levels of economic freedom, Canadians are likely to continue to experience lower standards of living relative to American states. Only two provinces, Alberta and Ontario, have high levels of economic freedom in the Canadian context, and their residents have seen the benefits of this.

Notes

1 As already mentioned, the omission of the investment variable does not seriously affect the coefficients on economic freedom. We tested the impact of the exclusion of the investment variable from the model of Mankiw, Romer, and Weil (1992), enhanced by an economic freedom variable. The exclusion does not change the estimated coefficients on economic freedom nor their standard errors significantly.

2 Stability testing reveals that regression results in Tables 3 and 4 are not sensitive to the method of estimation or to the model specification. The results change little when random effects are used to estimate the coefficients or when the high-school variable (our proxy for human capital) or the population-growth variable is excluded from the model. Note that the covariance matrix of the estimated standard errors is virtually identical to the heteroscedasticity consistent White matrix. Exclusion of the outliers, Alberta and Alaska, from Table 3 and Newfoundland, Alberta, British Columbia, Alaska, and Hawaii from Table 4 does not change the estimated coefficients on economic freedom or their standard errors significantly.

3 The qualification "reasonable limits" is included since, over too long a period, increases and decreases in economic freedom would tend to cancel out, at least partly, in individual jurisdictions, reducing the measured impact.

Appendix A: The Economic Health of the Provinces and States

Canada

Alberta

For a Canadian province, Alberta had high levels of economic freedom at the opening of the 1980s. However, through the 1980s and early 1990s, Alberta's policy mix shifted and the level of economic freedom declined. The province's economy weakened and unemployment rose to a national level, sometimes exceeding national rate of unemployment. After a dozen years of decline, Alberta's economic freedom began to grow in 1994. At the same time, the gap between per-capita GDP in Alberta and the rest of Canada, which had been shrinking, once again started to grow in Alberta's favour and Alberta's unemployment fell to significantly below the national average. In Area 1: Size of Government, which examines government spending, at the all-government level, Alberta typically scores highly because it has a very low level of federal expenditures.

British Columbia

British Columbia's economic freedom score fell dramatically in the early 1990s on both the all-government and subnational indexes. This also reflected a period of economic weakness for the province that, for the first time, became classified as a "have-not" province and began to receive equalization payments. British Columbia's relative affluence also declined sharply over the period, from 16% above the national average in 1993 to a virtual tie with the national average in 2001. Even though migration to British Columbia fell off sharply through the 1990s, the unemployment rate rose relative to the national average. In 1993, British Columbia's unemployment rate was 1.7 percentage points below the national average. By 2001, the province's unemployment rate was 0.5 percentage points above the national average.

Manitoba

Manitoba significantly reduced its economic freedom in both indexes from 1981 to the early 1990s. Economic freedom recovered somewhat from the mid-1990s onward but Manitoba's score in 2001 was below its score in 1981 on both indexes. Over the period, Manitoba's per-capita GDP fell from just above the national average to about $1,000 below. However, Manitoba's unemployment rate remained below the national average throughout the period, though this may be partially due to significant emigration from the middle of the 1980s onward. Manitoba's downward trend in economic freedom is more or less consistently reflected across the subindexes.

New Brunswick

New Brunswick had the second strongest gains in economic freedom of all provinces over the full period. Gains were reflected in both indexes, though between 1989 and 1993 New Brunswick did suffer some declines in economic freedom. After 1993, gains were consistent and large. However, because its score was initially so low, New Brunswick's score at the end of the period remained slightly below the Canadian average in the all-government index and was very similar to the national average in the subnational index. Nonetheless, just as New Brunswick significantly closed the economic-freedom gap with other provinces over the period, it also closed the income gap, rising from less than 70% of average provincial per-capita GDP in 1981 to 85% in 2001. This progress stalled after 1993, the high-water mark of New Brunswick's economic freedom score relative to other Canadian provinces. New Brunswick's unemployment rate, relative to the rest of Canada, fluctuated over the period. However, given first, the various perverse incentives in Canada's Employment Insurance system, which in Atlantic Canada operates under rules that are, in effect, different from those used in the rest of the na-

tion, and, second, attempts over the period to reform the system that resulted in a number of changes and reverses, it is difficult to know what to make of posted unemployment rates in Atlantic Canada. An idea of the perverse incentives is found in the fact that the number of people officially unemployed in Atlantic Canada has been typically smaller than the number of people collecting employment insurance.

Newfoundland

Newfoundland began the period close to the bottom of the heap in both indexes and remained there until 1998. Although Newfoundland's score improved over the 1990s, it was only keeping pace with improvements in other provinces. However, between 1998 and 2001, Newfoundland made substantive improvements and its ranking rose somewhat. Since the mid-1980s, Newfoundland's unemployment has been roughly double the Canadian average. However, Newfoundland rapidly gained on the rest of Canada in per-capita GDP at the end of the 1990s. But, Newfoundland's economy is small and undiversified. Thus, if key sectors suffer external shocks, it becomes difficult to disentangle general economic trends from the impact of these shocks. Both the fishing and oil industries are sensitive to exogenous shocks such as price swings and resource changes, due to exploration in the petrochemical industry and fish stocks in the fishing sector.

Nova Scotia

Scotia had the largest gains in economic freedom among Canadian provinces. Nova Scotia's scoring and ranking improved substantially in both indexes. It began the period dead last in the all-government index and rose to become the fourth highest ranked province. In the subnational index, it rose from third last to third best among the provinces and even surpassed on US state, West Virginia. However, Nova Scotia's climb in the rankings ended in 1993. It had virtually the same relative ranking in 2001. Nova Scotia's per-capita GDP also climbed significantly relative to the national average until 1993 and has since declined compared to the Canadian average. Nova Scotia's unemployment rate remained largely stable against the Canadian average. Over the full period, it was typically about 2 percentage points above the Canadian average.

Ontario

Between 1989 and 1993, Ontario's economic freedom dropped dramatically. This followed an earlier, though less dramatic decline, through the 1980s. In 1981, Ontario had higher levels of economic freedom than at least some states in both indexes. By 1993, it had fallen below all states in the all-government index and it remained behind Alberta among Canadian provinces. In the subnational index, it rated below two provinces, Alberta and Nova Scotia in 1993 and was tied with British Columbia. Through to 2000, Ontario's score climbed in both indexes but then declined in 2001. Ontario's per-capita GDP declined significantly against the Canadian average between 1989 and 1993 but has remained largely stable since. Ontario's unemployment rate, which had been 2.4 percentage points below the Canadian average in 1989, was only 0.5 percentage points below the Canadian average by 1993. By the end of the 1990s, the unemployment gap had more than doubled in Ontario's favour, with Ontario posting an unemployment rate that was about 1.0 percentage points below the Canadian average.

Prince Edward Island

Prince Edward Island (PEI) has the worst performance of all the provinces. Prince Edward Island began the period with a score at sixth among Canadian provinces in both indexes. It ended the period dead last in the all-government index and the subnational index. Prince Edward Island also had poor scores in all the sub-indexes. Since it fell into the bottom rankings in the late 1980s, its unemployment rate has ranged between 60% and 90% higher than the national rate. PEI's per-capita GDP is about 80% of the national average.

Quebec

Quebec in 1981 had very low scores on both the all-government and subnational indexes. It scores increased on both towards the end of the 1980s, retreated through much of the 1990s, and, in recent years, have begun to increase somewhat. Throughout the full period, Quebec's unemployment rate has remained remarkably consistent at about two percentage points above the Canadian average.

Saskatchewan

Saskatchewan has been consistently in the middle of the Canadian ranks through the full period under examination, though its relative ranking declined somewhat in the early 1990s. Saskatchewan, like Manitoba but unlike the eastern "have-not" provinces, has had an unemployment rate that has been consistently below the Canadian average, though the gap has begun

to shrink. Until 1997 (except for the second half of the 1980s), Saskatchewan's unemployment rate was usually about three percentage points lower than the Canadian average. By 2001, that gap had shrunk to 1.4 percentage points.

The United States

Alabama

Alabama ranked 20th overall in terms of economic freedom at the all-government level, and was 16th in the subnational index—slightly below the previous year. Its fall was cushioned because of its showing in labor market freedom; it was once again the highest ranked state or province in both all-government and state and local (subnational) in 2001. However, its ratings were mediocre in takings and discriminatory taxation (15th state and local, 20th all-government). Alabama also did poorly in the size of government category, where it was ranked 48th all-government and 44th state and local. Still, only a handful of states had a lower effective state and local tax burden. Alabama has a relatively low general sales-and-use tax at 4%, and one of the lowest cigarette taxes in the country, 16.5¢ per pack.

Alaska

Alaska ranked 47th overall when compared to other states and provinces in the all-government rankings and 50th in the state and local group. While it fared comparatively well in takings and discriminatory taxation (11th in all-government and 20th in state and local—with no general sales-and-use tax, an extremely low 8¢ gasoline tax and the lowest effective state and local tax burden of the 50 states), it was pulled down by the other measurements. Alaska was 38th in labor market freedom in the all-government category and 34th in state and local. It was 53rd in the broad grouping when it came to size of government, and 58th in the subnational category.

Arizona

Arizona ranks 10th overall in the all-government listings and 12th in the state and local ratings, thanks to a fairly consistent performance in all three categories. Its best showing came in labor market freedom where it was 4th in all-government and 3rd in state and local comparisons. While it placed 29th in the size of government in the all-government measurement it ranked 21st in the state and local list. Arizona ranked 20th in takings and discriminatory taxation at the all-government and 22nd at state and local levels in 2001. It is about in the middle of the pack in terms of effective state and local tax burden (28th) and has a 5% general sales-and-use tax.

Arkansas

Arkansas placed 42nd overall in the all-government category and 33rd in the state and local comparisons. Its best showing was again in state and local size of government, where it ranked 24th, as compared to 43rd in the all-government rankings. Otherwise, the state fell into the second half on the other two measurements: 36th in all-government and 33rd in state and local takings and taxation, and showed some improvement over the previous year in labor market freedom, 38th in the all-government and 42nd in the subnational category. Its effective state and local tax burden of 9.5% places it in about in the middle of the pack

California

California ranked 26th overall in terms of economic freedom at the all-government level and 40th when its numbers were compared with other states and provinces, a drop in both categories from the previous year. This disparity is reflected in two of the three areas of measurement. The state ranked relatively high (13th) in terms of government size at the all-government level but fared worse at the state and local level, dropping to 33rd. The state and local ranking suffers when compared with all-government numbers in takings and discriminatory taxation: 39th for the former, and 26th for the latter. The big drop came in labor market freedom, where it fell to 38th for all-government and 42nd for state and local.

Colorado

Colorado continues to play its role as one of the superstars of economic freedom, holding on to 2nd in all-government overall and moving up to the number one spot (tied with Delaware, South Dakota, and Tennessee) in state and local. With one exception—the state and local measurement for takings and taxation, where it ranked 15th—the state was in the top five in all areas. For size of government, it ranked 4th in the all-government list and 2nd in state and local. In labor market freedom, it finished 3rd in both rankings. In all-government takings and taxation, Colorado ranked 9th. The state's general use and sales tax, at 2.9%, is the lowest in the country for those states that have one.

Only 11 states have a lower effective state and local tax burden. Coloradoans can celebrate their good fortune cheaply: only two states have a lower tax on beer.

Connecticut

Connecticut places 10th overall in the all-government ratings and 19th in state and local. In 2001 in labor market freedom, it ranked 14th in the all-government area and 15th in state and local. It ranked 4th and 15th for all-government and state and local respectively in size of government, and was 26th and 22nd for takings and discriminatory taxation at the all-government and subnational levels. Its general sales-and-use tax is at the high end at 6%. Its gasoline tax of 25¢ per gallon is tied for 4th highest in the country. Its effective state and local tax burden has moved up to the 6th highest in the country (from 11th) and its total tax burden, 36.7%, remains the worst.

Delaware

Delaware sets the standard for economic freedom in the United States, placing 1st overall in both the all-government and state and local rankings (tied with Colorado, South Dakota, and Tennessee for the latter). In terms of government size, it was rated 1st in all-government and 6th in the state and local comparison. In takings and taxation, in the state and local category, Delaware earned a 2nd place and a 1st place in the all-government index. Its labor market freedom rankings were lower: a 10th in both indexes. Delaware has no general sales-and-use tax. Its effective state and local tax burden is about in the middle of state rankings at 27th.

Florida

Florida ranked considerably higher overall in the state and local comparisons than in the all-government group, 12th as opposed to 26th. That pattern repeats itself in two of the three measurements. The state's size of government ranking is 34th in all-government (showing a slight improvement from the previous year) and 15th in state and local; for takings and taxation, the relative rankings are 42nd and 22nd. Florida's best showing came in labor market freedom, where it placed 9th in both measurements. Its effective state and local tax burden of 8.7% ranks it near the bottom among the states. Its general sales-and-use tax is at the high end (6%) but gasoline tax of 4¢ per gallon is the lowest in the country.

Georgia

Georgia has solid ratings on most measures of economic freedom, placing 3rd overall in the all-government group and 9th in state and local. Its best ratings are for size of government: 4th in both measurements. In the all-government ranking for takings and taxation, it was 11th. It came in 20th in that category in subnational. In labor market freedom, it ranked 12th in both all-government and state and local. Its general sales-and-use tax is at the low end of states that have it (4%) and its gasoline tax is the second lowest in the country at 7.5¢. At 9.9%, its effective state and local tax burden is around the national average.

Hawaii

Hawaii only managed to crack the top 30 on one measurement. Overall, it ranked 39th in all-government and 40th in state and local. For size of government, it ranks 38th in all-government and 33rd state and local. The takings and taxation numbers put it at 26th for all-government (a substantial improvement) but 45th for state and local (and its effective state and local tax burden is among the highest in the country at 11.3%). In labor market freedom, Hawaii ranked 34th in state and local and 42nd for all-government. Its general sales-and-use tax is low at 4%.

Idaho

Idaho's overall rating for all-government is 31st, and 33rd for state and local. Size of government ratings put it at 31st for all-government and 29th for state and local. Its labor market freedom rankings are the same for both categories at 25th. Idaho's takings and taxation rank 26th in all-government and 39th for state and local, another modest improvement over the previous year. At 25¢ per gallon, its gasoline tax is tied for 4th highest. The effective state and local tax burden is 10.3%, higher than 38 other states.

Illinois

In overall all-government, Illinois finishes 17th and, in state and local, 22nd. In terms of size of government, it rates 7th in the all-government index and 14th in the subnational index, and for takings and taxation it ranks 19th for all-government and 15th for state and local. Its overall ratings are pulled down by labor market freedom, where it found itself at 32nd all-government and 34th state and local. Illinois has one of the nation's highest general sales-and-use tax rates

at 6.25% and a fairly high spirits tax at $4.50 per gallon. Its effective state and local tax burden places it 31st among the states at 9.4% but its total tax burden of 32.8% ranks it 13th.

Indiana

Indiana in all-government ranked 15th; in state and local it came in 12th. In 2001, Indiana was 17th all-government and 8th state and local for takings, and 16th and 18th respectively for labor market freedom. It was 17th in the all-government and 10th in the subnational groups in size of government. At 9.4%, Indiana ranks 32nd in effective state and local tax burdens. Its gasoline tax at 15¢ per gallon is toward the low end of the scale.

Iowa

Iowa came up modestly in its overall ranking for all-governments at 32nd, and remained in 33rd spot in the state and local index. Its showings in size of government—23rd for all-government and 26th for state and local—are close to the previous year's results. It scored 20th in all-government and 22nd in state and local for taxation. Iowa's low point, however, continues to be labor market freedom. Despite a marginal improvement from the previous year, it only ranked 42nd in all-government and 46th state and local. Iowa's gasoline tax of 20¢ per gallon is about average.

Kansas

Kansas is another state in which economic freedom is neither enshrined nor defeated. It ranked 20th in all-government overall and 22nd in the subnational grouping. Its best showing was in size of government, state and local, where it rated 15th (national was 23rd). For takings and taxation, Kansas finished 36th in all-government and 30th in state and local. The state saw improvement in labor market freedom where it moved up in both measurements to 12th in 2001. Kansas ranks 30th in effective state and local tax burden and 36th in total tax.

Kentucky

Kentucky rates 32nd overall in the all-government list and 25th in the state and local, which more or less sums up its record since 1981: fluctuating in the 20s and 30s on both indexes. Its size of government ratings are 34th and 18th respectively, while in the takings and discriminatory taxation measurement, it finished 20th and 27th. Kentucky's weakest performance was in labor market freedom: 38th all-government and 40th state and local. The effective state and local tax burden of 9.6% is notably lower than in 2000 and hovers right at the national average. Only Virginia beats its 3¢ tax per pack of cigarettes and the tax on beer of 8¢ is among the country's lowest. Gasoline is also taxed gently at 15¢ per gallon.

Louisiana

Louisiana finished 7th overall in all-government and 6th state and local. It maintained strong showings in takings and taxation (3rd all-government and 8th subnational). It also had good ratings in labor market freedom, 6th in all-government and 8th state and local. Louisiana's overall ranking was dragged down somewhat by its numbers on size of government: 31st all-government and 18th state and local. The state's general sales-and-use tax is at the low end at 4% and, perhaps due to the influence of New Orleans, the state's tax on table wine is the lowest in the country at 11¢ per gallon.

Maine

Maine may be a nice place to visit but economic freedom doesn't want to live there. In the overall numbers, the state ranks 49th all-government and 46nd state and local. On takings and taxation, it continues to be beaten by a couple of the more woeful Canadian provinces, finishing 50th among states and provinces all-government and 55th state and local. The record is little better on size of government (47th all-government, 42nd state and local) and labor market freedom, 45th, and 44th respectively. And—stop the presses—it once again has the highest effective state and local tax burden in the United States at 12.2%.

Maryland

Maryland's record on economic freedom is lackluster on most counts. The state finished 39th overall in the all-government measurement and 24th in the state and local. Its best showing came in the state and local rankings for takings and taxation where it placed 15th. It was 25th in all-government. Maryland's rankings for size of government were 38th in all-government and 24th in state and local. The labor market freedom rankings were below average at 45th for all-government and 30th state and local (although the latter was a slight improvement). There are a couple of bright spots: Maryland's effective state and local tax burden is slightly below the national average at 9.7%, and its tax on beer is among the nation's lowest at 9¢.

Massachusetts

Massachusetts placed 10th overall in all-government and 12th in state and local. In size of government, it showed marginal improvement in the all-government ratings and placed 9th; it was 10th in state and local. In labor market freedom, where it plunged to 28th and 29th from 23rd and 22nd. Easily its best marks came in takings and taxation, 5th in all-government and 6th state and local. Massachusetts is 24th out of the states in effective state and local tax burden at 9.7%.

Michigan

Michigan placed 32nd overall in all-government and 25th in state and local overall. The labor rankings were 28th in all the government index and 30th subnational index. Otherwise, the state was 36th in takings and discriminatory taxation in the all-government index and 27th in the state and local index; and 28th and 26th, respectively, in size of government. Its general sales-and-use tax was comparatively high at 6%, and at 9.5% its effective state and local tax burden is just below the national average. Smokers only pay higher cigarette taxes in eight other states (75¢).

Minnesota

Minnesota rose to 20th place in the all-government overall rankings and remained steady at 33rd in state and local measurements of economic freedom. It held on to 9th place in the all-government size of government rankings and placed 26th in state and local. Otherwise, its ratings were farther back in the pack: for all-government and state and local, Minnesota was 33rd and 36th respectively in takings and taxation and 32nd and 34th in labor market freedom. Its general sales-and-use tax was on the high end at 6.5%, although the effective state and local tax burden fell to 10.6%—high, but an improvement.

Mississippi

Mississippi's competitive scores in labor market freedom were about the only bright spot for the state that placed 42nd overall in the all-government rankings and 31st in state and local. Its respective rankings for labor were 4th and 7th. Otherwise, economic freedom again takes a beating. A worsening from the previous year's figures made it 55th among the states and provinces in size of government in the all-government rankings. It ranked 36th in state and local. It finished 44th and 45th respectively in takings and discriminatory taxation. Its 7% general sales-and-use tax ties Rhode Island for the highest in the nation; at 9.7% its effective state and local tax burden fell to around the national average.

Missouri

Missouri ranks 20th overall in the all-government rankings and 9th in state and local, with respectable scores in both takings and discriminatory taxation (17th and 8th, respectively) and labor market freedom (14th and 15th). The state fares worse in the all-government measurement for size of government, coming in 31st, although in the state and local rankings it placed 12th. It has a relative low general sales-and-use tax at 4.225%, and tipplers enjoy the nation's second-lowest tax on beer (6¢) and one of the lowest taxes on table wines (30¢). In the rankings where citizens want their state to finish far down the line, effective state and local tax burden, Missouri is below the national average at 9.2%

Montana

Montana ranked 50th overall in the all-government measurement of states and provinces and 48th on the state and local index. Its best showing, if it can be called that, came in takings and taxation, where it finished 48th in the all-government rankings and 36th in state and local. From there, it's downhill: in size of government, the state was 49th at both all-government and subnational levels, and in labor market freedom, 48th in both the all-government and subnational measurements—an improvement. Another (relatively) bright spot: there is no general sales-and-use tax, and its effective state and local tax burden is below the national average at 9.2%.

Nebraska

Nebraska shows little disparity between its all-government and state and local overall rankings, coming in 20th and 19th, respectively. Size of government is the area where the state shows the most commitment to economic freedom, registering a score of 13th all-government and 6th state and local. In takings and taxation, it was to 33rd in both measurements, although labor market freedom improved to 22nd in both. Its effective state and local tax burden is 10%, ranking 14th among the states.

Nevada

Nevada placed well in both overall groupings, 3rd in the all-government and 6th in the subnational. It rose in labor market freedom, to 16th all-government and

18th state and local, and in takings and taxation, it was ranked 11th in all-government and 8th in subnational. Nevada's big score was in the size of government area, where it remained 2nd in both groupings. Its effective state and local tax burden is low at 8.9%. Nevada's general sales tax is among the highest in the country at 6.5% although its beer tax, figured in dollars per gallon, is among the nation's lowest at 9¢, and its table wine tax is at the low end at 40¢.

New Hampshire

New Hampshire improved its already high overall rank from 2000, coming in at 3rd in the all-government measurement and 5th in the state and local index. New Hampshire has no general sales-and-use tax and its effective state and local sales tax burden of 7.2% is bested only by Alaska. In the size of government rankings, New Hampshire holds the top spot in state and local and 2nd in all-government rankings. For takings and discriminatory taxation, it ranks 3rd in the all-government group and 1st in the subnational. Then, it slips on the economic banana peel: 31st in the all-government list for labor market freedom and 30th in state and local. If New Hampshire ever straightens out that pesky category, Delaware will be hearing footsteps.

New Jersey

New Jersey came in at 26th for all-government and 25th for state and local in the overall rankings, and has been consistent in its rankings in both indexes, ranging in the mid-20s for all-government and the 20s and 30s in the subnational index. Its best results were in the size of government rankings, where it was 9th in all-government and 22nd in state and local. For labor market freedom it was 32nd and 30th, respectively, a drop in both ratings. When it came to takings and discriminatory taxation the state was 40th all-government and 29th subnational. Its general sales tax was at the high end at 6%, although at 10.5¢ its gasoline tax is among the country's lowest. New Jersey's effective state and local sales tax burden is a shade above the national average at 9.9%

New Mexico

New Mexico's climate hasn't been particularly hospitable to economic freedom. It now clocks in at 42nd all-government and 38th subnational in the overall comparisons. New Mexico's highest marks come for all-government takings and taxes at 26th; for state and local, it drops to 45th. In labor market freedom, it was 22nd on both lists. But it was 36th in the state and local category for size of government, and 52nd on the all-government index, behind only big-government-loving Mississippi, Alaska, and West Virginia among the states. Its effective state and local sales tax burden is 13th, highest in the country at 10%. Driving and smoking is a bit less expensive than it is in most states because both those tax rates are on the low side.

New York

New York ranks 37th overall in the all-government group, a slight drop from 2000. The 44th ranking in state and local reflects its relatively lackluster performance in the three areas of measurement. In size of government, the state ranks 23rd in the all-government index and 36th in state and local. As for takings and taxation, the Empire State rates 33rd and 39th respectively. But its labor market freedom numbers are at 51st in both. The general sales-and-use tax is relatively low at 4% but the effective state and local tax burden is a killer—number 2 in the country at 12.1%.

North Carolina

In 2001, North Carolina's overall rating was 10th in the current all-government section and 16th. Its highest score is a 9th in the all-government list for takings and taxation, while it came in 15th in the subnational. Size of government rankings placed it 17th in all-government and 18th in state and local. Its labor market freedom ranked 16th, all-government, and 18th, and local. North Carolina's 4% general sales-and-use tax is low for the states that have it, and its effective state and local tax burden was the 29th highest at 10.1%. Not surprisingly for a leading tobacco-growing state, its cigarette tax is the lowest at 5¢.

North Dakota

North Dakota shares dismal scores with neighboring Montana in two of the three areas of economic freedom, for an overall ranking of 42nd in the all-government group and 45th in state and local. It holds the 35th ranking at a state and local level for takings and discriminatory taxation and 36th in all-government takings. In size of government, North Dakota is 43rd in all-government and 49th state and local; for labor market freedom, 36th, and 34th—the big success story. The state's effective state and local sales tax burden just over the national average at 9.9%. North Dakota's fall is somewhat perplexing; in 1981, it was 11th in the overall all-government index and 14th in the subnational.

Ohio

Ohio registers overall at 32nd on the all-government listings and lower at 40th in the state and local list. That's typical: the state has wobbled through the 20s and 30s in the all-government index and the 30s and 40s in state and local since the measurements have been taken. Its overall rankings are an accurate reflection of its general position in the three major categories measuring economic freedom. The state is ranked 23rd in size of government in the all-government grouping but 36th in state and local; 40th and 39th respectively in takings and taxation; and 36th and 40th in labor market freedom. Taxpayers will be saddened to know their effective state and local sales tax burden is well over the national average at 10.3% although the beer tax is on the low side.

Oklahoma

Oklahoma ranked 37th overall in all-government and 25th in state and local. The size of government results found it at 45th in all-government and 22nd in the state and local grouping, and 26th and 30th, respectively in the measurement for takings and taxation. The state showed a similarly close grouping in labor market freedom, 25th in both groups. Oklahoma's general sales tax was at the lower end of states that impose it at 4.5%. On the other hand, the state has the sixth-highest tax on spirits at $5.56 per gallon. The gasoline tax isn't overly taxing at 16¢.

Oregon

Oregon has a substantial gap between its rating in the all-government measurement, where it ranks 26th, and in the state and local index where it comes in 38th. But that's in line with the disparity of its measurements in the size of government category, 21st in all-government and 46th in state and local. For takings and taxation, the state skyrockets to 5th all-government and 13th state and local but promptly fizzles out in labor market freedom, dropping to 48th in both. Oregon doesn't impose a general sales tax, its 9.2% effective state and local sales tax burden is below the national average, and the beer tax is a little over 8¢.

Pennsylvania

Pennsylvania has been a predictable, steady state, with its overall all-government rankings in the low-to-mid 20s since 1989. This year, Pennsylvania ranks 26th in the all-government group and 19th in state and local in the overall ratings. Size of government isn't its strong suit, finishing 34th and 29th, respectively. In takings and taxation, it's 20th in all-government, and 13th in the state and local rankings, an advance in the former. The state's best results came in labor market freedom at 16th and 15th respectively. Its general sales-and-use tax is at the high end at 6% but its gasoline tax of 12¢ per gallon is among the lowest in the country, as is its tax on beer of 8¢. Pennsylvanians pay an effective state and local sales tax burden of 9.2%, only the 34th highest in the country.

Rhode Island

Rhode Island ranks 47th in the all-government list overall and 46th on the state and local slate. Its size of government rankings are 34th in the all-government index and 46th state and local; it declined in labor market freedom to 48th and 46th, respectively. In takings and taxation, Rhode Island ranks 44th in the all-government measurement and 45th in the subnational. It has the fourth-highest effective state and local sales tax burden at 11.1%, and its general sales tax of 7% is tied with Mississippi's as the highest in the country.

South Carolina

South Carolina is an example of a state where one spectacular rating can pull up so-so numbers to a decent overall position. It ranks 17th overall in the all-government category (down from single-digit ratings from 1981 to 1994) and 16th in the state and local measurements (also a drop from single digits in 1985 and 1989). It didn't earn the relatively high marks for its size of government ratings, 42nd, all-government, and 29th state and local. Its rankings on takings and discriminatory taxation also left it in the middle of the pack, 26th and 30th, respectively. On labor market freedom, however, the state rallied to 2nd in both the all-government and state and local rankings. Drinkers probably pass through rather than pay its $1.08 per gallon beer and table wine taxes. The cigarette tax is the fourth lowest in the country, and the 9.2% effective state and local sales tax burden ranks 30th among the states.

South Dakota

Last year we noted, "What a difference an adjective makes." This year it's even more pronounced. Sitting due south of woeful North Dakota, South Dakota holds 3rd place in the overall in the all-government measurements and to 1st place in a multi-state tie in the state and local index. Its size of government rat-

ing is 17th all-government and stays at 4th state and local, and it finishes 11th and 6th, respectively in takings and taxation. South Dakota is strongest in labor market freedom, at 6th and 5th, respectively. The state has a comparatively low general sales-and-use tax of 4%, and at 9.1% its effective state and local sales tax burden is only the 44th in the United States. Perhaps they should invite the folks from North Dakota down for a chat.

Tennessee

Tennessee has solid economic freedom credentials across the board and places 7th overall in the all-government category and moves up to a 1st place tie for state and local. The only aberration is its ranking in the all-government list for size of government—29th. It's 6th in state and local. Otherwise, Tennessee ranks 11th in all-government and 4th in state and local in takings and taxation, and 6th and 5th respectively for labor market freedom. Its general sales tax is on the high side at 6%, but the tax man continues to take some black eyes in the state: effective state and local tax burden is the fourth lowest in the country at 7.6%. The tobacco tax is lower than most states at 13¢, as is the beer tax at 12.5¢.

Texas

As South Carolina's overall ratings were invigorated by a single category, those of Texas are undone by one category. It still manages to place 7th in the all-government ratings and 6th in state and local, though those rankings represent a drop in the all-government list (3rd in 1981, 1st in 1985) and subnational (1st in 1981 and 1985). Takings and discriminatory taxation is solid: 5th all-government and 4th state and local (and Texas's effective state and local tax burden of 8.5% is 45th in the country —although its general sales tax is one of the country's highest at 6.25%). Another strong suit is the state's size of government ranking: 9th all-government and 6th state and local. The state stumbles when it comes to labor market freedom: 22nd in both groupings, although that represents a slight improvement from 2000.

Utah

Utah ranks 15th in the all-government group overall and 25th in the state and local index, an improvement over 2000 figures. Still, except for a 13th ranking in the all-government measurement for size of government, Utah doesn't yet threaten to join the elite states (its state and local ranking in the category is 32nd). Utah placed 16th all-government and 22nd in the subnational group in takings and taxation. For labor market freedom, its standing is 28th and 25th respectively. Its general sales tax is lower than most states that impose it at 4.75%, but the effective state and local tax burden is the 9th highest in the country at 10.6%.

Vermont

Vermont is another example of a state in which a decent showing in one area helps to offset dismal ratings in the other two. The state's overall rankings were 39th in the all-government index and 40th in state and local—the latter showing considerable consistency since it moved in a narrow range from 1993 to 2000. Its labor market freedom numbers are 16th all-government and 18th in the state and local measurement but after that it falls out of the top third in size of government: 38th all-government and 45th state and local. As for takings and taxation, it held the 48th spot in the all-government index and 49th in the subnational index. Vermont's effective state and local tax burden is the nation's seventh highest at 10.7%

Virginia

Virginia was a big winner in 2001, jumping to 20th in the overall all-government index and 9th in the subnational. Taxes again are Virginia's strength: 5th in all-government and 8th state and local; the second-lowest general sales tax at 3.5%, and the tenth-lowest effective state and local tax burden at 9.4%. Smokers might as well not pay a tax: its cigarette tax of 2.5¢ is the lowest in the country. One measure isn't as strong. Virginia scores 38th in all-government (though 12th state and local) in the size of government category. But it made great strides in both the all-government and state and local measurements for labor market freedom, moving up to 16th and 12th.

Washington

Washington's overall rankings—42nd all-government and 48th state and local—suggest there aren't many happy surprises, and both those figures represent a worsening from 2000. The size of government ranking of 17th in the all-government measurement is actually up slightly from 2000, but the state comes in at 48th state and local. Labor market freedom is a mess: 52nd in both categories among the states and provinces. The state is 46th in the all-government area and 36th in the subnational for takings and discriminatory taxation. The

general sales tax is on the high end at 6.5%, although its effective state and local tax burden is less onerous than some: 9.9%, making it 16th in the country.

West Virginia

West Virginia had the worst economic record through the 1990s, and held doggedly to that distinction in 2001. Its overall ranking in the all-government measurement was 52nd. In state and local it was 53rd. Except for its slightly higher labor market freedom rankings—32nd all-government, 34th state and local—economic freedom continues to hide in a coal mine. West Virginia ranks 51st all-government and 54th state and local in takings and taxation. For size of government, it can't even give Canada a run for its money, placing 56th and 57th respectively among the states and provinces.

Wisconsin

Wisconsin finished 32nd in the all-government and 37th in the subnational overall ratings. Size of government rankings was 21st for all-government and 33rd state and local, while labor market freedom was at 25th in both categories. But, on takings and discriminatory taxation, Wisconsinites are advised to heed last year's warning: hang on to your wallets. The state ranked 46th for all-government and 39th state and local among the states and provinces. Its effective state and local tax burden is the fifth highest in the nation at 10.9%. At least it doesn't cost much for them to drown their sorrows: the tax on beer is among the country's lowest at 6.5¢, and the table wine tax is third-lowest at 25¢.

Wyoming

Wyoming ranks 17th overall in the all-government measurement. Between 1981 and 1998, it never ranked lower than 3rd. It was 31st in the state and local index. Its strongest ratings are in labor market freedom: 10th in all-government and 11th in state and local. In the takings and taxation rankings, it scored 42nd, all-government, and 44th, subnational. Wyoming's other slip comes in the state and local area of size of government, where it places 36th (its all-government ranking is 16th).

Appendix B: Detailed Tables

The following tables provide more information on economic freedom in the provinces and states at both the all-government and subnational levels. The first two tables provide a detailed summary of the scores for 2001. The remaining tables provide historical information both for the overall index and for each of Area 1. Size of Government; Area 2. Takings and Discriminatory Taxation; Area 3. Labor Market Freedom.

List of Tables

Appendix Table 1: Scores on All-Government Index (2001)

	Overall Index	Area 1	Area 2	Area 3	1A	1B	2A	2B	2C	2D	3A	3B	3C	3D
Alberta	7.1	8.2	6.7	6.3	8.9	7.5	6.0	5.5	7.9	7.2	6.9	7.4	4.2	6.8
British Columbia	5.0	6.6	3.9	4.5	6.9	6.3	4.1	3.5	5.2	3.0	3.8	6.0	2.3	6.0
Manitoba	4.2	5.6	3.8	3.2	5.9	5.2	3.9	3.5	4.3	3.4	4.6	3.3	1.9	2.9
New Brunswick	4.6	4.7	4.0	5.0	4.6	4.9	4.7	3.5	5.1	2.8	4.4	4.2	4.6	6.7
Newfoundland	4.2	3.9	3.8	4.9	3.7	4.1	5.3	2.5	5.5	2.1	4.5	3.1	10.0	1.9
Nova Scotia	4.9	4.3	3.9	6.4	3.8	4.9	4.6	3.5	5.0	2.5	4.4	4.3	9.6	7.3
Ontario	5.6	7.5	4.0	5.4	7.8	7.2	4.4	3.5	4.6	3.4	5.2	7.0	2.7	6.8
Prince Edward Island	3.5	3.4	3.3	3.7	3.4	3.4	3.9	3.5	5.2	0.5	4.0	3.5	2.3	5.1
Quebec	4.3	6.0	3.0	3.8	6.6	5.5	3.4	2.5	3.2	3.1	4.1	5.4	0.8	4.9
Saskatchewan	4.7	6.0	4.2	4.1	6.7	5.2	5.1	3.5	4.2	4.0	5.2	3.2	2.3	5.6
Alabama	6.8	6.2	5.8	8.5	7.1	5.3	5.2	5.0	5.8	7.3	10.0	7.7	8.1	8.3
Alaska	6.1	5.6	6.2	6.5	4.3	6.9	2.1	6.0	7.2	9.6	6.7	5.8	6.9	6.5
Arizona	7.1	7.3	5.8	8.1	8.1	6.6	5.7	5.0	5.9	6.5	10.0	8.4	5.4	8.7
Arkansas	6.2	6.7	5.4	6.5	8.6	4.8	5.4	4.0	5.8	6.3	4.7	8.5	4.6	8.3
California	6.7	7.9	5.6	6.5	8.6	7.3	5.3	3.0	6.7	7.4	5.9	8.7	5.4	5.9
Colorado	7.6	8.3	6.3	8.2	8.6	8.1	5.8	5.0	6.9	7.5	6.6	8.9	9.6	7.5
Connecticut	7.1	8.3	5.6	7.3	9.2	7.4	5.0	5.0	4.8	7.6	6.6	9.0	7.7	6.0
Delaware	7.8	8.8	7.0	7.7	9.6	8.0	7.1	4.0	6.9	10.0	6.9	9.1	8.1	6.6
Florida	6.7	7.0	5.2	7.8	8.4	5.5	3.9	6.0	4.7	6.3	10.0	9.2	4.2	7.7
Georgia	7.3	8.3	6.2	7.4	9.1	7.4	6.5	4.0	7.2	7.2	6.9	8.5	5.8	8.2
Hawaii	6.3	6.9	5.6	6.4	6.5	7.2	6.1	4.0	6.4	6.0	6.2	7.5	6.9	5.0
Idaho	6.6	7.2	5.6	7.0	7.8	6.6	5.6	4.0	5.1	7.7	5.2	8.0	6.2	8.5
Illinois	6.9	8.2	5.9	6.7	9.3	7.2	5.3	5.0	4.9	8.3	6.5	9.0	5.8	5.3
Indiana	7.0	7.7	6.0	7.2	9.0	6.4	5.8	5.0	5.5	7.9	5.7	9.1	7.7	6.2
Iowa	6.5	7.5	5.8	6.4	8.5	6.4	5.6	5.0	4.9	7.6	5.7	8.5	4.6	6.7
Kansas	6.8	7.5	5.4	7.4	8.3	6.7	5.2	4.0	5.5	7.1	7.9	7.8	6.2	8.0
Kentucky	6.5	7.0	5.8	6.5	8.4	5.5	5.5	4.0	6.0	7.9	5.5	8.3	5.0	7.4
Louisiana	7.2	7.2	6.5	8.0	8.4	5.9	6.9	5.0	7.6	6.7	10.0	7.3	6.2	8.7
Maine	5.9	6.4	4.8	6.3	7.6	5.2	4.5	4.0	3.4	7.4	5.4	8.6	4.6	6.7
Maryland	6.3	6.9	5.7	6.3	6.5	7.2	4.7	5.0	4.7	8.5	6.3	7.4	4.6	7.1
Massachusetts	7.1	8.1	6.4	6.9	9.2	7.0	5.9	5.0	6.2	8.6	6.1	9.4	6.2	5.9
Michigan	6.5	7.4	5.4	6.9	8.7	6.1	4.2	5.0	5.0	7.4	5.8	8.7	8.1	4.9
Minnesota	6.8	8.1	5.5	6.7	8.9	7.2	4.8	4.0	5.4	7.7	6.5	8.9	5.8	5.7
Mississippi	6.2	5.5	5.1	8.1	6.8	4.2	4.6	5.0	4.6	6.1	10.0	6.9	6.2	9.2
Missouri	6.8	7.2	6.0	7.3	8.4	6.0	5.9	5.0	5.9	7.4	5.8	8.6	8.1	6.6
Montana	5.7	6.1	4.9	6.2	6.8	5.3	4.0	4.0	1.7	10.0	4.6	7.8	5.0	7.2
Nebraska	6.8	7.9	5.5	7.1	9.1	6.8	5.0	4.0	5.5	7.6	6.0	8.5	6.2	7.6
Nevada	7.3	8.6	6.2	7.2	9.5	7.8	5.9	6.0	5.9	6.9	6.5	9.9	7.3	5.0
New Hampshire	7.3	8.6	6.5	6.8	9.8	7.4	6.1	6.0	3.8	10.0	6.4	9.4	4.6	6.9
New Jersey	6.7	8.1	5.3	6.7	9.1	7.2	4.9	4.0	4.1	8.3	6.9	8.6	6.2	5.3
New Mexico	6.2	5.9	5.6	7.1	5.4	6.3	5.2	4.0	7.0	6.0	6.4	5.6	6.5	10.0
New York	6.4	7.5	5.5	6.1	8.8	6.2	4.4	4.0	5.9	7.7	6.9	8.0	5.4	4.2
North Carolina	7.1	7.7	6.3	7.2	8.8	6.6	6.3	4.0	6.9	8.1	6.0	8.4	5.4	9.2
North Dakota	6.2	6.7	5.4	6.6	7.6	5.8	5.2	5.0	3.7	7.7	5.5	7.7	4.6	8.7
Ohio	6.5	7.5	5.3	6.6	8.9	6.1	4.8	4.0	4.6	7.8	6.6	8.9	5.4	5.5
Oklahoma	6.4	6.6	5.6	7.0	7.7	5.6	5.4	4.0	5.9	7.0	5.1	7.7	6.5	8.5
Oregon	6.7	7.6	6.4	6.2	8.7	6.6	5.0	5.0	5.5	10.0	5.1	8.5	5.0	6.3
Pennsylvania	6.7	7.0	5.8	7.2	8.6	5.4	4.8	6.0	4.6	8.0	6.0	9.4	8.1	5.3
Rhode Island	6.1	7.0	5.1	6.2	8.5	5.5	5.1	3.0	4.1	8.1	5.4	9.0	5.0	5.6
South Carolina	6.9	6.8	5.6	8.4	7.8	5.8	5.4	4.0	5.6	7.5	10.0	7.8	6.5	9.3
South Dakota	7.3	7.7	6.2	8.0	8.8	6.6	6.3	6.0	5.6	7.0	5.8	8.1	9.6	8.7
Tennessee	7.2	7.3	6.2	8.0	8.7	5.9	5.8	6.0	6.5	6.4	10.0	9.0	5.4	7.7
Texas	7.2	8.1	6.4	7.1	8.8	7.5	6.5	6.0	5.8	7.4	6.3	8.5	5.0	8.6
Utah	7.0	7.9	6.1	6.9	8.1	7.8	5.5	5.0	6.7	7.0	5.7	8.0	5.4	8.6
Vermont	6.3	6.9	4.9	7.2	7.7	6.1	4.8	3.0	3.2	8.7	4.8	8.7	8.1	7.2
Virginia	6.8	6.9	6.4	7.2	6.0	7.7	5.7	5.0	6.1	8.6	6.5	7.7	5.4	9.2
Washington	6.2	7.7	5.0	6.0	8.4	6.9	4.2	6.0	4.4	5.4	5.3	7.9	4.6	6.0
West Virginia	5.4	5.1	4.5	6.7	7.4	2.8	4.2	4.0	2.4	7.5	4.3	7.1	7.7	7.5
Wisconsin	6.5	7.6	5.0	7.0	8.6	6.6	3.6	4.0	4.9	7.6	5.9	8.9	7.3	5.9
Wyoming	6.9	7.8	5.2	7.7	7.9	7.7	1.2	6.0	6.4	7.3	7.3	6.2	8.1	9.2

Appendix Table 2: Scores on Subnational Index (2001)

	Overall Index	Area 1	Area 2	Area 3	1A	1B	2A	2B	2C	2D	3A	3B	3C	3D
Alberta	7.2	7.3	8.2	6.1	7.3	7.3	8.2	7.0	8.0	9.6	6.9	6.6	4.2	6.8
British Columbia	5.4	5.9	6.0	4.3	4.3	7.5	6.8	5.5	6.6	5.0	3.8	5.0	2.3	6.0
Manitoba	4.7	5.6	5.5	2.9	3.5	7.6	6.6	5.0	5.7	4.8	4.6	2.1	1.9	2.9
New Brunswick	5.4	5.2	6.1	4.8	2.4	8.0	7.3	5.5	6.9	4.5	4.4	3.4	4.6	6.7
Newfoundland	4.8	4.3	5.5	4.6	0.2	8.3	7.4	4.0	7.1	3.5	4.5	2.0	10.0	1.9
Nova Scotia	6.0	5.9	5.9	6.3	3.7	8.1	7.0	5.5	6.8	4.3	4.4	4.0	9.6	7.3
Ontario	6.1	7.2	5.8	5.4	6.3	8.2	7.6	5.0	5.7	4.9	5.2	6.8	2.7	6.8
Prince Edward Island	4.6	4.7	5.4	3.8	1.6	7.8	7.2	5.0	7.5	1.8	4.0	3.8	2.3	5.1
Quebec	4.7	5.7	4.9	3.6	5.1	6.3	6.3	4.0	4.6	4.5	4.1	4.4	0.8	4.9
Saskatchewan	5.0	5.8	5.5	3.7	4.0	7.7	6.8	5.0	4.9	5.4	5.2	1.6	2.3	5.6
Alabama	7.6	7.1	7.4	8.5	6.2	8.0	7.3	8.0	8.1	6.3	10.0	7.5	8.1	8.3
Alaska	6.2	4.7	7.2	6.6	2.4	7.0	2.4	10.0	7.1	9.4	6.7	6.2	6.9	6.5
Arizona	7.7	8.1	7.1	8.1	7.4	8.7	8.0	8.0	7.3	5.1	10.0	8.2	5.4	8.7
Arkansas	7.0	7.9	6.7	6.4	6.9	8.9	7.6	6.0	8.1	4.9	4.7	8.1	4.6	8.3
California	6.7	7.4	6.4	6.4	7.3	7.5	7.3	4.0	8.0	6.5	5.9	8.4	5.4	5.9
Colorado	8.2	9.0	7.4	8.1	8.0	10.0	8.0	7.0	8.1	6.6	6.6	8.9	9.6	7.5
Connecticut	7.5	8.3	7.1	7.2	7.9	8.7	8.5	7.0	6.0	6.7	6.6	8.5	7.7	6.0
Delaware	8.2	8.8	8.2	7.6	8.1	9.4	8.3	7.5	6.9	10.0	6.9	8.7	8.1	6.6
Florida	7.7	8.3	7.1	7.7	7.1	9.5	7.4	10.0	6.1	4.9	10.0	9.0	4.2	7.7
Georgia	7.8	8.9	7.2	7.3	8.5	9.4	8.3	6.0	8.6	6.1	6.9	8.5	5.8	8.2
Hawaii	6.7	7.4	6.2	6.6	6.5	8.3	7.5	5.0	7.7	4.4	6.2	8.2	6.9	5.0
Idaho	7.0	7.7	6.4	6.9	7.0	8.3	7.3	5.0	6.3	6.9	5.2	7.5	6.2	8.5
Illinois	7.4	8.4	7.4	6.6	7.9	8.9	8.1	8.0	5.8	7.6	6.5	8.7	5.8	5.3
Indiana	7.7	8.6	7.6	7.1	7.4	9.7	8.2	8.0	7.0	7.1	5.7	8.7	7.7	6.2
Iowa	7.0	7.8	7.1	6.2	6.6	9.0	7.8	7.5	6.2	6.7	5.7	7.9	4.6	6.7
Kansas	7.4	8.3	6.8	7.3	7.0	9.5	7.7	6.0	7.4	6.0	7.9	7.2	6.2	8.0
Kentucky	7.2	8.2	7.0	6.5	7.6	8.7	7.2	6.0	7.6	7.1	5.5	8.0	5.0	7.4
Louisiana	7.9	8.2	7.6	7.8	7.1	9.3	8.0	8.5	8.3	5.4	10.0	6.6	6.2	8.7
Maine	6.4	7.2	5.6	6.3	6.1	8.3	6.7	5.0	4.3	6.4	5.4	8.4	4.6	6.7
Maryland	7.3	7.9	7.4	6.7	7.4	8.4	7.8	7.0	6.7	7.9	6.3	8.7	4.6	7.1
Massachusetts	7.7	8.6	7.7	6.8	8.4	8.9	8.4	7.0	7.4	8.1	6.1	9.2	6.2	5.9
Michigan	7.2	7.8	7.0	6.7	6.6	9.0	6.9	8.0	6.6	6.3	5.8	8.1	8.1	4.9
Minnesota	7.0	7.8	6.5	6.6	7.2	8.5	7.0	5.5	6.5	6.9	6.5	8.4	5.8	5.7
Mississippi	7.1	7.3	6.2	7.9	5.3	9.3	6.5	7.0	6.6	4.6	10.0	6.2	6.2	9.2
Missouri	7.8	8.5	7.6	7.2	8.0	9.1	8.2	8.0	7.8	6.4	5.8	8.4	8.1	6.6
Montana	6.3	6.3	6.5	6.1	4.7	7.9	6.4	6.5	2.9	10.0	4.6	7.7	5.0	7.2
Nebraska	7.5	8.8	6.7	7.0	7.8	9.8	7.1	6.0	7.0	6.6	6.0	8.1	6.2	7.6
Nevada	7.9	9.0	7.6	7.1	8.3	9.6	8.4	10.0	6.2	5.8	6.5	9.8	7.3	5.0
New Hampshire	8.1	9.3	8.3	6.7	8.8	9.8	8.9	10.0	4.1	10.0	6.4	9.0	4.6	6.9
New Jersey	7.2	8.0	6.9	6.7	7.6	8.4	8.0	6.5	5.3	7.6	6.9	8.3	6.2	5.3
New Mexico	6.8	7.3	6.2	7.0	5.8	8.7	6.3	5.5	8.6	4.5	6.4	5.2	6.5	10.0
New York	6.6	7.3	6.4	6.0	6.8	7.9	6.4	6.0	6.4	6.8	6.9	7.5	5.4	4.2
North Carolina	7.6	8.2	7.4	7.1	7.5	8.9	8.0	6.0	8.1	7.4	6.0	7.9	5.4	9.2
North Dakota	6.5	6.3	6.6	6.6	6.1	6.6	7.0	8.0	4.4	6.8	5.5	7.5	4.6	8.7
Ohio	6.7	7.3	6.4	6.5	7.4	7.1	6.9	6.0	5.7	6.9	6.6	8.5	5.4	5.5
Oklahoma	7.2	8.0	6.8	6.9	6.8	9.1	7.4	6.0	7.8	5.9	5.1	7.6	6.5	8.5
Oregon	6.8	6.7	7.5	6.1	6.6	6.8	6.7	7.0	6.2	10.0	5.1	8.1	5.0	6.3
Pennsylvania	7.5	7.7	7.5	7.2	7.1	8.3	7.4	9.0	6.3	7.2	6.0	9.3	8.1	5.3
Rhode Island	6.4	6.7	6.2	6.2	7.2	6.2	7.3	5.0	5.2	7.3	5.4	9.0	5.0	5.6
South Carolina	7.6	7.7	6.8	8.2	6.5	8.8	7.4	6.0	7.4	6.5	10.0	7.2	6.5	9.3
South Dakota	8.2	8.9	7.7	8.0	7.9	9.9	8.2	10.0	6.5	5.9	5.8	8.0	9.6	8.7
Tennessee	8.2	8.8	7.8	8.0	8.2	9.3	8.0	10.0	8.0	5.0	10.0	8.8	5.4	7.7
Texas	7.9	8.8	7.8	7.0	8.2	9.5	8.5	10.0	6.3	6.4	6.3	8.1	5.0	8.6
Utah	7.2	7.6	7.1	6.9	7.1	8.1	6.9	8.0	7.7	5.8	5.7	8.1	5.4	8.6
Vermont	6.7	6.8	6.1	7.1	5.8	7.8	7.4	5.0	3.9	8.2	4.8	8.4	8.1	7.2
Virginia	7.8	8.5	7.6	7.3	7.8	9.2	8.1	7.0	7.3	8.1	6.5	8.3	5.4	9.2
Washington	6.3	6.4	6.5	5.9	7.5	5.3	6.9	10.0	5.5	3.7	5.3	7.6	4.6	6.0
West Virginia	5.7	4.9	5.7	6.6	5.3	4.4	6.4	6.5	3.4	6.5	4.3	6.9	7.7	7.5
Wisconsin	6.9	7.4	6.4	6.9	6.4	8.5	5.8	7.0	6.0	6.7	5.9	8.3	7.3	5.9
Wyoming	7.1	7.3	6.3	7.5	6.3	8.3	2.5	10.0	6.6	6.3	7.3	5.5	8.1	9.2

Appendix Table 3: Overall Scores on All-Government Index

	1981	1985	1989	1993	1994	1995	1996	1997	1998	1999	2000	2001	Rank*
Alberta	6.1	5.9	5.9	5.8	6.2	6.4	6.6	6.6	6.5	6.6	7.1	7.1	10
British Columbia	4.9	4.8	5.3	4.5	4.5	4.6	4.5	4.6	4.6	4.8	4.9	5.0	53
Manitoba	4.4	4.1	4.1	3.5	3.6	3.8	4.0	4.1	4.2	4.0	4.1	4.2	58
New Brunswick	2.2	3.6	4.3	3.6	3.6	4.0	4.1	4.1	4.3	4.5	4.6	4.6	56
Newfoundland	3.3	3.1	3.6	2.5	2.8	3.1	3.1	3.1	3.4	3.9	4.5	4.2	58
Nova Scotia	2.0	3.2	4.2	3.7	3.7	4.0	4.2	4.2	4.4	4.5	4.7	4.9	54
Ontario	5.4	5.5	5.7	4.8	4.8	5.0	5.1	5.2	5.4	5.5	5.7	5.6	51
Prince Edward Island	3.8	3.3	3.6	3.0	3.0	3.2	3.3	3.1	3.3	3.4	3.5	3.5	60
Quebec	3.4	3.7	4.1	3.5	3.6	3.7	3.8	4.0	4.0	4.1	4.4	4.3	57
Saskatchewan	4.5	4.2	4.1	3.7	4.1	4.4	4.6	4.7	4.6	4.6	4.9	4.7	55
Alabama	6.2	6.5	7.3	7.0	6.8	6.9	6.9	6.9	7.0	7.0	6.9	6.8	20
Alaska	7.1	7.1	7.1	6.2	6.1	6.2	6.3	6.3	5.9	6.1	6.1	6.1	47
Arizona	6.0	6.4	6.9	6.7	6.8	6.9	7.0	7.1	7.2	7.2	7.1	7.1	10
Arkansas	5.7	5.8	6.7	6.4	6.4	6.4	6.4	6.4	6.3	6.3	6.3	6.2	42
California	5.6	6.1	6.9	6.4	6.3	6.4	6.5	6.5	6.6	6.7	6.8	6.7	26
Colorado	6.6	6.6	7.2	7.3	7.2	7.3	7.4	7.4	7.5	7.5	7.6	7.6	2
Connecticut	5.6	6.4	7.2	6.9	6.8	6.7	6.9	7.0	7.0	6.9	7.1	7.1	10
Delaware	6.5	7.0	7.9	7.6	7.5	7.6	7.7	7.8	7.8	7.8	7.8	7.8	1
Florida	6.2	6.6	7.2	6.7	6.5	6.5	6.5	6.6	6.6	6.6	6.7	6.7	26
Georgia	6.2	6.6	7.4	7.2	7.0	7.1	7.2	7.3	7.3	7.3	7.4	7.3	3
Hawaii	5.4	5.9	6.8	6.3	6.1	6.2	6.1	6.1	6.1	6.2	6.2	6.3	39
Idaho	5.9	6.0	6.5	6.5	6.5	6.5	6.5	6.4	6.4	6.6	6.6	6.6	31
Illinois	6.1	6.4	7.1	7.0	6.9	6.9	6.9	7.0	7.0	7.0	6.9	6.9	17
Indiana	6.1	6.5	7.2	7.2	7.0	7.1	7.2	7.1	7.2	7.1	7.0	7.0	15
Iowa	6.6	6.4	6.6	6.4	6.4	6.4	6.6	6.6	6.5	6.4	6.5	6.5	32
Kansas	6.1	6.3	6.9	6.6	6.5	6.5	6.7	6.9	6.9	6.8	6.8	6.8	20
Kentucky	6.0	6.1	6.9	6.7	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	32
Louisiana	7.6	7.4	7.7	7.0	7.0	7.2	7.2	7.2	7.1	7.2	7.3	7.2	7
Maine	4.9	5.5	6.4	5.7	5.6	5.7	5.7	5.6	5.6	5.7	5.8	5.9	49
Maryland	4.7	5.6	6.7	6.2	6.0	6.0	6.2	6.2	6.2	6.3	6.3	6.3	39
Massachusetts	5.2	6.3	7.1	6.8	6.7	6.7	6.8	6.8	6.9	7.0	7.1	7.1	10
Michigan	5.5	6.1	6.8	6.6	6.6	6.6	6.6	6.6	6.7	6.7	6.7	6.5	32
Minnesota	5.8	6.0	6.7	6.4	6.3	6.3	6.5	6.6	6.6	6.7	6.8	6.8	20
Mississippi	6.2	6.3	6.9	6.7	6.6	6.7	6.5	6.5	6.5	6.4	6.3	6.2	42
Missouri	6.4	6.7	7.0	6.8	6.8	6.8	6.7	6.9	6.9	6.8	6.9	6.8	20
Montana	6.1	5.5	6.0	5.8	5.6	5.6	5.6	5.7	5.7	5.7	5.7	5.7	50
Nebraska	6.3	6.4	6.9	6.7	6.7	6.8	6.9	6.8	6.8	6.9	6.9	6.8	20
Nevada	6.1	6.4	7.5	7.2	7.1	7.1	7.1	7.1	7.2	7.2	7.4	7.3	3
New Hampshire	5.7	6.8	7.3	6.7	6.7	6.8	7.0	7.1	7.1	7.2	7.3	7.3	3
New Jersey	5.5	6.2	7.0	6.5	6.4	6.4	6.5	6.6	6.6	6.7	6.8	6.7	26
New Mexico	5.8	5.8	5.9	6.2	6.3	6.1	6.1	6.3	6.1	6.1	6.2	6.2	42
New York	5.3	5.7	6.4	6.0	5.9	5.9	6.1	6.2	6.4	6.4	6.4	6.4	37
North Carolina	6.2	6.7	7.5	7.1	7.0	7.1	7.1	7.1	7.1	7.2	7.2	7.1	10
North Dakota	6.3	5.9	5.9	6.0	6.0	6.0	6.2	6.0	6.1	6.0	6.2	6.2	42
Ohio	5.9	6.0	6.6	6.3	6.3	6.3	6.3	6.5	6.6	6.6	6.5	6.5	32
Oklahoma	6.8	6.6	6.7	6.5	6.3	6.3	6.3	6.4	6.4	6.4	6.5	6.4	37
Oregon	5.4	5.7	6.4	6.4	6.3	6.3	6.6	6.6	6.6	6.7	6.7	6.7	26
Pennsylvania	5.6	6.0	6.9	6.6	6.5	6.5	6.5	6.5	6.6	6.6	6.6	6.7	26
Rhode Island	5.0	5.5	6.5	5.7	5.6	5.6	5.7	5.9	6.0	5.9	6.2	6.1	47
South Carolina	6.4	6.7	7.5	7.1	7.0	7.0	7.0	7.0	7.1	7.1	7.0	6.9	17
South Dakota	6.2	6.5	7.2	7.3	7.2	7.2	7.3	7.3	7.1	7.2	7.4	7.3	3
Tennessee	6.1	6.7	7.5	7.1	7.2	7.2	7.1	7.2	7.3	7.3	7.2	7.2	7
Texas	7.3	7.4	7.4	7.2	7.0	7.0	7.1	7.2	7.2	7.2	7.2	7.2	7
Utah	5.7	6.0	6.5	6.5	6.6	6.7	7.0	6.9	6.9	6.9	7.0	7.0	15
Vermont	5.8	6.1	7.2	6.8	6.5	6.4	6.4	6.5	6.5	6.4	6.4	6.3	39
Virginia	5.4	6.2	7.1	6.7	6.6	6.5	6.6	6.6	6.7	6.7	6.7	6.8	20
Washington	5.3	5.6	6.4	6.2	6.0	5.8	6.0	6.1	6.2	6.3	6.3	6.2	42
West Virginia	5.4	5.2	6.2	5.7	5.7	5.7	5.7	5.6	5.6	5.6	5.5	5.4	52
Wisconsin	5.8	5.9	6.7	6.5	6.5	6.6	6.5	6.6	6.6	6.6	6.6	6.5	32
Wyoming	7.7	7.2	7.7	7.6	7.4	7.4	7.4	7.4	7.3	7.1	7.1	6.9	17

* Rank out of 60 for year 2001.

Appendix Table 4: Overall Scores on Subnational Index

	1981	1985	1989	1993	1994	1995	1996	1997	1998	1999	2000	2001	Rank*
Alberta	6.5	6.0	5.8	5.9	6.4	6.7	6.9	7.0	7.0	7.1	7.3	7.2	25
British Columbia	5.0	4.9	5.6	4.7	4.7	4.7	4.8	4.8	5.1	5.2	5.4	5.4	54
Manitoba	5.2	4.6	4.4	3.7	4.0	4.1	4.4	4.6	4.8	4.6	4.7	4.7	58
New Brunswick	4.2	4.4	4.8	4.3	4.4	4.6	4.7	4.8	5.1	5.3	5.4	5.4	54
Newfoundland	3.7	3.6	4.0	3.1	3.3	3.5	3.5	3.8	4.3	4.7	5.1	4.8	57
Nova Scotia	3.9	4.6	5.2	4.9	4.8	5.0	5.4	5.4	5.6	5.7	6.0	6.0	52
Ontario	6.2	6.1	6.0	4.7	4.9	5.1	5.4	5.6	5.9	6.1	6.2	6.1	51
Prince Edward Island	4.4	4.5	4.4	3.9	3.8	4.1	4.3	4.4	4.5	4.6	4.7	4.6	60
Quebec	3.6	3.5	4.3	3.2	3.5	3.6	3.9	4.2	4.5	4.6	4.8	4.7	58
Saskatchewan	4.6	4.4	4.3	3.9	4.4	4.5	4.8	5.0	5.0	5.0	5.1	5.0	56
Alabama	7.5	7.7	7.8	7.6	7.7	7.7	7.8	7.8	7.7	7.7	7.7	7.6	16
Alaska	7.6	7.1	6.6	5.8	5.9	5.8	6.0	6.0	5.8	6.0	6.2	6.2	50
Arizona	7.4	7.4	7.0	6.9	7.2	7.3	7.5	7.7	7.8	7.9	7.8	7.7	12
Arkansas	6.8	6.8	7.1	6.9	7.0	7.0	7.0	7.0	7.0	6.9	7.0	7.0	33
California	6.0	6.3	6.6	5.8	6.0	6.0	6.2	6.4	6.6	6.7	6.8	6.7	40
Colorado	7.7	7.4	7.3	7.5	7.6	7.5	7.7	7.8	8.1	8.1	8.2	8.2	1
Connecticut	7.0	7.5	7.6	6.8	6.9	6.8	7.1	7.2	7.3	7.4	7.5	7.5	19
Delaware	6.5	7.4	7.8	7.6	7.7	7.7	7.8	7.9	8.0	8.0	8.2	8.2	1
Florida	8.0	8.0	7.7	7.2	7.3	7.3	7.3	7.5	7.6	7.6	7.7	7.7	12
Georgia	7.4	7.5	7.5	7.4	7.5	7.6	7.5	7.7	7.9	7.9	7.9	7.8	9
Hawaii	6.0	6.6	7.0	6.3	6.2	6.1	6.1	6.2	6.4	6.7	6.7	6.7	40
Idaho	6.7	6.7	6.8	6.6	6.7	6.6	6.5	6.6	6.7	6.8	7.0	7.0	33
Illinois	6.5	6.9	7.3	7.0	7.2	7.1	7.2	7.3	7.4	7.4	7.4	7.4	22
Indiana	7.1	7.4	7.5	7.6	7.6	7.6	7.8	7.8	7.9	7.7	7.7	7.7	12
Iowa	7.3	6.9	6.6	6.4	6.7	6.6	6.8	6.9	7.0	7.0	7.0	7.0	33
Kansas	6.9	7.0	7.1	6.8	6.8	6.8	7.0	7.3	7.4	7.5	7.4	7.4	22
Kentucky	6.7	7.1	7.1	7.0	7.0	7.0	7.0	7.1	7.2	7.1	7.2	7.2	25
Louisiana	8.4	7.8	7.8	7.6	7.7	7.8	7.8	7.9	7.7	7.8	7.9	7.9	6
Maine	5.6	6.1	6.5	5.8	5.9	5.9	6.0	5.9	6.1	6.2	6.3	6.4	46
Maryland	6.3	7.0	7.2	6.8	6.9	6.8	7.0	7.0	7.2	7.3	7.3	7.3	24
Massachusetts	6.3	7.3	7.3	6.9	7.1	7.0	7.2	7.4	7.6	7.7	7.8	7.7	12
Michigan	5.2	6.3	6.4	6.3	6.7	6.8	6.9	6.9	7.1	7.1	7.2	7.2	25
Minnesota	5.8	6.2	6.4	6.1	6.3	6.3	6.5	6.6	6.8	6.9	7.0	7.0	33
Mississippi	7.3	7.3	7.3	7.3	7.4	7.3	7.3	7.1	7.3	7.2	7.1	7.1	31
Missouri	7.7	8.0	7.7	7.6	7.7	7.6	7.7	7.8	7.8	7.7	7.8	7.8	9
Montana	6.8	5.8	5.6	5.8	5.8	5.7	5.8	6.0	6.2	6.2	6.3	6.3	48
Nebraska	7.0	7.0	7.1	7.1	7.1	7.2	7.3	7.3	7.3	7.4	7.5	7.5	19
Nevada	6.8	6.9	7.2	6.7	7.1	7.0	7.2	7.2	7.6	7.5	7.9	7.9	6
New Hampshire	7.2	7.9	7.7	6.7	7.2	7.4	7.6	7.7	7.8	7.9	8.1	8.1	5
New Jersey	6.1	6.8	7.1	6.3	6.5	6.4	6.5	6.7	6.9	7.0	7.2	7.2	25
New Mexico	7.2	6.9	6.6	6.8	6.9	6.7	6.8	6.9	6.8	6.7	6.9	6.8	38
New York	5.1	5.5	6.1	5.4	5.6	5.5	5.9	6.1	6.4	6.5	6.6	6.6	44
North Carolina	7.0	7.4	7.6	7.2	7.3	7.3	7.4	7.5	7.5	7.5	7.5	7.6	16
North Dakota	7.3	6.3	5.6	5.9	6.3	6.4	6.6	6.3	6.5	6.4	6.5	6.5	45
Ohio	6.2	6.3	6.5	6.0	6.2	6.2	6.3	6.7	6.9	6.8	6.8	6.7	40
Oklahoma	7.7	7.3	7.0	6.8	6.7	6.7	6.9	7.1	7.1	7.1	7.3	7.2	25
Oregon	5.6	5.7	6.2	6.1	6.4	6.4	6.5	6.5	6.8	6.9	6.8	6.8	38
Pennsylvania	6.2	6.7	7.2	6.7	6.9	6.9	7.1	7.1	7.3	7.4	7.5	7.5	19
Rhode Island	5.3	5.8	6.4	5.3	5.3	5.2	5.5	5.8	6.2	6.1	6.4	6.4	46
South Carolina	7.5	7.7	7.8	7.4	7.4	7.5	7.5	7.5	7.6	7.6	7.6	7.6	16
South Dakota	7.2	7.6	7.6	7.9	7.9	8.0	8.1	8.1	8.0	8.1	8.2	8.2	1
Tennessee	7.6	7.9	8.0	7.6	8.0	8.0	7.9	8.0	8.2	8.2	8.2	8.2	1
Texas	8.6	8.2	7.6	7.4	7.5	7.5	7.6	7.7	7.8	7.7	7.9	7.9	6
Utah	6.9	6.8	6.6	6.6	6.9	7.0	7.2	7.2	7.2	7.1	7.2	7.2	25
Vermont	5.7	6.2	7.0	6.4	6.4	6.4	6.5	6.6	6.7	6.7	6.7	6.7	40
Virginia	7.3	7.7	7.8	7.5	7.6	7.6	7.6	7.7	7.8	7.8	7.8	7.8	9
Washington	6.2	5.9	6.2	5.7	5.7	5.4	5.8	6.0	6.3	6.2	6.3	6.3	48
West Virginia	5.3	5.0	5.9	5.0	5.5	5.8	5.7	5.6	5.9	5.8	5.7	5.7	53
Wisconsin	6.1	6.0	6.5	6.4	6.6	6.6	6.6	6.7	6.9	6.9	6.9	6.9	37
Wyoming	8.2	7.1	7.1	7.2	7.2	7.3	7.4	7.5	7.4	7.3	7.2	7.1	31

* Rank out of 60 for year 2001.

Appendix Table 5: Scores for Area 1 on All-Government Index

	1981	1985	1989	1993	1994	1995	1996	1997	1998	1999	2000	2001	Rank*
Alberta	8.7	7.5	7.1	7.1	7.7	7.9	8.1	8.3	8.1	8.2	8.6	8.2	7
British Columbia	7.3	6.5	6.9	6.3	6.5	6.6	6.6	6.7	6.6	6.7	6.8	6.6	45
Manitoba	6.5	5.6	5.5	4.6	5.0	5.2	5.5	5.7	5.7	5.6	5.6	5.6	53
New Brunswick	1.8	3.8	4.4	3.6	3.8	4.4	4.5	4.5	4.5	4.8	5.0	4.7	57
Newfoundland	3.6	2.7	2.9	1.5	1.9	2.6	2.6	2.7	2.9	3.7	4.4	3.9	59
Nova Scotia	0.8	2.8	3.7	2.8	3.0	3.3	3.7	3.8	3.9	4.1	4.3	4.3	58
Ontario	7.5	7.3	7.6	6.2	6.6	6.8	7.1	7.3	7.3	7.6	7.6	7.5	23
Prince Edward Island	3.0	1.7	2.7	2.5	2.8	3.2	3.6	3.3	3.5	3.5	3.6	3.4	60
Quebec	5.3	5.3	6.0	4.8	5.1	5.4	5.5	5.9	5.9	6.1	6.2	6.0	50
Saskatchewan	6.8	4.8	4.9	4.8	5.4	5.8	6.3	6.3	6.0	6.0	6.3	6.0	50
Alabama	6.6	6.7	6.9	6.3	6.3	6.5	6.4	6.5	6.6	6.5	6.3	6.2	48
Alaska	9.0	8.2	6.9	5.6	5.7	6.3	6.3	6.3	5.6	5.6	5.6	5.6	53
Arizona	6.6	7.0	6.8	6.7	7.1	7.2	7.3	7.5	7.6	7.5	7.5	7.3	29
Arkansas	6.9	6.8	7.2	6.9	7.1	7.1	7.1	7.0	7.0	7.1	6.9	6.7	43
California	6.9	7.4	7.9	7.2	7.3	7.4	7.5	7.7	7.8	7.9	8.1	7.9	13
Colorado	7.6	7.6	7.3	7.4	7.5	7.6	7.7	8.1	8.2	8.3	8.4	8.3	4
Connecticut	6.9	7.5	7.8	7.7	7.8	7.7	7.8	8.0	8.1	8.1	8.3	8.3	4
Delaware	7.9	8.3	8.6	8.5	8.5	8.6	8.6	8.8	8.7	8.7	8.8	8.8	1
Florida	6.8	7.1	7.2	6.5	6.5	6.5	6.6	6.7	6.9	7.0	7.1	7.0	34
Georgia	7.2	7.8	8.1	7.6	7.7	7.8	7.9	8.1	8.2	8.3	8.4	8.3	4
Hawaii	6.7	7.1	7.8	7.3	7.1	7.0	6.9	7.0	6.9	6.9	6.9	6.9	38
Idaho	7.3	7.0	7.1	7.1	7.4	7.3	7.2	7.2	7.2	7.5	7.4	7.2	31
Illinois	8.1	8.2	8.4	8.1	8.2	8.2	8.2	8.3	8.3	8.4	8.3	8.2	7
Indiana	7.8	7.7	8.0	7.6	7.8	7.9	7.8	7.9	8.0	7.9	7.9	7.7	17
Iowa	8.1	7.5	7.7	7.3	7.6	7.5	7.7	7.8	7.7	7.6	7.6	7.5	23
Kansas	7.3	7.2	7.4	7.2	7.2	7.2	7.4	7.6	7.6	7.7	7.6	7.5	23
Kentucky	6.8	6.8	7.4	7.0	7.2	7.0	7.0	7.0	6.9	7.2	7.1	7.0	34
Louisiana	9.0	8.3	7.6	6.6	6.7	7.1	7.1	7.2	7.1	7.3	7.4	7.2	31
Maine	6.3	6.8	7.0	5.9	6.2	6.4	6.2	6.2	6.3	6.5	6.6	6.4	47
Maryland	5.6	6.5	7.4	6.6	6.6	6.6	6.7	6.8	6.8	6.9	6.9	6.9	38
Massachusetts	6.2	7.3	7.5	7.3	7.4	7.5	7.6	7.7	8.0	8.1	8.2	8.1	9
Michigan	7.2	7.6	7.7	7.2	7.6	7.5	7.5	7.5	7.6	7.7	7.6	7.4	28
Minnesota	7.5	7.6	7.9	7.5	7.7	7.7	7.9	8.1	8.2	8.2	8.2	8.1	9
Mississippi	6.3	6.2	6.1	6.0	6.1	6.0	5.8	6.0	6.1	5.9	5.8	5.5	55
Missouri	6.6	6.9	7.2	6.9	7.0	7.1	6.8	7.3	7.3	7.3	7.4	7.2	31
Montana	7.8	6.8	6.5	6.3	6.3	6.0	6.0	6.2	6.2	6.1	6.1	6.1	49
Nebraska	7.9	7.7	7.8	7.7	7.8	7.9	7.9	7.9	8.0	8.0	8.0	7.9	13
Nevada	7.4	7.4	8.2	8.0	8.2	8.3	8.3	8.6	8.5	8.6	8.7	8.6	2
New Hampshire	7.2	8.1	8.3	7.8	7.8	7.9	8.1	8.3	8.4	8.6	8.7	8.6	2
New Jersey	7.5	8.0	8.3	7.8	7.8	7.8	8.0	8.0	8.1	8.2	8.3	8.1	9
New Mexico	6.3	6.0	5.3	5.7	6.3	5.9	6.0	6.3	6.1	5.8	6.0	5.9	52
New York	7.1	7.4	7.6	7.0	7.0	6.9	7.1	7.2	7.4	7.4	7.6	7.5	23
North Carolina	7.7	8.1	8.3	7.7	7.9	7.8	7.7	7.8	8.0	8.0	7.9	7.7	17
North Dakota	8.0	7.0	6.2	6.2	6.5	6.5	6.8	6.5	6.7	6.5	6.8	6.7	43
Ohio	7.5	7.4	7.6	7.3	7.5	7.5	7.5	7.6	7.8	7.8	7.7	7.5	23
Oklahoma	8.4	7.9	7.3	6.8	6.7	6.6	6.8	6.9	6.9	6.8	6.8	6.6	45
Oregon	7.2	7.1	7.4	7.1	7.3	7.3	7.7	7.8	7.7	7.8	7.9	7.6	21
Pennsylvania	7.1	7.0	7.4	6.9	7.0	7.0	7.0	7.1	7.2	7.1	7.1	7.0	34
Rhode Island	6.3	6.8	7.2	6.2	6.3	6.4	6.5	6.7	6.9	6.8	7.2	7.0	34
South Carolina	6.7	7.0	7.3	6.8	6.8	6.9	6.9	7.0	7.1	7.0	7.0	6.8	42
South Dakota	7.2	7.1	7.3	7.4	7.5	7.5	7.6	7.6	7.6	7.5	7.8	7.7	17
Tennessee	6.8	7.2	7.6	7.3	7.4	7.4	7.3	7.4	7.5	7.6	7.4	7.3	29
Texas	8.9	8.5	8.2	7.9	7.9	7.9	7.9	8.2	8.2	8.2	8.2	8.1	9
Utah	6.9	7.0	6.9	7.2	7.5	7.4	7.8	7.9	8.0	8.0	8.0	7.9	13
Vermont	7.0	7.2	7.7	7.2	7.3	7.0	7.0	7.2	7.2	7.1	7.0	6.9	38
Virginia	5.9	6.8	7.3	6.7	6.8	6.5	6.8	6.9	6.9	6.9	7.0	6.9	38
Washington	6.9	6.8	7.4	7.3	7.3	7.1	7.2	7.4	7.6	7.8	7.8	7.7	17
West Virginia	6.9	6.3	6.2	5.3	5.6	5.5	5.5	5.4	5.4	5.4	5.2	5.1	56
Wisconsin	7.4	7.4	7.7	7.5	7.6	7.6	7.7	7.8	7.9	7.8	7.7	7.6	21
Wyoming	9.7	8.7	8.1	7.9	7.8	7.8	7.9	7.9	7.8	7.6	7.8	7.8	16

* Rank out of 60 for year 2001.

Appendix Table 6: Scores for Area 1 on Subnational Index

	1981	1985	1989	1993	1994	1995	1996	1997	1998	1999	2000	2001	Rank*
Alberta	7.4	6.2	5.9	5.6	6.8	7.2	7.6	7.7	7.7	7.8	8.2	7.3	36
British Columbia	5.9	5.7	6.5	5.0	5.2	5.2	5.4	5.4	5.8	6.0	6.2	5.9	51
Manitoba	6.5	5.8	5.4	3.7	4.5	4.7	5.3	5.5	5.9	5.6	5.6	5.6	55
New Brunswick	4.2	4.5	5.0	4.0	4.2	4.5	4.8	4.6	4.9	5.0	5.3	5.2	56
Newfoundland	3.2	3.4	3.3	1.6	1.9	2.3	2.4	2.7	3.8	4.2	4.8	4.3	60
Nova Scotia	3.5	4.9	5.4	4.3	4.6	4.5	5.2	5.0	5.4	5.4	5.9	5.9	51
Ontario	7.1	7.1	7.1	4.5	5.2	5.4	6.1	6.6	6.9	7.3	7.3	7.2	42
Prince Edward Island	3.7	4.0	4.0	2.9	3.6	4.0	4.4	4.5	4.8	4.9	4.7	4.7	58
Quebec	4.1	4.0	5.3	2.8	3.4	3.6	4.1	4.8	5.5	5.7	5.9	5.7	54
Saskatchewan	4.8	4.2	4.6	3.9	5.1	5.3	5.8	6.2	6.0	5.9	6.2	5.8	53
Alabama	7.4	7.8	8.1	7.5	7.6	7.5	7.5	7.7	7.2	7.2	7.1	7.1	44
Alaska	8.4	7.0	5.7	4.0	4.0	4.2	4.5	4.7	4.3	4.3	4.7	4.7	58
Arizona	8.0	8.2	7.3	7.1	7.5	7.6	7.9	8.1	8.4	8.5	8.1	8.1	21
Arkansas	7.8	8.0	8.2	7.6	8.0	7.7	7.7	7.8	8.0	8.0	7.9	7.9	24
California	6.6	6.8	7.0	5.1	5.6	5.6	6.1	6.5	7.1	7.3	7.4	7.4	33
Colorado	8.1	7.7	7.6	7.5	7.7	7.5	7.7	8.2	8.9	8.8	9.0	9.0	2
Connecticut	7.7	8.4	8.3	6.5	6.7	6.7	7.3	7.7	8.0	8.0	8.3	8.3	15
Delaware	6.9	8.3	8.5	8.1	8.3	8.2	8.1	8.4	8.7	8.7	8.8	8.8	6
Florida	8.8	8.8	8.3	7.1	7.7	7.4	7.6	7.8	8.2	8.1	8.3	8.3	15
Georgia	8.3	8.7	8.6	8.2	8.4	8.3	8.3	8.5	8.8	9.0	8.9	8.9	4
Hawaii	7.0	7.7	8.6	6.9	6.7	6.1	6.4	6.7	7.1	7.2	7.4	7.4	33
Idaho	7.6	7.4	7.9	7.3	7.4	6.8	6.7	7.0	7.2	7.4	7.7	7.7	29
Illinois	6.4	7.5	8.2	7.5	7.8	7.6	7.8	8.1	8.3	8.3	8.4	8.4	14
Indiana	7.5	8.3	8.7	8.3	8.4	8.2	8.4	8.6	8.8	8.6	8.6	8.6	10
Iowa	7.4	7.2	7.6	7.1	7.5	7.3	7.7	7.8	7.9	7.8	7.8	7.8	26
Kansas	7.7	8.0	7.7	7.2	7.4	7.3	7.7	8.1	8.3	8.4	8.3	8.3	15
Kentucky	6.9	8.0	8.1	7.6	7.8	7.6	7.7	7.9	8.1	8.0	8.2	8.2	18
Louisiana	9.1	8.0	8.2	7.6	7.9	8.0	8.1	8.3	8.2	8.2	8.2	8.2	18
Maine	6.7	7.0	7.5	5.8	6.3	6.3	6.4	6.5	6.9	7.1	7.2	7.2	42
Maryland	6.9	7.8	7.9	7.0	7.2	7.0	7.2	7.4	7.7	7.9	7.9	7.9	24
Massachusetts	6.8	8.0	7.6	6.7	7.2	7.1	7.6	7.9	8.4	8.4	8.6	8.6	10
Michigan	4.3	6.4	6.3	5.9	6.8	6.6	7.0	7.2	7.5	7.6	7.8	7.8	26
Minnesota	6.7	6.9	7.0	6.2	6.6	6.5	7.0	7.4	7.7	7.8	7.8	7.8	26
Mississippi	7.4	7.6	7.4	7.5	7.8	7.6	7.5	7.0	7.6	7.5	7.3	7.3	36
Missouri	8.0	8.8	8.8	8.3	8.4	8.4	8.5	8.6	8.6	8.5	8.5	8.5	12
Montana	7.3	5.6	5.5	5.5	5.4	5.0	5.1	5.9	6.3	6.3	6.3	6.3	49
Nebraska	8.5	8.1	8.4	8.3	8.5	8.5	8.6	8.6	8.8	8.8	8.8	8.8	6
Nevada	7.0	7.2	7.4	6.2	7.2	7.4	7.8	7.9	8.5	8.3	9.0	9.0	2
New Hampshire	8.1	9.1	8.8	7.4	7.8	8.2	8.5	8.6	8.9	9.0	9.3	9.3	1
New Jersey	6.1	7.4	7.8	6.5	6.9	6.5	6.8	7.3	7.7	7.9	8.0	8.0	22
New Mexico	8.4	7.8	7.2	7.3	7.5	7.0	7.3	7.4	7.3	7.1	7.3	7.3	36
New York	6.0	6.5	6.8	5.1	5.5	5.3	5.9	6.3	6.9	7.1	7.3	7.3	36
North Carolina	8.0	8.6	8.7	7.9	8.1	7.9	8.0	8.2	8.4	8.4	8.2	8.2	18
North Dakota	8.0	6.7	5.8	5.3	6.1	6.6	6.6	6.2	6.6	6.4	6.3	6.3	49
Ohio	5.7	6.6	7.0	5.7	6.2	6.3	6.6	6.9	7.3	7.3	7.3	7.3	36
Oklahoma	8.8	8.2	7.9	7.0	6.9	6.9	7.4	7.8	8.0	7.9	8.0	8.0	22
Oregon	5.1	5.3	6.8	5.8	6.4	6.2	6.2	6.1	6.9	6.9	6.7	6.7	46
Pennsylvania	5.6	6.6	7.4	6.1	6.5	6.4	6.8	7.1	7.5	7.5	7.7	7.7	29
Rhode Island	5.3	6.1	6.5	4.0	4.4	4.1	4.8	5.6	6.4	6.3	6.7	6.7	46
South Carolina	7.5	8.0	8.3	7.4	7.4	7.4	7.4	7.6	7.9	7.8	7.7	7.7	29
South Dakota	7.6	8.3	8.3	8.5	8.5	8.5	8.7	8.7	8.7	8.7	8.9	8.9	4
Tennessee	8.0	8.8	8.7	8.4	8.5	8.4	8.4	8.4	8.8	8.7	8.8	8.8	6
Texas	9.9	9.2	8.7	8.1	8.3	8.3	8.4	8.7	8.8	8.6	8.8	8.8	6
Utah	7.5	7.4	7.1	7.1	7.4	7.5	7.8	7.7	7.9	7.3	7.6	7.6	32
Vermont	5.9	6.4	7.2	5.9	6.3	6.1	6.4	6.7	6.9	6.9	6.8	6.8	45
Virginia	8.4	8.8	8.8	8.2	8.3	8.2	8.2	8.5	8.6	8.5	8.5	8.5	12
Washington	6.4	5.8	6.6	5.5	5.5	4.8	5.5	6.0	6.5	6.4	6.4	6.4	48
West Virginia	5.3	4.9	5.3	3.0	4.2	4.9	4.6	4.5	5.2	5.3	4.9	4.9	57
Wisconsin	6.6	6.3	7.2	6.8	7.1	6.9	7.2	7.4	7.9	7.6	7.4	7.4	33
Wyoming	9.2	7.4	6.8	6.5	6.6	6.6	6.9	7.1	7.1	6.9	7.3	7.3	36

* Rank out of 60 for year 2001.

Appendix Table 7: Scores for Area 2 on All-Government Index

	1981	1985	1989	1993	1994	1995	1996	1997	1998	1999	2000	2001	Rank*
Alberta	5.4	5.9	6.0	5.3	5.4	5.6	5.7	5.5	5.4	5.7	6.4	6.7	2
British Columbia	4.1	4.4	4.8	3.2	2.9	3.0	2.9	2.9	2.9	3.3	3.4	3.9	55
Manitoba	4.3	4.0	4.2	3.1	3.1	3.2	3.5	3.4	3.4	3.4	3.5	3.8	57
New Brunswick	2.5	3.9	4.4	3.2	3.0	3.2	3.2	3.3	3.7	3.8	3.8	4.0	53
Newfoundland	4.3	3.9	4.2	2.3	2.6	2.6	2.6	2.8	3.1	3.3	4.1	3.8	57
Nova Scotia	3.3	3.8	4.6	3.3	3.0	3.3	3.3	3.3	3.4	3.4	3.6	3.9	55
Ontario	4.0	4.4	4.4	3.5	3.4	3.5	3.5	3.3	3.6	3.7	4.1	4.0	53
Prince Edward Island	4.7	4.7	4.9	3.3	3.2	3.2	3.2	3.0	3.2	3.2	3.1	3.3	59
Quebec	3.3	3.3	3.5	2.9	2.8	2.8	2.8	2.7	2.6	2.7	3.0	3.0	60
Saskatchewan	3.9	4.4	4.0	2.9	3.1	3.4	3.6	3.4	3.5	3.8	4.2	4.2	52
Alabama	4.9	5.4	7.3	6.8	6.2	6.2	6.1	6.0	6.1	6.0	5.8	5.8	20
Alaska	6.6	7.0	8.2	6.6	6.4	6.0	6.2	6.0	5.6	6.2	6.2	6.2	11
Arizona	4.5	4.8	6.1	5.8	5.6	5.7	5.7	5.7	5.8	6.0	5.8	5.8	20
Arkansas	5.3	5.1	7.0	6.3	5.9	5.8	5.7	5.7	5.6	5.4	5.4	5.4	36
California	4.9	5.2	7.0	5.8	5.5	5.5	5.5	5.5	5.5	5.6	5.6	5.6	26
Colorado	5.3	5.2	6.7	6.5	6.1	6.1	6.2	6.3	6.3	6.4	6.3	6.3	9
Connecticut	4.3	5.4	7.2	6.0	5.6	5.4	5.5	5.6	5.5	5.5	5.6	5.6	26
Delaware	5.5	5.9	7.9	7.1	6.7	6.9	7.0	7.1	7.0	7.1	7.0	7.0	1
Florida	4.8	5.5	6.9	6.2	5.5	5.5	5.4	5.4	5.2	5.3	5.2	5.2	42
Georgia	5.2	5.9	7.4	6.9	6.4	6.4	6.3	6.4	6.4	6.3	6.2	6.2	11
Hawaii	4.8	5.2	7.1	6.1	5.5	5.4	5.2	5.2	5.3	5.4	5.4	5.6	26
Idaho	5.1	4.9	6.5	6.2	5.7	5.7	5.5	5.4	5.4	5.6	5.6	5.6	26
Illinois	4.8	5.3	7.0	6.6	6.1	6.0	5.9	6.0	6.1	6.0	5.9	5.9	19
Indiana	5.0	5.4	7.3	7.1	6.4	6.4	6.4	6.2	6.4	6.2	6.0	6.0	17
Iowa	5.1	4.8	6.6	6.1	5.8	5.6	5.8	5.9	5.7	5.5	5.5	5.8	20
Kansas	5.0	5.0	6.6	5.8	5.4	5.4	5.5	5.7	5.5	5.5	5.4	5.4	36
Kentucky	5.6	5.7	7.4	6.9	6.3	6.2	6.1	6.1	6.1	6.0	5.8	5.8	20
Louisiana	6.8	6.4	7.9	6.8	6.6	6.7	6.6	6.6	6.2	6.4	6.5	6.5	3
Maine	4.3	4.6	6.3	5.5	4.9	4.8	4.8	4.5	4.4	4.6	4.6	4.8	50
Maryland	4.5	5.1	6.9	6.1	5.5	5.4	5.8	5.7	5.7	5.8	5.7	5.7	25
Massachusetts	4.6	5.6	7.3	6.6	6.0	5.9	6.0	6.0	6.0	6.1	6.2	6.4	5
Michigan	4.3	4.9	6.6	5.9	5.7	5.6	5.5	5.4	5.6	5.5	5.4	5.4	36
Minnesota	4.9	4.9	6.2	5.6	5.2	5.0	5.1	5.1	5.1	5.5	5.5	5.5	33
Mississippi	5.0	5.1	6.8	6.4	6.0	5.9	5.7	5.6	5.4	5.3	5.1	5.1	44
Missouri	5.3	5.6	7.3	6.7	6.4	6.3	6.3	6.3	6.2	6.0	6.0	6.0	17
Montana	5.2	4.5	6.3	5.7	5.1	4.9	4.9	5.0	5.0	5.0	4.9	4.9	48
Nebraska	4.9	4.9	6.5	6.0	5.7	5.6	5.8	5.6	5.6	5.7	5.5	5.5	33
Nevada	4.9	5.5	7.7	6.9	6.4	6.2	6.3	6.1	6.1	6.1	6.2	6.2	11
New Hampshire	4.5	5.9	7.3	5.8	5.9	6.2	6.3	6.3	6.4	6.4	6.5	6.5	3
New Jersey	4.1	4.9	6.6	5.6	5.2	5.3	5.3	5.4	5.3	5.3	5.3	5.3	40
New Mexico	5.7	5.4	6.2	6.5	6.1	5.8	5.6	5.8	5.4	5.6	5.6	5.6	26
New York	4.6	4.7	6.3	5.5	5.2	5.0	5.2	5.3	5.5	5.5	5.5	5.5	33
North Carolina	5.4	5.7	7.6	6.8	6.4	6.4	6.4	6.4	6.2	6.3	6.3	6.3	9
North Dakota	5.6	4.9	5.7	5.8	5.4	5.2	5.4	5.1	5.2	5.0	5.2	5.4	36
Ohio	4.9	4.9	6.6	5.7	5.4	5.3	5.3	5.6	5.7	5.4	5.3	5.3	40
Oklahoma	6.0	5.6	6.6	6.1	5.6	5.5	5.6	5.7	5.6	5.5	5.6	5.6	26
Oregon	4.4	4.8	6.6	6.3	5.9	5.9	6.1	6.1	6.1	6.2	6.1	6.4	5
Pennsylvania	4.6	5.0	6.9	6.3	5.7	5.6	5.6	5.5	5.7	5.7	5.6	5.8	20
Rhode Island	3.9	4.3	6.4	5.1	4.5	4.5	4.5	4.9	5.0	4.7	5.1	5.1	44
South Carolina	5.0	5.2	7.2	6.3	6.0	6.0	5.9	5.8	5.7	5.7	5.6	5.6	26
South Dakota	4.7	5.6	7.3	7.2	6.5	6.4	6.5	6.4	6.0	6.1	6.2	6.2	11
Tennessee	4.8	5.6	7.4	6.5	6.5	6.5	6.3	6.3	6.4	6.3	6.2	6.2	11
Texas	6.2	6.4	7.5	7.1	6.5	6.5	6.6	6.6	6.6	6.3	6.4	6.4	5
Utah	5.0	5.1	6.7	6.4	6.1	6.2	6.4	6.1	6.0	6.0	6.1	6.1	16
Vermont	4.5	4.6	6.8	5.9	5.2	5.0	5.0	4.9	5.0	4.9	4.9	4.9	48
Virginia	5.1	5.7	7.5	7.0	6.3	6.3	6.3	6.1	6.2	6.2	6.1	6.4	5
Washington	4.1	4.5	6.4	5.7	5.1	4.8	4.9	4.9	5.0	5.2	5.0	5.0	46
West Virginia	4.5	4.0	6.6	5.8	5.3	5.2	5.1	4.9	4.8	4.8	4.5	4.5	51
Wisconsin	4.8	4.5	6.4	5.6	5.3	5.4	5.1	5.3	5.3	5.2	5.0	5.0	46
Wyoming	6.5	5.9	7.9	7.5	6.7	6.7	6.6	6.4	6.1	5.8	5.2	5.2	42

* Rank out of 60 for year 2001.

Appendix Table 8: Scores for Area 2 on Subnational Index

	1981	1985	1989	1993	1994	1995	1996	1997	1998	1999	2000	2001	Rank*
Alberta	8.1	7.8	7.3	7.2	7.2	7.3	7.4	7.5	7.5	7.6	7.7	8.2	2
British Columbia	6.0	5.7	6.1	5.2	4.9	5.0	5.0	5.0	5.5	5.4	5.6	6.0	51
Manitoba	6.4	5.5	5.3	4.8	4.8	4.8	5.3	5.3	5.3	5.4	5.4	5.5	56
New Brunswick	6.1	5.6	5.5	4.9	5.0	5.0	5.0	5.4	5.9	6.0	6.0	6.1	49
Newfoundland	5.7	4.8	5.0	4.2	4.3	4.2	4.3	4.8	5.2	5.4	5.7	5.5	56
Nova Scotia	6.2	5.8	5.7	5.5	4.8	5.1	5.4	5.5	5.7	5.7	5.8	5.9	52
Ontario	6.8	6.4	5.7	5.2	5.0	5.3	5.3	5.3	5.6	5.8	5.8	5.8	53
Prince Edward Island	6.1	5.9	5.8	5.5	4.8	5.0	5.2	5.2	5.3	5.4	5.4	5.4	59
Quebec	5.3	4.4	5.0	4.2	4.7	4.5	4.7	4.7	4.6	4.8	4.8	4.9	60
Saskatchewan	6.5	6.0	5.0	4.4	4.6	4.8	5.0	4.9	5.0	5.3	5.2	5.5	56
Alabama	7.9	7.8	7.7	7.5	7.6	7.5	7.5	7.5	7.6	7.5	7.4	7.4	15
Alaska	8.4	8.0	7.7	7.0	7.4	6.8	7.0	6.7	6.5	7.3	7.2	7.2	20
Arizona	7.3	6.7	6.0	6.2	6.4	6.5	6.8	7.1	7.0	7.2	7.1	7.1	22
Arkansas	7.6	7.1	7.2	7.0	7.0	7.0	6.8	6.7	6.7	6.5	6.7	6.7	33
California	6.4	6.3	6.7	6.1	6.2	6.2	6.2	6.3	6.3	6.4	6.4	6.4	39
Colorado	8.1	7.2	6.8	7.0	7.0	7.1	7.2	7.2	7.4	7.4	7.4	7.4	15
Connecticut	7.8	7.7	7.8	7.0	7.0	6.8	6.8	6.7	6.8	6.9	7.1	7.1	22
Delaware	6.7	7.2	7.9	7.7	7.6	7.6	7.9	7.8	7.8	7.9	8.2	8.2	2
Florida	8.2	7.7	7.4	7.0	6.9	6.9	6.9	7.0	6.9	7.0	7.1	7.1	22
Georgia	7.5	7.5	7.3	7.1	7.1	7.1	7.1	7.2	7.4	7.2	7.2	7.2	20
Hawaii	6.1	6.4	6.5	6.1	5.9	5.8	5.6	5.7	5.8	6.2	6.2	6.2	45
Idaho	7.0	6.6	6.4	6.3	6.3	6.3	6.1	6.1	6.1	6.4	6.4	6.4	39
Illinois	7.7	7.6	7.7	7.3	7.4	7.2	7.3	7.4	7.5	7.4	7.4	7.4	15
Indiana	8.1	7.5	7.5	7.8	7.7	7.6	7.8	7.5	7.7	7.6	7.6	7.6	8
Iowa	7.8	6.8	6.7	6.5	6.7	6.6	6.8	6.9	7.1	7.0	7.1	7.1	22
Kansas	6.8	6.5	7.0	6.4	6.3	6.3	6.4	6.5	6.7	6.8	6.8	6.8	30
Kentucky	7.7	7.5	7.3	7.2	7.2	7.1	7.0	7.0	7.1	7.0	7.0	7.0	27
Louisiana	9.1	8.0	7.8	7.6	7.8	7.8	7.7	7.6	7.3	7.5	7.6	7.6	8
Maine	6.0	6.0	6.1	5.6	5.7	5.6	5.7	5.3	5.2	5.5	5.6	5.6	55
Maryland	7.4	7.4	7.5	7.1	7.2	7.1	7.3	7.2	7.2	7.5	7.4	7.4	15
Massachusetts	7.2	7.7	7.7	7.4	7.4	7.3	7.4	7.4	7.6	7.7	7.7	7.7	6
Michigan	6.7	6.9	6.8	6.6	6.9	7.1	7.1	6.9	7.1	7.1	7.0	7.0	27
Minnesota	5.7	6.2	6.2	6.1	6.3	6.0	6.2	6.2	6.2	6.4	6.5	6.5	36
Mississippi	7.4	6.9	6.8	6.7	6.7	6.6	6.5	6.5	6.4	6.3	6.2	6.2	45
Missouri	7.7	7.5	7.4	7.7	7.8	7.5	7.6	7.6	7.6	7.6	7.6	7.6	8
Montana	7.7	6.6	6.1	6.4	6.3	6.2	6.3	6.3	6.4	6.5	6.5	6.5	36
Nebraska	6.3	6.4	6.8	6.5	6.5	6.5	6.5	6.4	6.6	6.8	6.7	6.7	33
Nevada	7.6	7.2	7.5	7.1	7.3	7.0	7.1	7.1	7.2	7.2	7.6	7.6	8
New Hampshire	8.0	8.2	8.0	6.3	7.5	7.6	7.8	8.0	8.1	8.1	8.3	8.3	1
New Jersey	7.4	7.3	7.3	6.5	6.5	6.4	6.4	6.6	6.6	6.7	6.9	6.9	29
New Mexico	7.5	6.9	6.1	6.6	6.6	6.4	6.3	6.5	6.2	6.3	6.2	6.2	45
New York	5.1	5.1	6.1	5.7	5.7	5.7	6.0	6.1	6.3	6.4	6.4	6.4	39
North Carolina	7.5	7.4	7.5	7.1	7.1	7.1	7.1	7.2	7.0	7.2	7.3	7.4	15
North Dakota	8.4	6.5	5.4	6.6	6.7	6.5	6.7	6.4	6.5	6.5	6.6	6.6	35
Ohio	7.8	6.4	6.9	6.3	6.4	6.3	6.3	6.7	6.9	6.6	6.6	6.4	39
Oklahoma	8.0	7.3	6.8	6.8	6.7	6.6	6.7	6.7	6.6	6.7	6.8	6.8	30
Oregon	7.1	6.8	6.6	7.0	7.3	7.3	7.3	7.4	7.5	7.7	7.5	7.5	13
Pennsylvania	7.7	7.5	7.7	7.4	7.4	7.3	7.4	7.2	7.5	7.5	7.5	7.5	13
Rhode Island	5.7	6.0	6.9	5.9	5.5	5.5	5.6	5.7	5.9	6.0	6.2	6.2	45
South Carolina	7.3	7.1	7.0	6.8	6.9	6.8	6.9	6.8	6.8	6.9	6.8	6.8	30
South Dakota	7.6	7.6	7.5	7.7	7.7	7.6	7.7	7.7	7.4	7.6	7.7	7.7	6
Tennessee	8.0	7.8	7.8	6.7	7.7	7.8	7.7	7.7	7.8	7.8	7.8	7.8	4
Texas	9.0	8.3	7.7	7.6	7.6	7.7	7.7	7.7	7.8	7.7	7.8	7.8	4
Utah	7.7	6.8	6.6	6.6	6.9	7.0	7.2	7.0	7.0	7.1	7.1	7.1	22
Vermont	5.3	5.6	6.8	6.3	6.0	5.9	5.9	5.9	6.0	6.1	6.1	6.1	49
Virginia	7.7	7.8	7.7	7.6	7.6	7.5	7.6	7.5	7.5	7.6	7.6	7.6	8
Washington	7.1	6.4	6.4	6.1	6.2	5.8	6.0	6.1	6.3	6.5	6.5	6.5	36
West Virginia	5.7	4.9	6.6	6.1	6.2	6.1	6.2	5.9	5.9	5.8	5.7	5.7	54
Wisconsin	6.6	6.0	6.4	6.2	6.1	6.3	6.0	6.2	6.2	6.2	6.4	6.4	39
Wyoming	8.4	7.1	7.5	7.8	7.7	7.8	7.6	7.5	7.3	7.1	6.3	6.3	44

* Rank out of 60 for year 2001.

Appendix Table 9: Scores for Area 3 on All-Government Index

	1981	1985	1989	1993	1994	1995	1996	1997	1998	1999	2000	2001	Rank*
Alberta	4.1	4.4	4.5	5.1	5.4	5.7	5.9	6.1	6.1	6.0	6.3	6.3	45
British Columbia	3.3	3.6	4.2	4.1	4.2	4.1	4.1	4.2	4.2	4.4	4.6	4.5	56
Manitoba	2.5	2.6	2.6	2.7	2.8	2.9	3.0	3.2	3.4	3.1	3.3	3.2	60
New Brunswick	2.3	3.1	4.0	4.1	4.2	4.4	4.5	4.5	4.7	4.9	4.9	5.0	54
Newfoundland	1.9	2.7	3.7	3.7	3.8	4.2	4.1	4.0	4.2	4.7	4.9	4.9	55
Nova Scotia	1.9	3.1	4.3	4.8	5.0	5.5	5.6	5.6	5.8	6.1	6.3	6.4	42
Ontario	4.6	4.9	5.1	4.6	4.5	4.6	4.8	5.0	5.1	5.3	5.4	5.4	53
Prince Edward Island	3.6	3.5	3.2	3.1	2.8	3.2	3.3	3.1	3.3	3.6	3.8	3.7	59
Quebec	1.6	2.5	2.8	2.8	2.9	3.1	3.2	3.3	3.6	3.6	3.8	3.8	58
Saskatchewan	2.7	3.2	3.5	3.6	3.8	3.9	4.0	4.2	4.2	4.0	4.2	4.1	57
Alabama	7.0	7.4	7.7	7.8	7.9	8.1	8.2	8.3	8.4	8.3	8.5	8.5	1
Alaska	5.6	6.0	6.2	6.3	6.2	6.2	6.4	6.5	6.4	6.4	6.5	6.5	38
Arizona	6.9	7.4	7.6	7.6	7.7	7.8	7.9	8.0	8.0	8.0	8.1	8.1	4
Arkansas	5.0	5.4	5.9	6.1	6.1	6.3	6.5	6.5	6.4	6.4	6.6	6.5	38
California	5.1	5.8	5.9	6.1	6.2	6.3	6.4	6.4	6.4	6.4	6.6	6.5	38
Colorado	6.9	7.2	7.6	7.9	7.9	8.0	8.1	7.9	8.0	8.0	8.2	8.2	3
Connecticut	5.4	6.3	6.7	6.9	6.9	7.1	7.3	7.3	7.3	7.2	7.3	7.3	14
Delaware	6.2	6.7	7.1	7.2	7.3	7.5	7.5	7.6	7.5	7.5	7.6	7.7	10
Florida	7.0	7.3	7.4	7.4	7.4	7.5	7.6	7.6	7.7	7.7	7.8	7.8	9
Georgia	6.2	6.2	6.6	7.0	7.0	7.2	7.2	7.4	7.4	7.4	7.6	7.4	12
Hawaii	4.6	5.3	5.7	5.7	5.8	6.0	6.2	6.0	6.1	6.3	6.4	6.4	42
Idaho	5.4	6.0	6.0	6.3	6.5	6.7	6.7	6.7	6.7	6.7	7.0	7.0	25
Illinois	5.4	5.8	6.0	6.3	6.4	6.5	6.6	6.6	6.5	6.6	6.6	6.7	32
Indiana	5.7	6.4	6.3	6.8	6.9	7.1	7.3	7.3	7.3	7.0	7.1	7.2	16
Iowa	6.6	6.9	5.5	5.9	6.0	6.1	6.2	6.2	6.2	6.2	6.3	6.4	42
Kansas	6.1	6.7	6.5	6.9	6.9	7.0	7.1	7.3	7.4	7.3	7.5	7.4	12
Kentucky	5.5	5.9	5.8	6.1	6.1	6.2	6.3	6.5	6.4	6.4	6.5	6.5	38
Louisiana	7.1	7.6	7.7	7.7	7.7	7.9	7.9	8.0	8.0	8.0	8.1	8.0	6
Maine	4.1	5.2	5.7	5.8	5.8	5.9	6.0	6.1	6.1	6.0	6.2	6.3	45
Maryland	4.1	5.2	5.7	5.8	5.9	6.0	6.1	6.1	6.2	6.1	6.3	6.3	45
Massachusetts	4.9	6.1	6.4	6.5	6.6	6.7	6.8	6.8	6.8	6.9	7.0	6.9	28
Michigan	4.9	5.7	6.2	6.6	6.7	6.8	6.8	6.7	6.7	6.8	6.9	6.9	28
Minnesota	5.0	5.6	6.0	6.0	6.1	6.3	6.4	6.5	6.5	6.5	6.7	6.7	32
Mississippi	7.3	7.6	7.7	7.8	7.9	8.0	8.0	8.0	8.0	8.0	8.1	8.1	4
Missouri	7.4	7.7	6.7	6.9	6.9	7.0	7.1	7.1	7.1	7.2	7.3	7.3	14
Montana	5.4	5.2	5.2	5.4	5.6	5.8	5.9	5.9	5.9	5.9	6.1	6.2	48
Nebraska	6.2	6.6	6.3	6.4	6.6	6.7	6.9	6.9	6.7	6.9	7.0	7.1	22
Nevada	5.9	6.4	6.7	6.7	6.7	6.7	6.7	6.7	7.0	6.9	7.1	7.2	16
New Hampshire	5.4	6.4	6.4	6.5	6.4	6.4	6.6	6.7	6.6	6.7	6.8	6.8	31
New Jersey	4.9	5.7	6.1	6.1	6.1	6.2	6.3	6.4	6.4	6.5	6.7	6.7	32
New Mexico	5.4	5.9	6.3	6.5	6.5	6.6	6.7	6.8	6.8	6.8	7.1	7.1	22
New York	4.2	5.0	5.4	5.5	5.6	5.8	5.9	6.0	6.2	6.2	6.2	6.1	51
North Carolina	5.6	6.3	6.7	6.7	6.8	7.0	7.1	7.1	7.1	7.2	7.2	7.2	16
North Dakota	5.4	5.7	5.7	6.0	6.1	6.2	6.4	6.3	6.4	6.4	6.7	6.6	36
Ohio	5.2	5.8	5.7	5.9	6.0	6.2	6.2	6.4	6.4	6.5	6.6	6.6	36
Oklahoma	6.1	6.4	6.3	6.5	6.5	6.6	6.6	6.7	6.7	6.8	7.0	7.0	25
Oregon	4.6	5.2	5.1	5.6	5.7	5.8	6.1	6.0	6.1	6.1	6.2	6.2	48
Pennsylvania	5.1	6.0	6.4	6.7	6.7	6.9	7.0	7.0	7.1	7.1	7.2	7.2	16
Rhode Island	4.8	5.3	5.7	5.9	5.9	6.0	6.0	6.1	6.1	6.2	6.3	6.2	48
South Carolina	7.6	8.0	8.1	8.1	8.1	8.2	8.3	8.4	8.4	8.5	8.4	8.4	2
South Dakota	6.5	6.9	7.0	7.4	7.5	7.7	7.8	7.8	7.8	7.9	8.1	8.0	6
Tennessee	6.8	7.2	7.4	7.6	7.6	7.7	7.8	7.9	7.9	8.0	8.0	8.0	6
Texas	6.9	7.2	6.6	6.5	6.6	6.7	6.8	6.9	6.9	6.9	7.0	7.1	22
Utah	5.1	5.9	5.8	6.0	6.2	6.4	6.6	6.6	6.7	6.8	6.9	6.9	28
Vermont	5.9	6.6	7.0	7.1	7.1	7.1	7.2	7.3	7.3	7.3	7.2	7.2	16
Virginia	5.3	6.2	6.7	6.4	6.5	6.7	6.8	6.9	6.9	6.9	7.1	7.2	16
Washington	4.9	5.5	5.4	5.5	5.5	5.7	5.8	5.9	6.0	5.8	6.0	6.0	52
West Virginia	4.9	5.4	5.9	6.0	6.1	6.4	6.4	6.5	6.6	6.5	6.6	6.7	32
Wisconsin	5.2	5.9	6.2	6.4	6.6	6.7	6.7	6.7	6.7	6.8	6.9	7.0	25
Wyoming	7.1	7.0	7.2	7.5	7.6	7.7	7.8	8.0	8.0	8.0	8.2	7.7	10

* Rank out of 60 for year 2001.

Appendix Table 10: Scores for Area 3 on Subnational Index

	1981	1985	1989	1993	1994	1995	1996	1997	1998	1999	2000	2001	Rank*
Alberta	3.8	4.1	4.2	4.8	5.2	5.5	5.6	5.9	5.9	5.9	6.2	6.1	48
British Columbia	3.1	3.4	4.1	3.9	4.0	3.9	3.9	4.0	4.0	4.2	4.4	4.3	56
Manitoba	2.6	2.5	2.5	2.6	2.6	2.7	2.8	3.0	3.1	2.8	3.0	2.9	60
New Brunswick	2.1	3.1	3.9	4.0	4.0	4.3	4.3	4.3	4.5	4.7	4.8	4.8	54
Newfoundland	2.0	2.7	3.6	3.6	3.6	3.9	3.9	3.7	3.9	4.4	4.7	4.6	55
Nova Scotia	2.1	3.2	4.3	4.9	5.0	5.5	5.6	5.6	5.8	6.0	6.2	6.3	44
Ontario	4.7	4.9	5.0	4.5	4.4	4.5	4.8	4.9	5.1	5.3	5.4	5.4	53
Prince Edward Island	3.5	3.6	3.3	3.2	3.0	3.3	3.4	3.3	3.5	3.6	3.9	3.8	57
Quebec	1.4	2.2	2.6	2.5	2.5	2.7	2.9	3.1	3.3	3.3	3.6	3.6	59
Saskatchewan	2.5	2.9	3.2	3.2	3.4	3.5	3.7	3.9	3.9	3.7	3.9	3.7	58
Alabama	7.1	7.5	7.8	7.8	7.9	8.0	8.2	8.3	8.3	8.3	8.5	8.5	1
Alaska	5.9	6.2	6.4	6.5	6.4	6.4	6.5	6.7	6.5	6.5	6.6	6.6	34
Arizona	7.0	7.4	7.7	7.6	7.6	7.7	7.9	7.9	8.0	8.0	8.1	8.1	3
Arkansas	5.0	5.4	5.8	6.0	6.1	6.2	6.4	6.4	6.3	6.3	6.5	6.4	42
California	5.1	5.8	6.0	6.1	6.1	6.2	6.4	6.4	6.3	6.3	6.5	6.4	42
Colorado	7.0	7.3	7.6	7.9	8.0	8.1	8.1	7.9	8.0	8.0	8.2	8.1	3
Connecticut	5.4	6.3	6.7	6.9	6.9	7.0	7.2	7.2	7.2	7.1	7.3	7.2	15
Delaware	6.1	6.6	7.1	7.1	7.2	7.4	7.5	7.5	7.4	7.4	7.5	7.6	10
Florida	7.0	7.4	7.4	7.4	7.4	7.5	7.5	7.6	7.6	7.7	7.7	7.7	9
Georgia	6.3	6.3	6.7	7.0	7.1	7.2	7.2	7.4	7.4	7.4	7.6	7.3	12
Hawaii	5.0	5.7	6.0	5.9	6.0	6.3	6.4	6.3	6.3	6.5	6.6	6.6	34
Idaho	5.4	6.0	6.0	6.3	6.4	6.6	6.7	6.6	6.6	6.6	6.9	6.9	25
Illinois	5.4	5.8	6.0	6.3	6.4	6.5	6.5	6.6	6.4	6.5	6.6	6.6	34
Indiana	5.6	6.3	6.3	6.7	6.9	7.0	7.2	7.3	7.2	7.0	7.0	7.1	18
Iowa	6.5	6.7	5.4	5.7	5.8	5.9	6.0	6.1	6.1	6.1	6.2	6.2	46
Kansas	6.0	6.6	6.4	6.7	6.8	6.9	7.0	7.2	7.3	7.2	7.3	7.3	12
Kentucky	5.6	5.9	5.9	6.1	6.1	6.2	6.3	6.4	6.3	6.4	6.4	6.5	40
Louisiana	7.0	7.4	7.5	7.5	7.5	7.7	7.7	7.8	7.8	7.8	7.9	7.8	8
Maine	4.2	5.3	5.8	5.8	5.8	5.9	6.0	6.0	6.1	6.0	6.2	6.3	44
Maryland	4.7	5.7	6.1	6.3	6.3	6.4	6.4	6.4	6.5	6.5	6.7	6.7	30
Massachusetts	4.9	6.1	6.4	6.5	6.6	6.7	6.8	6.8	6.8	6.9	7.0	6.8	29
Michigan	4.7	5.6	6.1	6.4	6.6	6.7	6.7	6.6	6.6	6.7	6.8	6.7	30
Minnesota	4.9	5.5	5.9	5.9	6.0	6.2	6.3	6.4	6.4	6.4	6.6	6.6	34
Mississippi	7.3	7.5	7.6	7.7	7.8	7.9	7.9	7.9	7.8	7.9	7.9	7.9	7
Missouri	7.5	7.8	6.8	6.9	6.9	7.0	7.1	7.1	7.1	7.1	7.3	7.2	15
Montana	5.5	5.2	5.3	5.4	5.6	5.8	5.9	5.9	5.9	5.9	6.1	6.1	48
Nebraska	6.1	6.5	6.2	6.3	6.5	6.6	6.8	6.8	6.6	6.8	6.9	7.0	22
Nevada	5.9	6.4	6.7	6.7	6.7	6.7	6.7	6.7	7.0	6.9	7.1	7.1	18
New Hampshire	5.4	6.3	6.3	6.4	6.3	6.4	6.6	6.6	6.6	6.6	6.8	6.7	30
New Jersey	4.8	5.7	6.1	6.0	6.0	6.1	6.2	6.3	6.4	6.5	6.6	6.7	30
New Mexico	5.6	6.0	6.3	6.6	6.5	6.6	6.7	6.8	6.8	6.8	7.1	7.0	22
New York	4.1	4.9	5.3	5.4	5.5	5.6	5.8	5.9	6.0	6.1	6.1	6.0	51
North Carolina	5.5	6.2	6.7	6.6	6.7	6.9	7.0	7.0	6.9	7.1	7.2	7.1	18
North Dakota	5.4	5.7	5.7	6.0	6.1	6.2	6.4	6.3	6.4	6.4	6.7	6.6	34
Ohio	5.1	5.7	5.7	5.8	5.9	6.1	6.2	6.3	6.4	6.4	6.6	6.5	40
Oklahoma	6.1	6.4	6.3	6.5	6.5	6.6	6.6	6.7	6.7	6.7	7.0	6.9	25
Oregon	4.6	5.1	5.1	5.6	5.6	5.7	6.0	6.0	6.1	6.1	6.2	6.1	48
Pennsylvania	5.1	6.1	6.5	6.7	6.8	6.9	7.0	7.0	7.1	7.1	7.2	7.2	15
Rhode Island	4.7	5.3	5.8	5.9	5.9	6.0	6.1	6.1	6.2	6.2	6.3	6.2	46
South Carolina	7.5	7.9	8.0	8.0	8.0	8.1	8.2	8.2	8.2	8.3	8.3	8.2	2
South Dakota	6.6	6.9	7.0	7.5	7.6	7.8	7.8	7.8	7.9	7.9	8.2	8.0	5
Tennessee	6.9	7.3	7.4	7.6	7.6	7.7	7.8	7.8	7.9	7.9	7.9	8.0	5
Texas	6.9	7.2	6.6	6.5	6.5	6.6	6.8	6.8	6.8	6.8	6.9	7.0	22
Utah	5.4	6.2	6.0	6.1	6.3	6.5	6.6	6.7	6.7	6.8	6.9	6.9	25
Vermont	5.8	6.5	7.0	7.1	7.1	7.1	7.1	7.2	7.2	7.2	7.2	7.1	18
Virginia	5.7	6.6	7.0	6.7	6.8	7.0	7.1	7.1	7.1	7.1	7.3	7.3	12
Washington	5.0	5.6	5.5	5.5	5.5	5.6	5.8	5.8	5.9	5.8	6.0	5.9	52
West Virginia	4.8	5.3	5.8	5.9	6.0	6.3	6.3	6.4	6.6	6.4	6.6	6.6	34
Wisconsin	5.0	5.7	6.1	6.3	6.4	6.6	6.6	6.6	6.6	6.7	6.8	6.9	25
Wyoming	7.0	6.9	7.0	7.4	7.4	7.5	7.7	7.8	7.8	7.9	8.0	7.5	11

* Rank out of 60 for year 2001.

Appendix C: Methodology

To avoid subjective judgments, objective methods were used to calculate and weight the variables. For all variables, 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 variable, V_{min} is the smallest, and V_i is the observation to be transformed. The inverse formula is used where a higher number indicates superior performance. For each variable, the mini-max calculation included all data for all years to allow comparisons over time.

To transform the individual variables into areas and overall summary indexes, Areas 1, 2, and 3 were equally weighted, and each of the variables within each area was equally weighted. For example, the weight for Area 1 was 33.3%. Area 1 has two variables, each of which received equal weight in calculating Area 1, or 16.7% in calculating the overall index.

Calculating the income tax variable was more complicated. The variable examining the top marginal income tax rate and 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 2001 Canadian dollars by using the implicit chain price index and then converted into US dollars using the average US/Canada exchange rate for each year. US nominal thresholds were converted into real 2001 US dollars using the Chain-type Quantity 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 Area 2B, Top Marginal Income Tax Rate and the Income Threshold at Which It Applies, at an all-government level; matrix 2 was used to calculate the score for Area 2B at a subnational level.

In setting the threshold levels for income taxes at the subnational level, we faced an interesting quandary. In the United States, state thresholds were, with rare exceptions, below US federal thresholds. 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 a subnational level since, when a provincial threshold is above the national level, the cause is typically the imposition of a relatively small surcharge on high-income earners. 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 marginal income tax rate of, say, 12.5% for incomes over $50,000. Let's say the jurisdiction imposes a surcharge for income earners above $100,000, increasing the marginal 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 because of the increase in the threshold level.

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

Matrix 1: Income Tax Matrix for Area 2B: All-Government Level

	Income Threshold Level (US$2001)		
Top Marginal Tax Rate	**Less than $50,000**	**$50,000 to $100,000**	**More than $100,000**
27% or less	10.0	10.0	10.0
27% to 30%	9.0	9.5	10.0
30% to 33%	8.0	8.5	9.0
33% to 36%	7.0	7.5	8.0
36% to 39%	6.0	6.5	7.0
39% to 42%	5.0	5.5	6.0
42% to 45%	4.0	4.5	5.0
45% to 48%	3.0	3.5	4.0
48% to 51%	2.0	2.5	3.0
51% to 54%	1.0	1.5	2.0
54% to 57%	0.0	0.5	1.0
57% to 60%	0.0	0.0	0.5
60% or more	0.0	0.0	0.0

Matrix 2: Income Tax Matrix for Area 2B: Subnational Level

	Income Threshold Level (US$2001)		
Top Marginal Tax Rate	**Less than $50,000**	**$50,000 to $100,000**	**More than $100,000**
1.5% or less	10.0	10.0	10.0
1.5% to 3.0%	9.0	9.5	10.0
3.0% to 4.5%	8.0	8.5	9.0
4.5% to 6.0%	7.0	7.5	8.0
6.0% to 7.5%	6.0	6.5	7.0
7.5% to 9.0%	5.0	5.5	6.0
9.0% to 10.5%	4.0	4.5	5.0
10.5% to 12.0%	3.0	3.5	4.0
12.0% to 13.5%	2.0	2.5	3.0
13.5% to 15.0%	1.0	1.5	2.0
15.0% to 16.5%	0.0	0.5	1.0
16.5% to 18.0%	0.0	0.0	0.5
18.0% or more	0.0	0.0	0.0

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

Appendix D: Adjustment Factors

Due to constitutional differences and differences in policy, in the United States, subnational jurisdictions take a proportionately smaller share of overall government spending than in Canada. In 1999, for instance, provinces and local governments accounted for about 78% of government consumption in Canada, while, in the United States, state and local government are responsible for 73% of government consumption, just 93% of the level in Canada to be precise: 0.73/0.78 = 0.93. This is what we term the adjustment factor or, put more precisely, 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 0.93 so that it will be comparable to United States data.

At the subnational level, similar adjustment factors are calculated for each year for each variable in Areas 1 and 2 as well as for variable 3B: Government Employment as a Percentage of Total State/Provincial Employment. For example, the adjustment factor for 2A: Total Government Revenue from Own Source as a Percentage of GDP, at a subnational level is calculated as average total government revenue at a state level as a percentage of average total government revenue at all-government levels in the United States divided by average total government revenue at a provincial level as a percentage of average total government revenue at all-government level in Canada.

No adjustment factor is necessary at the all-government level because every level of government is counted. Note that 2D: Sales Tax as a Percentage of GDP is not adjusted because the United States does not have a federal 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 spending categories were not strictly comparable between Canada and the United States. This required the use of judgment in some cases. Fortunately, with one exception, these problems arose with minor-subcomponents of variables which typically represent only 1% or 2% of the overall size of the variable. The exception was accounting for medical care spending, which 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 variable.

A further complication arose in applying the adjustment factor to the income tax variable at the sub-national level. To construct this adjustment factor, the Canadian top marginal tax rates at a subnational level are multiplied by the ratio of average personal tax revenue at a state level as a percentage of average personal tax revenue at an all-government level in US and average personal tax revenue at a provincial level as a percentage of average personal tax revenue at an all-government level in Canada. For example, in 1999, in Canada, provinces collected 39.40% of the income tax revenue raised in Canada. In the United States, states collected 18.35% of all income taxes. Thus, 18.35/39.40 equals 46.57%. In Ontario, the top marginal rate in 1999 was 17.87%. This is reduced to 8.32% when the adjustment factor is applied.

Appendix E: Explanation of the Variables & Data Sources

Area 1. Size of Government

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

The Canadian data at a subnational and all-government level are from the Provincial Economic Accounts, Statistics Canada. General consumption expenditure at a provincial and local (subnational) level is defined as net current expenditure by provincial and local governments (i.e., total expenditures minus transfers to persons, transfers to businesses, transfers to other governments, and interest on public debt). At an all-government level, consumption expenditure is defined as net current expenditure by federal, provincial, and local governments where the definition of net expenditure is the same as at a subnational level. In order to account for the different split of responsibilities between the federal and other levels of government in Canada and the United States, an adjustment factor was applied to the Canadian data (see Appendix D: Adjustment Factors for more information).

The US data for general consumption expenditures at a state and local level are from the US Census Bureau (various files available online http://www.census.gov/govs/www/estimate.html). The 1980's data are from US Census Bureau "ftp" files (ftp://ftp.census.gov/pub/outgoing/). General government consumption expenditures at a state and local level are defined as other direct general expenditures minus welfare (i.e., total expenditures minus expenditures on utilities, insurance trust—worker's compensation and employment insurance—capital outlays, and direct—not intergovernmental—public welfare payments). The data for government expenditures at a federal level are from *Facts and Figures on Government Finance*, The Tax Foundation (various issues). The data from 1998 to 2000 are from the *Consolidated Federal Funds Report*, US Census Bureau (various issues). General consumption expenditure at an all-government level is defined as consumption expenditure at a state and local level plus federal consumption expenditure (i.e., federal salaries and wages plus federal procurement).

1B: Transfers and Subsidies as a Percentage of GDP

The Canadian data for transfers at a subnational and all government level are from Provincial Economic Accounts, Statistics Canada. Transfers are defined as current transfers to persons and businesses.

The US data for transfers at a state and local level are from the US Census Bureau "ftp" files (ftp://ftp.census.gov/pub/outgoing/). At a subnational level, transfers are defined as total insurance trust benefits (expenditures) plus total assistance and subsidies minus total retirement expenditures. At an all-government level, transfers are calculated as total transfer payments by federal, state, and local governments to persons and businesses. The data for transfers at an all-government level are from the Bureau of Economic Analysis (http://www.bea.doc.gov/bea/regional/spi).

Area 2: Takings and Discriminatory Taxation

2A: Total Government Revenue from Own Source as a Percentage of GDP

The Canadian data, at a subnational level, are from Financial Management System, Public Institutions Division, Statistics Canada. At a subnational level, own source revenue is defined as a sum of income taxes, consumption taxes, property and other taxes, health insurance premiums, contributions to social insurance plans, taxes

from sales of goods and services, investment income, and other own-source revenue. The data for own-source revenue at an all-government level are from Provincial Economic Accounts, Statistics Canada. At an all-government level, own-source revenue is defined as a sum of direct taxes from persons, direct taxes from businesses, taxes from non-residents, contributions to social insurance plans, indirect taxes, other transfers from persons and investment income.

The US data at a subnational level are from US Census Bureau "ftp" files (ftp://ftp.census.gov/pub/outgoing/). Own-source revenue at a subnational level is calculated as general state and local own-source revenue plus insurance trust, liquor store, and utility revenue. Own-source revenue at an all-government level is calculated as own-source revenue at a subnational level plus own-source revenue at a federal level. The data for the federal own-source revenue are from *Facts and Figures on Government Finance*, The Tax Foundation (various issues).

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

The Canadian data at a subnational and all-government level are from the *Finances of the Nation*, Canadian Tax Foundation (various issues). Thresholds are first converted into 2001 Canadian dollars using CPI index from Statistics Canada (Table 380-0056). Then the thresholds were transformed into US currency using the average exchange rate for the appropriate year retrieved from the Pacific Exchange Rate Service (pacific.commerce.ubc.ca/xr/data.html).

The US data are from *Facts and Figures on Government Finances*, The Tax Foundation (various issues). The federal tax rates, for some of the years, are from Internal Revenue Service , Department of the Treasury (various issues). Some of the data for state top marginal tax rates and thresholds at which these rates apply are from *Significant Features of Fiscal Federalism*, Advisory Commission on Intergovernmental Relations (various issues), and Federation of Tax Administrators web site (http://www.taxadmin.org). Thresholds are converted into 2001 US dollars using Consumer Price Indexes from the Bureau of Labor Statistics, US Department of Labor, <http: www.bls.gov/cpi> (as of June 16, 2003).

2C: Indirect Tax Revenue as a Percentage of GDP

The Canadian data at a subnational and all-government level are from Provincial Economic Accounts, Statistics Canada. Indirect tax revenue at a subnational level is defined as total indirect tax revenue plus employer contributions to worker's compensation minus sales tax revenue. Indirect tax revenue at an all-government level is defined as indirect tax revenue at a subnational level plus federal indirect tax, employer and employee contributions to employment insurance, employer and employee contributions to Canada Pension Plan (plus employer and employee contributions to Quebec Pension Plan for Quebec) minus federal sales tax revenue.

The US data at a subnational level are from US Census Bureau "ftp" files (ftp://ftp.census.gov/pub/outgoing/). Indirect tax revenue at a subnational level is defined as the sum of property tax, total selective sales tax, total license tax, liquor store revenue, unemployment payroll tax, and total worker compensation revenue minus the alcohol beverage and tobacco tax revenue at a state and local level. The data at a federal level are from *Facts and Figures on Government Finances*, Tax Foundation (various issues). The indirect tax at an all-government level is defined as indirect tax at a subnational level plus social insurance, custom duties, airport trust fund, highway trust fund, other excise, and estate and gift tax revenue at a federal level.

2D: Sales Taxes Collected as a Percentage of GDP

The Canadian data at a subnational and all-government level are from Provincial Economic Accounts, Statistics Canada. Sales tax at a subnational and all-government level is defined as retail sales tax revenue at local and provincial level and local, provincial, and federal level respectively.

The US data at a subnational level are from US Census Bureau "ftp" files (ftp://ftp.census.gov/pub/outgoing/). The sales tax is defined as a general sales tax revenue. Note that the United States does not have a federal sales tax.

Area 3: Labor Market Freedom

3A: Minimum Wage Legislation

Provincial minimum wage data are from Human Resources Development Canada (http://206.191.16.130/psait_spila/lmnec_eslc/eslc/salaire_minwage/report2/report2_e.cfm). This variable 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.

US minimum wage data are from *The Book of the States*, Council of State Governments (various issues) and the *Monthly Labor Review*, Bureau of Labor Statistics (stats.bls.gov/opub/mlr/mlrhome.htm). Note that federal minimum wage is not used at an all-government level; the minimum wage at state or provincial level is used instead because the federal minimum wage applies to a very small percentage of working population.

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

The Canadian data at a subnational and all-government level are from Provincial Economic Accounts, Statistics Canada (total employment data) and from Financial Management System, Public Institutions Division, Statistics Canada (government employment data).

The US data for government employment and total state employment are from the US Census Bureau (www.bea.doc.gov). Note that neither the United States nor Canadian government employment at a federal level includes military employment.

3C: Occupational Licensing

Canadian information was found in *Occupational Regulation in Canada* by Evans and Stanbury and updated by Faisal Arman using provincial statute records. The US information was from *The Book of the States* (various issues) and the *Directory of Professional and Occupational Regulation in the United States and Canada*, CLEAR.

The occupational licensing variable does not look exhaustively at the number of regulated occupations but rather at a subset of occupations. To be included in this subset, the occupation needs to be regulated in at least one case in both Canada and the United States. This was done because the US data was more extensive and comprehensive, with multiple subprofessionals being recorded as regulated. If each subprofession were counted, this would tend to inflate the US numbers but it would not be accurate to claim that more occupations were regulated than in Canada. Another unfortunate complication is that the data for the early time period are less complete than the later information. The assumption used to compute a score, which would tend to bias the results, is that any occupation that does not have information recorded for it in the early period was regulated similarly as it was in the later period.

3D Union density

Data on union density for Canada: Statistics Canada, CANSIM II; Statistics Canada, *Labour Force Historical Review 2002* (CD-ROM). Data for the United States: Guillard, Marie-Claire, Economist, Local Area Unemployment Statistics, Bureau of Labor Statistics, US Department of Labor, specific data request (June 16, 2003); for union data for 1983, 1985, and 1988: BNA Plus, The Bureau of National Affairs Inc., specific data request (November 19, 2003).

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 population. The manufacturing sector did not prove significant while the government sector proved highly significant. Thus, the scores were determined holding public-sector employment constant.

Data Sources for Other Variables

The Gross Domestic Product and population data for Canadian provinces are from Provincial Economic Accounts, Statistics Canada. The implicit chained price index was used to transform the nominal GDP into real GDP values. After the Canadian per-capita GDP was deflated, it was transformed into US dollars using Statistics Canada (2002), *Purchasing Power Parities and Real Expenditures, United States and Canada, 1999–2001.*

The US Gross State Product and population data are from the Bureau of Economic Analysis (http://www.bea.doc.gov). The GSP deflator (Quantity Index for Real GSP) from the Bureau of Economic Analysis (http://www.bea.doc.gov/bea/regional/gsp/action.cfm) was used to transform nominal GSP values into real US dollars.

The Canadian data for high school graduates as a percentage of population (25 years old and older) are from two sources. The data on high school graduates are from Catalogue #81-229-Education, Statistics Canada. Note that the Canadian data include public, private, and federal schools and schools for visually and hearing impaired as well as schools overseas. The data on population 25 years and older are from Statistics Canada on line (CANSIM label numbers are D985116, D985398, D985680, D985962, D986244, D986526, D986808, D987090, D987372, and D987654).

The data on US public high school graduates are from the Statistical Abstract of the United States (various issues) for the period from 1981 to 1993. From 1993 to 2000, data on public high school graduates are from National Center for Education Statistics, US Department of Education (http://nces.ed.gov/quicktables). Private high-school graduates data are from Statistical Abstract of the United States for 1981 and from *Private High School Survey*, National Center for Education Statistics, US Department of Education (various issues) from 1985 to 2000. The data on population 25 years and older are from Population Division, the US Census Bureau (http://eire.census.gov/popest/archives/1990.php for 1990 to 2000 data and http://eire.census.gov/popest/archives/1980.php for 1980 to 1990 data).

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