

## 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. Its 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 20<sup>th</sup> overall in terms of economic freedom at the all-government level, and was 16<sup>th</sup> 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 (15<sup>th</sup> state and local, 20<sup>th</sup> all-government). Alabama also did poorly in the size of government category, where it was ranked 48<sup>th</sup> all-government and 44<sup>th</sup> 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 47<sup>th</sup> overall when compared to other states and provinces in the all-government rankings and 50<sup>th</sup> in the state and local group. While it fared comparatively well in takings and discriminatory taxation (11<sup>th</sup> in all-government and 20<sup>th</sup> 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 38<sup>th</sup> in labor market freedom in the all-government category and 34<sup>th</sup> in state and local. It was 53<sup>rd</sup> in the broad grouping when it came to size of government, and 58<sup>th</sup> in the subnational category.

### *Arizona*

Arizona ranks 10<sup>th</sup> overall in the all-government listings and 12<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 29<sup>th</sup> in the size of government in the all-government measurement it ranked 21<sup>st</sup> in the state and local list. Arizona ranked

20<sup>th</sup> in takings and discriminatory taxation at the all-government and 22<sup>nd</sup> 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 (28<sup>th</sup>) and has a 5% general sales-and-use tax.

### *Arkansas*

Arkansas placed 42<sup>nd</sup> overall in the all-government category and 33<sup>rd</sup> in the state and local comparisons. Its best showing was again in state and local size of government, where it ranked 24<sup>th</sup>, as compared to 43<sup>rd</sup> in the all-government rankings. Otherwise, the state fell into the second half on the other two measurements: 36<sup>th</sup> in all-government and 33<sup>rd</sup> in state and local takings and taxation, and showed some improvement over the previous year in labor market freedom, 38<sup>th</sup> in the all-government and 42<sup>nd</sup> 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 26<sup>th</sup> overall in terms of economic freedom at the all-government level and 40<sup>th</sup> 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 (13<sup>th</sup>) in terms of government size at the all-government level but fared worse at the state and local level, dropping to 33<sup>rd</sup>. The state and local ranking suffers when compared with all-government numbers in takings and discriminatory taxation: 39<sup>th</sup> for the former, and 26<sup>th</sup> for the latter. The big drop came in labor market freedom, where it fell to 38<sup>th</sup> for all-government and 42<sup>nd</sup> for state and local.

### *Colorado*

Colorado continues to play its role as one of the superstars of economic freedom, holding on to 2<sup>nd</sup> 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 15<sup>th</sup>—the state was in the top five in all areas. For size of government, it ranked 4<sup>th</sup> in the all-government list and 2<sup>nd</sup> in state and local. In labor market freedom, it finished 3<sup>rd</sup> in both rankings. In all-government takings and taxation, Colorado ranked 9<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 11 states have a lower effective state and local tax burden. Coloradans can celebrate their good fortune cheaply: only two states have a lower tax on beer.

### **Connecticut**

Connecticut places 10<sup>th</sup> overall in the all-government ratings and 19<sup>th</sup> in state and local. In 2001 in labor market freedom, it ranked 14<sup>th</sup> in the all-government area and 15<sup>th</sup> in state and local. It ranked 4<sup>th</sup> and 15<sup>th</sup> for all-government and state and local respectively in size of government, and was 26<sup>th</sup> and 22<sup>nd</sup> 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 4<sup>th</sup> highest in the country. Its effective state and local tax burden has moved up to the 6<sup>th</sup> highest in the country (from 11<sup>th</sup>) and its total tax burden, 36.7%, remains the worst.

### **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 (tied with Colorado, South Dakota, and Tennessee for the latter). In terms of government size, it was rated 1<sup>st</sup> in all-government and 6<sup>th</sup> in the state and local comparison. In takings and taxation, in the state and local category, Delaware earned a 2<sup>nd</sup> place and a 1<sup>st</sup> place in the all-government index. Its labor market freedom rankings were lower: a 10<sup>th</sup> 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 27<sup>th</sup>.

### **Florida**

Florida ranked considerably higher overall in the state and local comparisons than in the all-government group, 12<sup>th</sup> as opposed to 26<sup>th</sup>. That pattern repeats itself in two of the three measurements. The state's size of government ranking is 34<sup>th</sup> in all-government (showing a slight improvement from the previous year) and 15<sup>th</sup> in state and local; for takings and taxation, the relative rankings are 42<sup>nd</sup> and 22<sup>nd</sup>. Florida's best showing came in labor market freedom, where it placed 9<sup>th</sup> 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 3<sup>rd</sup> overall in the all-government group and 9<sup>th</sup> in state and local. Its best ratings are for size of government: 4<sup>th</sup> in both measurements. In the all-government ranking for takings and taxation, it was 11<sup>th</sup>. It came in 20<sup>th</sup> in that category in subnational. In labor market freedom, it ranked 12<sup>th</sup> 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 39<sup>th</sup> in all-government and 40<sup>th</sup> in state and local. For size of government, it ranks 38<sup>th</sup> in all-government and 33<sup>rd</sup> state and local. The takings and taxation numbers put it at 26<sup>th</sup> for all-government (a substantial improvement) but 45<sup>th</sup> 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 34<sup>th</sup> in state and local and 42<sup>nd</sup> for all-government. Its general sales-and-use tax is low at 4%.

### **Idaho**

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

### **Illinois**

In overall all-government, Illinois finishes 17<sup>th</sup> and, in state and local, 22<sup>nd</sup>. In terms of size of government, it rates 7<sup>th</sup> in the all-government index and 14<sup>th</sup> in the subnational index, and for takings and taxation it ranks 19<sup>th</sup> for all-government and 15<sup>th</sup> for state and local. Its overall ratings are pulled down by labor market freedom, where it found itself at 32<sup>nd</sup> all-government and 34<sup>th</sup> 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 31<sup>st</sup> among the states at 9.4% but its total tax burden of 32.8% ranks it 13<sup>th</sup>.

### **Indiana**

Indiana in all-government ranked 15<sup>th</sup>; in state and local it came in 12<sup>th</sup>. In 2001, Indiana was 17<sup>th</sup> all-government and 8<sup>th</sup> state and local for takings, and 16<sup>th</sup> and 18<sup>th</sup> respectively for labor market freedom. It was 17<sup>th</sup> in the all-government and 10<sup>th</sup> in the subnational groups in size of government. At 9.4%, Indiana ranks 32<sup>nd</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 came up modestly in its overall ranking for all-governments at 32<sup>nd</sup>, and remained in 33<sup>rd</sup> spot in the state and local index. Its showings in size of government—23<sup>rd</sup> for all-government and 26<sup>th</sup> for state and local—are close to the previous year's results. It scored 20<sup>th</sup> in all-government and 22<sup>nd</sup> 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 42<sup>nd</sup> in all-government and 46<sup>th</sup> 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 20<sup>th</sup> in all-government overall and 22<sup>nd</sup> in the subnational grouping. Its best showing was in size of government, state and local, where it rated 15<sup>th</sup> (national was 23<sup>rd</sup>). For takings and taxation, Kansas finished 36<sup>th</sup> in all-government and 30<sup>th</sup> in state and local. The state saw improvement in labor market freedom where it moved up in both measurements to 12<sup>th</sup> in 2001. Kansas ranks 30<sup>th</sup> in effective state and local tax burden and 36<sup>th</sup> in total tax.

### **Kentucky**

Kentucky rates 32<sup>nd</sup> overall in the all-government list and 25<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 indexes. Its size of government ratings are 34<sup>th</sup> and 18<sup>th</sup> respectively, while in the takings and discriminatory taxation measurement, it finished 20<sup>th</sup> and 27<sup>th</sup>. Kentucky's weakest performance was in labor market freedom: 38<sup>th</sup> all-government and 40<sup>th</sup>

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 7<sup>th</sup> overall in all-government and 6<sup>th</sup> state and local. It maintained strong showings in takings and taxation (3<sup>rd</sup> all-government and 8<sup>th</sup> subnational). It also had good ratings in labor market freedom, 6<sup>th</sup> in all-government and 8<sup>th</sup> state and local. Louisiana's overall ranking was dragged down somewhat by its numbers on size of government: 31<sup>st</sup> all-government and 18<sup>th</sup> 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 49<sup>th</sup> all-government and 46<sup>nd</sup> state and local. On takings and taxation, it continues to be beaten by a couple of the more woeful Canadian provinces, finishing 50<sup>th</sup> among states and provinces all-government and 55<sup>th</sup> state and local. The record is little better on size of government (47<sup>th</sup> all-government, 42<sup>nd</sup> state and local) and labor market freedom, 45<sup>th</sup> and 44<sup>th</sup> 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 39<sup>th</sup> overall in the all-government measurement and 24<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 15<sup>th</sup>. It was 25<sup>th</sup> in all-government. Maryland's rankings for size of government were 38<sup>th</sup> in all-government and 24<sup>th</sup> in state and local. The labor market freedom rankings were below average at 45<sup>th</sup> for all-government and 30<sup>th</sup> 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 10<sup>th</sup> overall in all-government and 12<sup>th</sup> in state and local. In size of government, it showed marginal improvement in the all-government ratings and placed 9<sup>th</sup>; it was 10<sup>th</sup> in state and local. In labor market freedom, where it plunged to 28<sup>th</sup> and 29<sup>th</sup> from 23<sup>rd</sup> and 22<sup>nd</sup>. Easily its best marks came in takings and taxation, 5<sup>th</sup> in all-government and 6<sup>th</sup> state and local. Massachusetts is 24<sup>th</sup> out of the states in effective state and local tax burden at 9.7%.

**Michigan**

Michigan placed 32<sup>nd</sup> overall in all-government and 25<sup>th</sup> in state and local overall. The labor rankings were 28<sup>th</sup> in all the government index and 30<sup>th</sup> subnational index. Otherwise, the state was 36<sup>th</sup> in takings and discriminatory taxation in the all-government index and 27<sup>th</sup> in the state and local index; and 28<sup>th</sup> and 26<sup>th</sup>, 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 20<sup>th</sup> place in the all-government overall rankings and remained steady at 33<sup>rd</sup> in state and local measurements of economic freedom. It held on to 9<sup>th</sup> place in the all-government size of government rankings and placed 26<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 33<sup>rd</sup> and 36<sup>th</sup> respectively in takings and taxation and 32<sup>nd</sup> and 34<sup>th</sup> 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 42<sup>nd</sup> overall in the all-government rankings and 31<sup>st</sup> in state and local. Its respective rankings for labor were 4<sup>th</sup> and 7<sup>th</sup>. Otherwise, economic freedom again takes a beating. A worsening from the previous year's figures made it 55<sup>th</sup> among the states and provinces in size of government in the all-government rankings. It ranked 36<sup>th</sup> in state and local. It finished 44<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 9.7% its effective state and local tax burden fell to around the national average.

**Missouri**

Missouri ranks 20<sup>th</sup> overall in the all-government rankings and 9<sup>th</sup> in state and local, with respectable scores in both takings and discriminatory taxation (17<sup>th</sup> and 8<sup>th</sup>, respectively) and labor market freedom (14<sup>th</sup> and 15<sup>th</sup>). The state fares worse in the all-government measurement for size of government, coming in 31<sup>st</sup>, although in the state and local rankings it placed 12<sup>th</sup>. 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 50<sup>th</sup> overall in the all-government measurement of states and provinces and 48<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 48<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 49<sup>th</sup> at both all-government and subnational levels, and in labor market freedom, 48<sup>th</sup> 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 20<sup>th</sup> and 19<sup>th</sup>, respectively. Size of government is the area where the state shows the most commitment to economic freedom, registering a score of 13<sup>th</sup> all-government and 6<sup>th</sup> state and local. In takings and taxation, it was to 33<sup>rd</sup> in both measurements, although labor market freedom improved to 22<sup>nd</sup> in both. Its effective state and local tax burden is 10%, ranking 14<sup>th</sup> among the states.

**Nevada**

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

18<sup>th</sup> state and local, and in takings and taxation, it was ranked 11<sup>th</sup> in all-government and 8<sup>th</sup> in subnational. Nevada's big score was in the size of government area, where it remained 2<sup>nd</sup> 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 3<sup>rd</sup> in the all-government measurement and 5<sup>th</sup> 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 2<sup>nd</sup> in all-government rankings. For takings and discriminatory taxation, it ranks 3<sup>rd</sup> in the all-government group and 1<sup>st</sup> in the subnational. Then, it slips on the economic banana peel: 31<sup>st</sup> in the all-government list for labor market freedom and 30<sup>th</sup> 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 26<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 9<sup>th</sup> in all-government and 22<sup>nd</sup> in state and local. For labor market freedom it was 32<sup>nd</sup> and 30<sup>th</sup>, respectively, a drop in both ratings. When it came to takings and discriminatory taxation the state was 40<sup>th</sup> all-government and 29<sup>th</sup> 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 42<sup>nd</sup> all-government and 38<sup>th</sup> subnational in the overall comparisons. New Mexico's highest marks come for all-government takings and taxes at 26<sup>th</sup>; for state and local, it drops to 45<sup>th</sup>. In labor market freedom, it was

22<sup>nd</sup> on both lists. But it was 36<sup>th</sup> in the state and local category for size of government, and 52<sup>nd</sup> 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 13<sup>th</sup>, 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 37<sup>th</sup> overall in the all-government group, a slight drop from 2000. The 44<sup>th</sup> ranking in state and local reflects its relatively lackluster performance in the three areas of measurement. In size of government, the state ranks 23<sup>rd</sup> in the all-government index and 36<sup>th</sup> in state and local. As for takings and taxation, the Empire State rates 33<sup>rd</sup> and 39<sup>th</sup> respectively. But its labor market freedom numbers are at 51<sup>st</sup> 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 10<sup>th</sup> in the current all-government section and 16<sup>th</sup>. Its highest score is a 9<sup>th</sup> in the all-government list for takings and taxation, while it came in 15<sup>th</sup> in the subnational. Size of government rankings placed it 17<sup>th</sup> in all-government and 18<sup>th</sup> in state and local. Its labor market freedom ranked 16<sup>th</sup>, all-government, and 18<sup>th</sup>, 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 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 dismal scores with neighboring Montana in two of the three areas of economic freedom, for an overall ranking of 42<sup>nd</sup> in the all-government group and 45<sup>th</sup> in state and local. It holds the 35<sup>th</sup> ranking at a state and local level for takings and discriminatory taxation and 36<sup>th</sup> in all-government takings. In size of government, North Dakota is 43<sup>rd</sup> in all-government and 49<sup>th</sup> state and local; for labor market freedom, 36<sup>th</sup> and 34<sup>th</sup>—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 11<sup>th</sup> in the overall all-government index and 14<sup>th</sup> in the subnational.

**Ohio**

Ohio registers overall at 32<sup>nd</sup> on the all-government listings and lower at 40<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 23<sup>rd</sup> in size of government in the all-government grouping but 36<sup>th</sup> in state and local; 40<sup>th</sup> and 39<sup>th</sup> respectively in takings and taxation; and 36<sup>th</sup> and 40<sup>th</sup> 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 37<sup>th</sup> overall in all-government and 25<sup>th</sup> in state and local. The size of government results found it at 45<sup>th</sup> in all-government and 22<sup>nd</sup> in the state and local grouping, and 26<sup>th</sup> and 30<sup>th</sup>, respectively in the measurement for takings and taxation. The state showed a similarly close grouping in labor market freedom, 25<sup>th</sup> 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 26<sup>th</sup>, and in the state and local index where it comes in 38<sup>th</sup>. But that's in line with the disparity of its measurements in the size of government category, 21<sup>st</sup> in all-government and 46<sup>th</sup> in state and local. For takings and taxation, the state skyrockets to 5<sup>th</sup> all-government and 13<sup>th</sup> state and local but promptly fizzles out in labor market freedom, dropping to 48<sup>th</sup> 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 26<sup>th</sup> in the all-government group and 19<sup>th</sup> in state and local in the overall ratings. Size of government isn't

its strong suit, finishing 34<sup>th</sup> and 29<sup>th</sup>, respectively. In takings and taxation, it's 20<sup>th</sup> in all-government, and 13<sup>th</sup> in the state and local rankings, an advance in the former. The state's best results came in labor market freedom at 16<sup>th</sup> and 15<sup>th</sup> 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 34<sup>th</sup> highest in the country.

**Rhode Island**

Rhode Island ranks 47<sup>th</sup> in the all-government list overall and 46<sup>th</sup> on the state and local slate. Its size of government rankings are 34<sup>th</sup> in the all-government index and 46<sup>th</sup> state and local; it declined in labor market freedom to 48<sup>th</sup> and 46<sup>th</sup>, respectively. In takings and taxation, Rhode Island ranks 44<sup>th</sup> in the all-government measurement and 45<sup>th</sup> 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 17<sup>th</sup> overall in the all-government category (down from single-digit ratings from 1981 to 1994) and 16<sup>th</sup> 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, 42<sup>nd</sup>, all-government, and 29<sup>th</sup> state and local. Its rankings on takings and discriminatory taxation also left it in the middle of the pack, 26<sup>th</sup> and 30<sup>th</sup>, respectively. On labor market freedom, however, the state rallied to 2<sup>nd</sup> 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 30<sup>th</sup> 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 3<sup>rd</sup> place in the overall in the all-government measurements and to 1<sup>st</sup> place in a multi-state tie in the state and local index. Its size of government rat-

ing is 17<sup>th</sup> all-government and stays at 4<sup>th</sup> state and local, and it finishes 11<sup>th</sup> and 6<sup>th</sup>, respectively in takings and taxation. South Dakota is strongest in labor market freedom, at 6<sup>th</sup> and 5<sup>th</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. 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 7<sup>th</sup> overall in the all-government category and moves up to a 1<sup>st</sup> place tie for state and local. The only aberration is its ranking in the all-government list for size of government—29<sup>th</sup>. It's 6<sup>th</sup> in state and local. Otherwise, Tennessee ranks 11<sup>th</sup> in all-government and 4<sup>th</sup> in state and local in takings and taxation, and 6<sup>th</sup> and 5<sup>th</sup> 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 7<sup>th</sup> in the all-government ratings and 6<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 and 1985). Takings and discriminatory taxation is solid: 5<sup>th</sup> all-government and 4<sup>th</sup> state and local (and Texas's effective state and local tax burden of 8.5% is 45<sup>th</sup> 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: 9<sup>th</sup> all-government and 6<sup>th</sup> state and local. The state stumbles when it comes to labor market freedom: 22<sup>nd</sup> in both groupings, although that represents a slight improvement from 2000.

### **Utah**

Utah ranks 15<sup>th</sup> in the all-government group overall and 25<sup>th</sup> in the state and local index, an improvement over 2000 figures. Still, except for a 13<sup>th</sup> 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 32<sup>nd</sup>). Utah placed 16<sup>th</sup> all-government and 22<sup>nd</sup> in the subnational group in takings and taxation. For labor market freedom, its standing is 28<sup>th</sup> and 25<sup>th</sup> 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 9<sup>th</sup> 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 39<sup>th</sup> in the all-government index and 40<sup>th</sup> 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 16<sup>th</sup> all-government and 18<sup>th</sup> in the state and local measurement but after that it falls out of the top third in size of government: 38<sup>th</sup> all-government and 45<sup>th</sup> state and local. As for takings and taxation, it held the 48<sup>th</sup> spot in the all-government index and 49<sup>th</sup> 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 20<sup>th</sup> in the overall all-government index and 9<sup>th</sup> in the subnational. Taxes again are Virginia's strength: 5<sup>th</sup> in all-government and 8<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. One measure isn't as strong. Virginia scores 38<sup>th</sup> in all-government (though 12<sup>th</sup> 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 16<sup>th</sup> and 12<sup>th</sup>.

### **Washington**

Washington's overall rankings—42<sup>nd</sup> all-government and 48<sup>th</sup> 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 17<sup>th</sup> in the all-government measurement is actually up slightly from 2000, but the state comes in at 48<sup>th</sup> state and local. Labor market freedom is a mess: 52<sup>nd</sup> in both categories among the states and provinces. The state is 46<sup>th</sup> in the all-government area and 36<sup>th</sup> 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 16<sup>th</sup> 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 52<sup>nd</sup>. In state and local it was 53<sup>rd</sup>. Except for its slightly higher labor market freedom rankings—32<sup>nd</sup> all-government, 34<sup>th</sup> state and local—economic freedom continues to hide in a coal mine. West Virginia ranks 51<sup>st</sup> all-government and 54<sup>th</sup> state and local in takings and taxation. For size of government, it can't even give Canada a run for its money, placing 56<sup>th</sup> and 57<sup>th</sup> respectively among the states and provinces.

### **Wisconsin**

Wisconsin finished 32<sup>nd</sup> in the all-government and 37<sup>th</sup> in the subnational overall ratings. Size of government rankings was 21<sup>st</sup> for all-government and 33<sup>rd</sup> state

and local, while labor market freedom was at 25<sup>th</sup> 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 46<sup>th</sup> for all-government and 39<sup>th</sup> 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 17<sup>th</sup> overall in the all-government measurement. Between 1981 and 1998, it never ranked lower than 3<sup>rd</sup>. It was 31<sup>st</sup> in the state and local index. Its strongest ratings are in labor market freedom: 10<sup>th</sup> in all-government and 11<sup>th</sup> in state and local. In the takings and taxation rankings, it scored 42<sup>nd</sup>, all-government, and 44<sup>th</sup>, subnational. Wyoming's other slip comes in the state and local area of size of government, where it places 36<sup>th</sup> (its all-government ranking is 16<sup>th</sup>).