

## 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 but ranks lower on the taxation variable, because of the high level of federal taxation. The opposite pattern holds in the subnational index, spending scores are lower than taxation scores.

#### **British Columbia**

In the all-government index, British Columbia maintained third spot among the provinces in economic freedom throughout the 1990s. However, its ranking dropped on the subnational index from 52<sup>nd</sup> spot in 1993 to 56<sup>th</sup> in 2000. British Columbia's relative affluence also declined sharply over the period, from 15% above the national average in 1993 to a virtual tie with the national average in 2000. 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 2000, the province's unemployment rate was 0.4 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 2000 was significantly 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 \$1,500 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 both indexes. 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 over 80% in 2000. This progress stalled after 1995, the highwater 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 nation, 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 2000, Newfoundland made substantive improvements and its ranking rose to a middling position among the provinces. 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. However, Nova Scotia's climb in the rankings ended in 1993. It had the same relative ranking in 2000. Nova Scotia's per-capita GDP also climbed significantly relative to the national average until 1993 and has since stagnated 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 three provinces, Alberta, British Columbia, and Nova Scotia in 1993. Through the rest of the 1990s, Ontario's score climbed in both indexes. 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 slightly more than 1.0 percentage points below the Canadian average.

### **Prince Edward Island**

Prince Edward Island (PEI) and Quebec are the worst performing provinces. Prince Edward Island began the period with a score close to the bottom among Canadian provinces in both indexes. It ended the period dead last in the all-government index and second last in 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. Since the 1980s, PEI's per-capita GDP has remained fairly constant at about 80% of the Canadian average, give or take a couple of percentage points.

### **Quebec**

In every year, Quebec has scored dead last in economic freedom in the subnational index. It has always been close to the bottom of the all-government index and, since 1995, has been second or third last in that index. Throughout the full period, Quebec's unemployment rate has remained remarkably consistent at about two percentage points above the Canadian average. However, in the late 1980s and early 1990s, Quebec's per-

capita GDP rose slightly relative to the rest of Canada, bringing its per-capita GDP up to the national average. Since then, Quebec's per-capita GDP declined relative to the Canadian average and, in 2000, was about 2 percentage points below 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 towards the middle of the 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 1996, Saskatchewan's unemployment rate was consistently about 3 percentage points lower than the Canadian average. By 2000, that gap had shrunk to 2 percentage points.

## **The United States**

### **Alabama**

Alabama ranked 15<sup>th</sup> overall in terms of economic freedom at the all-government level, and was 11<sup>th</sup> in the subnational index. Its comparatively high overall ranking came in part because of its showing in labor market freedom—it was the highest ranked state or province in both all-government and state and local (subnational) in 2000. It placed well in takings and discriminatory taxation (10<sup>th</sup> state and local, 15<sup>th</sup> all-government). Only a handful of states had a lower effective state and local tax burden. Alabama has a relatively low general sales and use tax, 4%, and one of the lowest cigarette taxes in the country, 16.5¢ per pack. Alabama would have placed higher overall had it not been for its rating in the size of government category, where it was ranked 46<sup>th</sup> all-government and 39<sup>th</sup> state and local.

### **Alaska**

Alaska ranked 45<sup>th</sup> overall when compared to other states and provinces in the all-government rankings, and 50<sup>th</sup> at the state and local group. While it fared comparatively well in takings and discriminatory taxation (8<sup>th</sup> all-government, 17<sup>th</sup> 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 35<sup>th</sup> in labor market freedom in the all-government category and 30<sup>th</sup> in state and local. It was 55<sup>th</sup> in the broad grouping when it came to size of government, and 60<sup>th</sup> in the subnational category—dead last among all states and provinces.

### **Arizona**

Arizona ranks 9<sup>th</sup> overall in the all-government listings and 7<sup>th</sup> 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 4<sup>th</sup> in all-government and 3<sup>rd</sup> in state and local comparisons. While it placed 24<sup>th</sup> in the size of government in the all-government measurement it jumped to 11<sup>th</sup> in the state and local list. Arizona improved its performance in takings and discriminatory taxation from the previous year in the all-government group where it was ranked 20<sup>th</sup>, and ranked 17<sup>th</sup> state and local in 2000. It is about in the middle of the pack in terms of effective state and local tax burden (28<sup>th</sup>) and a 5% general sales and use tax.

### **Arkansas**

Arkansas placed 45<sup>th</sup> overall in the all-government category and slightly higher—39<sup>th</sup>—in the state and local comparisons. Far and away its best showing was in state and local size of government, where it ranked 19<sup>th</sup>, as compared to 38<sup>th</sup> in the all-government rankings. Otherwise, the state fell into the second half on the other two measurements: 37<sup>th</sup> in all-government and 36<sup>th</sup> in state and local takings and taxation; and, despite marginal improvement over the previous year, 49<sup>th</sup> in both categories for labor market freedom. Its effective state and local tax burden of 10.2% places it in about the middle of the pack

### **California**

California ranked 20<sup>th</sup> overall in terms of economic freedom at the all-government level but ranked 36<sup>th</sup> when its state and local numbers were compared with other states and provinces. This disparity reflects all three areas of measurement. The state ranked relatively high (14<sup>th</sup>) in terms of government size at the all-

government level but fared worse at the state and local level, dropping to 34<sup>th</sup>. The state and local ranking also suffered when compared with all-government numbers in takings and discriminatory taxation: 41<sup>st</sup> for the former, and 26<sup>th</sup> for the latter. Its ratings for labor market freedom showed marginal improvement from 1999, and placed it in the middle of the pack, ranking 26<sup>th</sup> for all-government and 27<sup>th</sup> for state and local. Only seven states have a higher general sales and use tax than California's 6%. Its total state and local tax burden is just above the national average at 10.3%.

### **Colorado**

Colorado is one of the leading states in terms of economic freedom, placing 2<sup>nd</sup> in all-government overall and 3<sup>rd</sup> in state and local. With one exception—the state and local measurement for takings and taxation, where it ranked 14<sup>th</sup>—the state was in the top five in all areas. For size of government, it ranked 5<sup>th</sup> in the all-government list and 3<sup>rd</sup> in state and local. It improved slightly in labor market freedom, finishing 2<sup>nd</sup> in both rankings. In all-government takings and taxation, Colorado ranked 4<sup>th</sup>. The state's general use and sales tax, at 2.9%, is the lowest in the country for those states that have one. Only four states have a lower effective state and local tax burden. And, Coloradoans can celebrate their good fortune cheaply: only three states have a lower tax on beer.

### **Connecticut**

Connecticut places 9<sup>th</sup> overall in the all-government ratings and 14<sup>th</sup> in state and local. Far and away its best measure of economic freedom is in labor market freedom, where it placed 4<sup>th</sup> in the all-government area and 6<sup>th</sup> in state and local. Otherwise, the state was ranked 12<sup>th</sup> and 19<sup>th</sup> for all-government and state and local respectively in size of government, and 32<sup>nd</sup> and 23<sup>rd</sup> for takings and discriminatory taxation. Its general sales and use tax is at the high end at 6%. Its gasoline tax of 25¢ per gallon is tied for 4<sup>th</sup> highest in the country. Its effective state and local tax burden is the 11<sup>th</sup> highest but its total tax burden, 36.7%, is top in the country.

### **Delaware**

Delaware sets the standard for economic freedom in the United States, placing 1<sup>st</sup> overall in both the all-government and state and local rankings. In terms

of government size, it was rated 1<sup>st</sup> in all-government and 4<sup>th</sup> in the state and local comparison. A substantial improvement in takings and taxation in the state and local category earned it a 1<sup>st</sup> place there, matching its number-one standing in all-government. Its labor market freedom rankings were only slightly lower: 4<sup>th</sup> in all-government, 6<sup>th</sup> in state and local. Delaware has no general sales and use tax. Its effective state and local tax burden is about in the middle of state rankings at 27<sup>th</sup>.

### **Florida**

Florida ranked considerably higher overall in the state and local comparisons than in the all-government group, 17<sup>th</sup> as opposed to 29<sup>th</sup>. That pattern repeats itself in two of the three measurements. The state's size of government ranking is 38<sup>th</sup> in all-government (showing a marginal improvement from the previous year) and 18<sup>th</sup> in state and local; for takings and taxation the relative rankings are 43<sup>th</sup> and 24<sup>th</sup>. Florida's best showing came in labor market freedom, where it placed 11<sup>th</sup> in both measurements. Its effective state and local tax burden of 9.3% ranks it 43<sup>rd</sup> 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 5<sup>th</sup> overall in the all-government group and 7<sup>th</sup> in state and local. Its best ratings are for size of government: 2<sup>nd</sup> state and local, and 5<sup>th</sup> in all-government, and the all-government ranking for takings and taxation, 4<sup>th</sup>. It came in 17<sup>th</sup> in that category in subnational. Georgia showed slight improvement in labor market freedom over the previous year, ranking 20<sup>th</sup> in all-government and 19<sup>th</sup> 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 10.2% its effective state and local tax burden is exactly in the middle of the pack at 25<sup>th</sup>.

### **Hawaii**

Hawaii only managed to crack the top 30 on one measurement. Overall it ranked 39<sup>th</sup> in all-government and 36<sup>th</sup> in state and local. For size of government, it

ranks 41<sup>st</sup> in all-government and 39<sup>th</sup> state and local. The takings and taxation numbers put it at 37<sup>th</sup> for all government and 47<sup>th</sup> for state and local (and its effective state and local tax burden is the 4<sup>th</sup> highest in the country at 11.6%). Only in labor market freedom, state and local, did it make it to 24<sup>th</sup> (and 32<sup>nd</sup> for all-government). Its general sales and use tax is 4%.

### **Idaho**

Almost all of Idaho rankings fall in a relatively narrow range. Its overall rating for all-government is 35<sup>th</sup> and for state and local 42<sup>nd</sup>. Size of government ratings put it at 31<sup>st</sup> for all-government and 34<sup>th</sup> for state and local. Its labor market freedom rankings are the same for both categories at 37<sup>th</sup>. Idaho shows the widest disparity in takings and taxation, ranking 30<sup>th</sup> in all-government but 45<sup>th</sup> for state and local, after both improved a bit over the previous year. At 25¢ per gallon, its gasoline tax is higher than most other states. The effective state and local tax burden is 10.5%, placing it 17<sup>th</sup> among the states.

### **Illinois**

Except for its ratings on labor market freedom, Illinois places solidly at the bottom of the top 3<sup>rd</sup> of the rankings. In overall all-government, it finishes 14<sup>th</sup>, and in state and local 17<sup>th</sup>. In terms of size of government, it rates 4<sup>th</sup> in the all-government index and 14<sup>th</sup> in the subnational index, and for takings and taxation it ranks 15<sup>th</sup> for all-government and 14<sup>th</sup> for state and local. Its overall ratings are pulled down somewhat—despite a small improvement over the previous year—in labor market freedom, finishing in the mid-20s in both indexes. Illinois has one of the nation's highest general sales and use tax rates at 6.25%, and a fairly high spirit tax at \$4.50 per gallon. Its effective state and local tax burden places it 31<sup>st</sup> among the states at 10%, but its total tax burden of 32.8% ranks it 9<sup>th</sup>.

### **Indiana**

Indiana has a high rating for economic freedom, placing 4<sup>th</sup> in the overall rankings for both all-government and state and local. Its strengths are takings and taxation (8<sup>th</sup> all-government and 4<sup>th</sup> state and local) and labor market freedom (8<sup>th</sup> and 6<sup>th</sup>). It stumbles only somewhat on size of government, dropping to 17<sup>th</sup> all-government and 8<sup>th</sup> state and local. At 9.9%, Indiana

ranks 34<sup>th</sup> in effective state and local tax burdens. Its gasoline tax at 15¢ per gallon is toward the low end of the scale.

### **Iowa**

Iowa is stuck in the middle both geographically and numerically, pulling down a 39<sup>th</sup> overall ranking for all-governments and a 34<sup>th</sup> for state and local. Its showings in two of the three categories correspond: a 24<sup>th</sup> all-government and a 28<sup>th</sup> state and local for size of government and a 37<sup>th</sup> all-government and a 27<sup>th</sup> state and local for taxation. Iowa's low point, however, comes from labor market freedom. Despite a marginal improvement from the previous year, it only ranked 44<sup>th</sup> in all-government and 47<sup>th</sup> state and local. Indiana beat most states on its gasoline tax at 15¢ per gallon, and only came in as the 34<sup>th</sup> most burdensome state in terms of effective state and local taxes at 9.9%.

### **Kansas**

Kansas is another state in which economic freedom is neither enshrined nor defeated. It ranked 26<sup>th</sup> in all-government overall and 21<sup>st</sup> in state and local. Its best showing was in size of government, state and local, where it rated 14<sup>th</sup> (all-government was 24<sup>th</sup>), after which there was almost no diversion between the two measurements. Takings and taxation finished 32<sup>nd</sup> in all-government and 31<sup>st</sup> in subnational, and labor market freedom 22<sup>nd</sup> by both measurements. Kansas ranks 21<sup>st</sup> in effective state and local tax burden and 23<sup>rd</sup> in total tax burden.

### **Kentucky**

Kentucky rates 33<sup>rd</sup> overall in the all-government list and 28<sup>th</sup> in the state and local, which more or less sums up its record since 1981: fluctuating in the 20s and 30s on both the indexes. Its size of government ratings are 34<sup>th</sup> and 21<sup>st</sup> respectively, while in the takings and discriminatory taxation measurement, it finished 15<sup>th</sup> and 24<sup>th</sup>. Kentucky's weakest performance was in labor market freedom: 35<sup>th</sup> all-government and 37<sup>th</sup> state and local. The effective state and local tax burden is the 18<sup>th</sup> highest at 10.5%. At least it isn't heavily taxed: 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 came out 15<sup>th</sup> overall in all-government and 14<sup>th</sup> state and local. Its best showings for economic freedom came in takings and taxation (12<sup>th</sup> in all-government and 16<sup>th</sup> state and local) and labor market freedom (11<sup>th</sup> all-government and 13<sup>th</sup> state and local). Louisiana's overall ranking was dragged down somewhat by its numbers on size of government: 33<sup>rd</sup> all-government and 21<sup>st</sup> state and local. The state's general sales and use tax is at the low end at 4% and—perhaps due to the weight New Orleans throws around—the state's tax on table wine is the lowest in the country at 11¢ per gallon. That's *gallon*.

## **Maine**

If you're a detective looking for clues to find economic freedom, you don't need to schedule time investigating Maine. Overall the state ranks 49<sup>th</sup> all-government and 47<sup>th</sup> state and local. On takings and taxation, it is actually beaten by a couple of the woeful Canadian provinces, finishing 51<sup>st</sup> among states and provinces all-government and 55<sup>th</sup> state and local. The record is little better on size of government (46<sup>th</sup> all-government, 42<sup>nd</sup> state and local) and labor market freedom, which, despite a marginal improvement from the previous year, still ranks 46<sup>th</sup> in both measurements. It has the highest effective state and local tax burden in the United States at 12.8%.

## **Maryland**

Maryland's record on economic freedom is lackluster on most counts. The state finished 41<sup>st</sup> overall in the all-government measurement and 25<sup>th</sup> in the state and local. Its best showing came in the state and local rankings for takings and taxation where it placed 10<sup>th</sup>; it was 23<sup>rd</sup> in all-government. Maryland's rankings for size of government were 41<sup>st</sup> in all-government and 21<sup>st</sup> in state and local. The labor market freedom rankings were below average at 47<sup>th</sup> for all-government and 37<sup>th</sup> state and local. There are a couple of bright spots: Maryland's effective state and local tax burden is 37<sup>th</sup> out of the 50 states at 9.7%, and its tax on beer is among the nation's lowest at 9¢.

## **Massachusetts**

Massachusetts doesn't rate spectacularly high in any single measurement but its general disposition to eco-

nomics freedom places it 5<sup>th</sup> overall in all-government and 7<sup>th</sup> in state and local. In size of government, it showed marginal improvement in the all-government ratings and placed 10<sup>th</sup>; it was 11<sup>th</sup> in state and local. Again, a slight improvement in labor market freedom earned it 17<sup>th</sup> and 16<sup>th</sup> rankings, respectively. Easily its best marks came in takings and taxation, 8<sup>th</sup> in all-government and 4<sup>th</sup> state and local. Massachusetts is 39<sup>th</sup> out of the states in effective state and local tax burden at 9.5%.

## **Michigan**

Michigan's labor market freedom numbers helped pull up its overall rankings somewhat (it placed 20<sup>th</sup> overall in all-government and 23<sup>rd</sup> in state and local). The labor ratings placed in 16<sup>th</sup> in both categories. Otherwise, the state was 32<sup>nd</sup> in takings and discriminatory taxation in the all-government index and 24<sup>th</sup> in the state and local index; and 22<sup>nd</sup> and 30<sup>th</sup>, respectively, in size of government. Its general sales and use tax was comparatively high at 6%, and at 10.7% its effective state and local tax burden is 14<sup>th</sup> highest among the states. Smokers only pay higher cigarette taxes in 7 other states (75¢).

## **Minnesota**

Minnesota tied Michigan for 20<sup>th</sup> place in the all-government overall rankings and 31<sup>st</sup> in state and local measurements of economic freedom. A slight improvement in size of government in the all-government area landed it a 5<sup>th</sup> place spot in those rankings, which it placed 27<sup>th</sup> in state and local. Otherwise, its ratings were farther back in the pack: for all-government and state and local, Minnesota was 32<sup>nd</sup> and 41<sup>st</sup> respectively in takings and taxation and 24<sup>th</sup> and 25<sup>th</sup> in labor market freedom. Its general sales and use tax was on the high end at 6.5%, and the effective state and local tax burden is the country's 5<sup>th</sup> highest at 11.3%.

## **Mississippi**

Mississippi's competitive scores in labor market freedom were about the only bright spot for the state that placed 41<sup>st</sup> overall in the all-government rankings and 28<sup>th</sup> in state and local. Its respective rankings for labor were 11<sup>th</sup> and 13<sup>th</sup>. Otherwise, economic freedom takes a beating. A slight worsening from the previous year's

figures made it 51<sup>st</sup> among the states and provinces in size of government in the all-government rankings and 33<sup>rd</sup> in state and local. It finished 40<sup>th</sup> and 45<sup>th</sup> respectively in takings and discriminatory taxation. Its 7% general sales and use tax ties Rhode Island for the highest in the nation; at 10.7% its effective state and local tax burden is the country's 15<sup>th</sup> highest.

### **Missouri**

Missouri ranks 15<sup>th</sup> overall in the all-government rankings and 7<sup>th</sup> in state and local, with respectable scores in both takings and discriminatory taxation (12<sup>th</sup> and 7<sup>th</sup>, respectively) and labor market freedom (17<sup>th</sup> and 16<sup>th</sup>). It fares worse in the all-government measurement for size of government, coming in 32<sup>nd</sup>, although in the state and local rankings it placed 11<sup>th</sup>. It has a relative low general sales and use tax, among the states that charge one, at 4.225% and tipplers enjoy the nation's second-lowest tax on beer (6¢) and one of the lowest table wine taxes (30¢). In the rankings where citizens want their state to finish far down the line, effective state and local tax burden, Missouri is 38<sup>th</sup> at 9.7%.

### **Montana**

Montana ranked 50<sup>th</sup> overall in the all-government measurement of states and provinces and 49<sup>th</sup> on the state and local index. Its best showing, if it can be called that, came in takings and taxation, where it finished 46<sup>th</sup> in the all government rankings and 36<sup>th</sup> in state and local. From there, it's downhill: in size of government, the state was 50<sup>th</sup> at both all-government and subnational levels, and in labor market freedom 52<sup>nd</sup> (where Alberta and Nova Scotia beat it out) and 51<sup>st</sup> (Nova Scotia again), respectively. One bright spot: there is no general sales and use tax, and its effective state and local tax burden ranks 32<sup>nd</sup> among the 50 states at 10%.

### **Nebraska**

Nebraska shows little disparity between its all-government and state and local overall rankings, coming in 20<sup>th</sup> and 21<sup>st</sup>, respectively. Size of government is the area where the state shows the most commitment to economic freedom, registering a score of 14<sup>th</sup> all-government and 4<sup>th</sup> state and local. Takings and taxation are 26<sup>th</sup> all-government and 31<sup>st</sup> state and local and

labor market freedom came in at 29<sup>th</sup> and 30<sup>th</sup>, respectively. Its effective state and local tax burden is 10.8%, ranking 13<sup>th</sup> among the states.

### **Nevada**

Nevada shows one of the wider gaps in its all-national and state and local overall ratings, 3<sup>rd</sup> in the former and 11<sup>th</sup> in the latter. Its highest ratings are for labor market freedom, where a slight improvement in both measurements placed in 10<sup>th</sup> in all-government and 9<sup>th</sup> in state and local. The state's record on takings and taxation made it 15<sup>th</sup> in all-government and 17<sup>th</sup> state and local. Nevada also had a wide spread between its all-government ranking for size of government (where it placed 3<sup>rd</sup>) and the state and local ranking of 17<sup>th</sup>. Its effective state and local tax burden is low at 9.2%, placing it 43<sup>rd</sup> among the states. Nevada's general sales tax is among the highest in the country at 6.5% although, perhaps because of Las Vegas's influence, its beer tax, figured in dollars per gallon, is among the nation's lowest at 9¢.

### **New Hampshire**

New Hampshire ranks 5<sup>th</sup> overall in the all-government measurement for 2000 and 6<sup>th</sup> in the state and local index. While the state ranked 38<sup>th</sup> in the all-government index in 1981, it has steadily improved since, and the 1<sup>st</sup> place finish this year and last is its highest ever. The state has risen from just over 80% of the national GDP in 1981 to 109%. New Hampshire has no general sales and use tax and its effective state and local sales tax burden is 48<sup>th</sup> among the 50 states. In the size of government rankings, New Hampshire holds the top spot in state and local and all-government rankings. For takings and discriminatory taxation, it's 2<sup>nd</sup> on both lists. Then, it slips on the economic banana peel: 29<sup>th</sup> in the all-government list for labor market freedom and 30<sup>th</sup> in state and local.

### **New Jersey**

New Jersey came in at 20<sup>th</sup> for all government and 25<sup>th</sup> 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 5<sup>th</sup> in all government and 21<sup>st</sup> in state and local. For labor

market freedom it held the 22<sup>nd</sup> spot in both measurements. It was least impressive when it came to takings and discriminatory taxation: 40<sup>th</sup> and 34<sup>th</sup>, respectively. 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 the 23<sup>rd</sup> highest of the 50 states at 10.3%.

### **New Mexico**

New Mexico's climate isn't particularly hospitable to economic freedom. It achieved its best overall ranking in the all-government index in 1981 (38<sup>th</sup>) and has fallen since. It now clocks in at 47<sup>th</sup> and 44<sup>th</sup> on the overall state and local comparison—tying an all-time low. New Mexico's highest marks come for all-government takings and taxes at 26<sup>th</sup>; for state and local it drops to 41<sup>st</sup>. From there it's downhill: 44<sup>th</sup> on both lists measuring labor market freedom; 39<sup>th</sup> in the state and local category for size of government, and 51<sup>st</sup> on the all-government index, tying Mississippi and trailing Alberta and British Columbia. Its effective state and local sales tax burden is 12<sup>th</sup> highest in the country at 10.9%. 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 33<sup>rd</sup> overall in the all-government group, and its low-30s rankings the past three years are its best showing ever. The 39<sup>th</sup> ranking in state and local reflects its relatively lackluster performance in the three areas of measurement but still ties its best ranking there and is a far cry from the back-to-back 51<sup>st</sup> ratings in 1981 and 1985. In size of government, the state ranks 28<sup>th</sup> in the all-government index and 42<sup>nd</sup> in state and local. As for takings and taxation, the Empire State rates 32<sup>nd</sup> and 41<sup>st</sup> respectively. Its labor market freedom numbers placed it 29<sup>th</sup> in all-government and 30<sup>th</sup> state and local. 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 12.3%.

### **North Carolina**

North Carolina started slowly in the overall all-government index (25<sup>th</sup> in 1981), rallied to 6<sup>th</sup> by 1989, and has since settled into the mid-to-late teens. Labor

market freedom scores pull down North Carolina's overall rating to 15<sup>th</sup> in the current all-government section and 23<sup>rd</sup> in state and local. Its highest score is a 4<sup>th</sup> in the all-government list for takings and taxation, while it came in 17<sup>th</sup> in subnational. Size of government rankings placed it 12<sup>th</sup> in all-government and 14<sup>th</sup> in state and local but its placements in labor market freedom were 33<sup>rd</sup> and 36<sup>th</sup>, respectively. North Carolina's general sales and use tax at 4% was low for the states that have it, and its effective state and local tax burden was the 29<sup>th</sup> 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 with neighboring Montana dismal scores in all three areas of economic freedom, for an overall ranking of 48<sup>th</sup> in the all-government group and 47<sup>th</sup> in state and local. The state's only flirtation with the 30s is a 36<sup>th</sup> ranking state and local for takings and discriminatory taxation. Otherwise, it's 46<sup>th</sup> in all-government takings. In size of government, North Dakota is 46<sup>th</sup> in all-government and 48<sup>th</sup> state and local; for labor market freedom, 49<sup>th</sup> and 47<sup>th</sup>, respectively. The state's effective state and local sales tax burden is right in the middle of the pack, 26<sup>th</sup> at 10.2%. North Dakota's fall is somewhat perplexing; in 1981 it was 16<sup>th</sup> in the all-government index and 18<sup>th</sup> in the subnational. But the fall has been costly: the state's per-capita GDP has fallen 31 percentage points against the national average.

### **Ohio**

Ohio registers overall at 29<sup>th</sup> on the all-government listings and slightly lower at 34<sup>th</sup> 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 22<sup>nd</sup> in size of government in the all-government grouping but 37<sup>th</sup> in state and local, and 40<sup>th</sup> and 35<sup>th</sup> respectively in takings and taxation, and 26<sup>th</sup> and 27<sup>th</sup> in labor market freedom. Taxpayers will be saddened to know their effective state and local sales tax burden is the 9<sup>th</sup> highest among the 50 states at 11.2%.

## Oklahoma

Oklahoma ranked 41<sup>st</sup> overall in all-government and 31<sup>st</sup> in state and local. The state has fallen considerably since 1981 when it was 5<sup>th</sup> in all-government and 10<sup>th</sup> in state and local—the worst decline among the 50 states. The size of government results found it at 44<sup>th</sup> in all-government and 21<sup>st</sup> in the state and local grouping, and 30<sup>th</sup> and 31<sup>st</sup>, respectively in the measurement for takings and taxation. The state showed a similarly close grouping in labor market freedom, 37<sup>th</sup> in both groups. Oklahoma's general sales tax was at the lower end of states that impose it at 4.5%, and only 5 states have a lower gasoline tax (Oklahoma's is 5¢). On the other hand, the state has the sixth-highest tax on spirits at \$5.56 per gallon.

## Oregon

Oregon has a substantial gap between its rating in the all-government measurement, where it ranks 29<sup>th</sup>, and in the state and local index where it comes in 42<sup>nd</sup>. But that's nothing compared to the disparity of its placements in the size of government category, 17<sup>th</sup> in all-government and 46<sup>th</sup> in state and local. This disparity is mainly due to a low ranking (53<sup>rd</sup>) in Area 1B at the subnational level, which was a result of high transfers—for example, welfare payments and subsidies to business—as a percentage of GDP. Government expenditures as a percentage of GDP are 31<sup>st</sup> highest in North America at the subnational level but only 18<sup>th</sup> at the all-government level. For takings and taxation, the state registers 20<sup>th</sup> all-government and 27<sup>th</sup> state and local, but takes a dive in labor market freedom, ranking 42<sup>nd</sup> and 44<sup>th</sup> respectively. Oregon doesn't impose a general sales tax, and its 9.4% effective state and local sales tax burden makes it only the 41<sup>st</sup> highest among the 50 states. Oregon has gradually improved its overall all-government rankings since the rating began, moving up from 44<sup>th</sup> in 1981.

## 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 20<sup>th</sup> in the all-government group and 14<sup>th</sup> in state and local in the overall ratings—an all-time high. Size of government isn't its strong suit, finishing 34<sup>th</sup> and 32<sup>nd</sup>, respectively. In takings and taxation, it's 26<sup>th</sup> in all-government, but comes up to 10<sup>th</sup> in the state and local

rankings. The state's best results are in labor market freedom, where it is 11<sup>th</sup> in both the lists. 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 9.9%, only the 35<sup>th</sup> highest in the country.

## Rhode Island

Rhode Island ranks 44<sup>th</sup> in the all-government list overall (and has never been higher than 41<sup>st</sup>, in 1989) and 46<sup>th</sup> on the state and local slate—and that's a step up from its 51<sup>st</sup> place finish from 1994 to 1996. Its size of government rankings are 34<sup>th</sup> in the all-government index and 48<sup>th</sup> state and local; and 33<sup>rd</sup> and 34<sup>th</sup> respectively in labor market freedom. And that's the good news. When it comes to takings and taxation, Rhode Island ranks 49<sup>th</sup> in the all-government measurement and 50<sup>th</sup> the subnational. It has the sixth-highest effective state and local sales tax burden at 11.3%, and its general sales tax of 7% is tied with Mississippi as the highest in the country.

## South Carolina

South Carolina ranks 15<sup>th</sup> overall in the all-government category (down from single-digit ratings in 1985 and 1989) and 17<sup>th</sup> in the state and local measurements (also a drop from single digits in 1989 and 1993). It didn't earn the relatively high marks for its size of government ratings, 38<sup>th</sup> all-government and 28<sup>th</sup> state and local. Its rankings on takings and discriminatory taxation also left it in the middle of the pack, 23<sup>rd</sup> and 27<sup>th</sup>, respectively. On labor market freedom, however, the state was 4<sup>th</sup> in the all-government rankings, and 9<sup>th</sup> state and local. 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 10% effective state and local sales tax burden ranks 30<sup>th</sup> among the states.

## South Dakota

What a difference an adjective makes. Sitting due south of woeful North Dakota, South Dakota boasts a 9<sup>th</sup> place rating overall in the all-government measurements—and that represents a bit of backsliding from 4<sup>th</sup> place in 1997. It was 4<sup>th</sup> overall in the state and local index, again something of a retreat from its ranking

from 1993 to 1997 when it was either 1<sup>st</sup> or 2<sup>nd</sup>. Its size of government is a middle 28<sup>th</sup> all-government but 4<sup>th</sup> state and local, and it finishes 12<sup>th</sup> and 7<sup>th</sup>, respectively in takings and taxation. South Dakota is strongest in labor market freedom, placing 8<sup>th</sup> and 3<sup>rd</sup> 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 44<sup>th</sup> in the United States.

## **Tennessee**

Tennessee has solid economic freedom credentials across the board and places 5<sup>th</sup> overall in the all-government category and 2<sup>nd</sup> in state and local—where it has been either 1<sup>st</sup> or 2<sup>nd</sup> since 1994. The only aberration is its ranking in the all-government list for size of government—28<sup>th</sup>. It's 4<sup>th</sup> in state and local. Otherwise, Tennessee ranks 4<sup>th</sup> in all-government and 3<sup>rd</sup> in state and local in takings and taxation, and 3<sup>rd</sup> in both groups for labor market freedom. Its general sales tax is on the high side at 6%, but the taxman has a hard fight in the state: effective state and local tax burden is the second lowest in the country at 8.4%. The tobacco tax is lower than most states at 13¢.

## **Texas**

Texas is another state whose overall rankings are undone by a single category. It still manages to place 9<sup>th</sup> in the all-government ratings and 11<sup>th</sup> in state and local, though those rankings represent a drop in the all-government list (3<sup>rd</sup> in 1981, 1<sup>st</sup> in 1985) and subnational (1<sup>st</sup> in 1981, 2<sup>nd</sup> in 1985). The state's strong suit is takings and discriminatory taxation: 2<sup>nd</sup> all-government and 4<sup>th</sup> state and local (and Texas's effective state and local tax burden of 9% is 47<sup>th</sup> in the country—although its general sales tax is one of the country's highest at 6.25%). The state size of government ranking is 5<sup>th</sup> all-government and 8<sup>th</sup> state and local. The state stumbles when it comes to labor market freedom: 26<sup>th</sup> all-government and 27<sup>th</sup> state and local.

## **Utah**

Utah ranks 29<sup>th</sup> in the all-government group overall—an improvement from the high 30s in the 1980s but a retreat from its 23<sup>rd</sup> ranking in 1999. It ranked 36<sup>th</sup> in the state and local index, again representing a drop off from the high 20s several years ago. Except for a 14<sup>th</sup> ranking in the all-government measurement for

size of government, Utah never threatens to join the elite states (its state and local ranking in the category is 34<sup>th</sup>). Utah placed 23<sup>rd</sup> all-government and 27<sup>th</sup> state and local in takings and taxation, and 42<sup>nd</sup> and 41<sup>st</sup> respectively for labor market freedom. 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 8<sup>th</sup> highest in the country at 11.2%.

## **Vermont**

Vermont is the opposite of some other states—a decent showing in one area helps to offset dismal ratings in the other two. The state's overall rankings were 35<sup>th</sup> in the all-government index and 39<sup>th</sup> in state and local—the latter showing considerable consistency since it operated in a narrow range of between 37<sup>th</sup> and 39<sup>th</sup> from 1993 to 2000. Its labor market freedom numbers are 17<sup>th</sup> all-government and 19<sup>th</sup> in the state and local measurement but after that it falls out of the top third in size of government: 34<sup>th</sup> all-government and 45<sup>th</sup> state and local. As for takings and taxation, it's at the bottom: 48<sup>th</sup> in both rankings. Vermont's effective state and local tax burden is the nation's tenth-highest at 11%.

## **Virginia**

Virginia finished 35<sup>th</sup> overall in the 2000 all-government rankings, an example of a state that started badly in 1981 (48<sup>th</sup>), reached the high 20s, then fell back. It's subnational numbers have always been stronger; it ranked 18<sup>th</sup> in 1981, and was in single digits from 1985 to 1995. It now stands at 17<sup>th</sup> in the state and local index. Taxes are Virginia's strength: 8<sup>th</sup> in all-government and 7<sup>th</sup> 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. Other measures aren't as strong. Virginia scores 41<sup>st</sup> all-government and 10<sup>th</sup> state and local in the size of government category, and 37<sup>th</sup> and 34<sup>th</sup> respectively for labor market freedom.

## **Washington**

Washington's overall rankings—35<sup>th</sup> all-government and 45<sup>th</sup> state and local—suggest there aren't many happy surprises, and there aren't, although its all-government ranking ties an all-time high, which

suggests some improvement. The size of government ranking of 19<sup>th</sup> in the all-government measurement is respectable, but the state comes in at 47<sup>th</sup> state and local. Otherwise, Washington scores 37<sup>th</sup> in the all-government index and 41<sup>st</sup> state and local for labor market freedom and 43<sup>rd</sup> and 36<sup>th</sup> respectively 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: 10.5%, making it 20<sup>th</sup> in the country.

### **West Virginia**

West Virginia has the lowest per-capita GDP in the United States and the worst economic record through the 1990s. Its overall ranking in the all-government measurement is 50<sup>th</sup>. In state and local it's 52<sup>nd</sup>—making it the only state to finish lower than 50<sup>th</sup> in the category. Except for its labor market freedom rankings—37<sup>th</sup> all-government, 41<sup>st</sup> state and local—economic freedom is nowhere to be seen. West Virginia ranks 49<sup>th</sup> all-government and 52<sup>nd</sup> in takings and taxation, and for size of government can't even give Canada a run for its money, placing 56<sup>th</sup> and 55<sup>th</sup> respectively among the states and provinces.

### **Wisconsin**

Wisconsin's mid-range showing in two categories is offset by a terrible record on taxation. Its overall rating is 26<sup>th</sup> all-government, up from its low of 35<sup>th</sup> in 1985, but slipping a bit from the last few years. It has moved

in a relatively narrow range in the subnational index since 1989, and finished 28<sup>th</sup>. Size of government rankings are 19<sup>th</sup> for all-government and 30<sup>th</sup> state and local, and labor market freedom is also solid at 20<sup>th</sup> and 21<sup>st</sup> respectively. But, on taxation and discriminatory taxation, Wisconsinites are advised to hang onto their wallets: the state ranked 43<sup>rd</sup> for all-government and 36<sup>th</sup> state and local among the states and provinces. Its effective state and local tax burden is the third highest in the nation at 12%. 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¢.

### **Wyoming**

Wyoming ranks 9<sup>th</sup> overall in the all-government measurement. Between 1981 and 1997, it never ranked lower than 4<sup>th</sup>, although the 2000 rankings was a bounce back from the 12<sup>th</sup> it received in 1999. It was 25<sup>th</sup> in the state and local index. Its strongest ratings are in labor market freedom: 11<sup>th</sup> in all-government and 13<sup>th</sup> in state and local. In takings and taxation it ranks 20<sup>th</sup> and 17<sup>th</sup>, respectively. Wyoming's one bad slip comes in the state and local list for size of government, where it rates only 42<sup>nd</sup>; its all-government ranking in the category is 19<sup>th</sup>. Wyoming is a relatively low-tax state—its effective state and local tax burden is 38<sup>th</sup> among the 50 states at 9.8%. Its general sales and use tax is low among the states that charge it at 4%. Its beer tax of 2¢ is the lowest in the country, and its cigarette and gasoline taxes are among the lowest.