

## Appendix B: 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 the 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. This helped propel Alberta into the top five economically free jurisdictions in the all-government index in 2002.

#### British Columbia

British Columbia's economic freedom score fell 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. Even though migration to British Columbia fell off sharply through the 1990s, the unemployment rate rose relative to the national average. Economic freedom rose in the early years of this new century. In the past few years, both economic and employment growth have been much stronger in British Columbia.

#### Manitoba

Manitoba significantly reduced its economic freedom in both indexes from 1981 to the early 1990s. Economic freedom recovered somewhat from the early to mid-1990s onward but Manitoba's score in 2002 was below its score in 1981 on both indexes. Over the period, Manitoba's GDP per capita fell from just above the national average to more than US\$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

Among the provinces, New Brunswick, along with Nova Scotia, had the strongest gains in economic freedom at an all-government level 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 below the Canadian average in the all-government 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 84% in 2002.

**Newfoundland**

Newfoundland began the period close to the bottom of the heap in both indexes and remained there until the late 1990s. Although Newfoundland's score improved over the 1990s, it was only keeping pace with improvements in other provinces. However, between 1998 and 2002, Newfoundland made substantive improvements and its ranking rose somewhat. 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 oil and fishing industries are sensitive to exogenous shocks such as wide fluctuations in the price of oil or a depletion of resources, like the collapse of the northern cod stocks.

**Nova Scotia**

Among the provinces, Nova Scotia, along with New Brunswick, had the largest gains in economic freedom at an all-government level. Nova Scotia's scoring and ranking improved substantially in both indexes. It began the period third last in the subnational index and rose to third best among provinces. Nova Scotia's per-capita GDP also climbed significantly relative to the national average as well.

**Ontario**

Between 1989 and 1993, Ontario's economic freedom dropped dramatically. In 1981, Ontario had higher levels of economic freedom than at least some states in both indexes. Through to 2000, Ontario's score climbed in both indexes but then stagnated in 2001 and in 2002 was the fourth worst performer among Canadian provinces. Ontario's per-capita GDP declined significantly against the Canadian average between 1989 and 1993 but has remained largely stable since.

**Prince Edward Island**

In 1981, Prince Edward Island had the fourth worst performance at a subnational level among the provinces and ended dead last in 2002. At an all-government level, Prince Edward Island was in the middle of the pack among Canadian provinces throughout the full period. However, in 1981, it led Nova Scotia, Newfoundland and New Brunswick in the all-government index. In the subsequent years, its score declined before rising somewhat in the 1980s. From 1981 to 2002, Prince Edward Island's per-capita GDP was below the national average, although the gap decreased over time. Furthermore, its unemployment rate was higher than the national average throughout the full period.

**Quebec**

Over the period, Quebec improved its score slightly in both the all-government and subnational indexes but not at the same pace as other provinces or states. In 1981, Quebec was in the middle of the pack among Canadian provinces at an all-government level but finished second last in 2002. At a subnational level, Quebec was either worst or second worst performer among the Canadian provinces throughout the period. Over the same period, Quebec's per-capita GDP improved slightly relative to Canadian average but, as with economic freedom, the improvements were not significant enough to catch up with the rest of the Canada.

**Saskatchewan**

Saskatchewan has been consistently in the middle of the Canadian ranks in the all-government index through most of the period under examination and, in 2002, was the third-freest province. In both 2001 and 2002, it declined in both indexes. At a sub-national level, Saskatchewan started in the middle of the pack but ended being the second-worst performer among the Canadian provinces. In 1981, Saskatchewan's per-capita GDP was US\$3,000 above the Canadian average but over time the gap decreased to about US\$500.

## The United States

### Alabama

Alabama ranked 38<sup>th</sup> overall in terms of economic freedom at the all-government level for the third straight year, and was 17<sup>th</sup> in the subnational index, from which it has barely deviated for the same period. The state was undone primarily by its rankings in size of government, where it was 52<sup>nd</sup> in the all-government group and 51<sup>st</sup> subnational. Alabama matched previous recent all-government rankings in takings and taxation at 15<sup>th</sup> and was 10<sup>th</sup> in the state and local group. The all-government labor market freedom ranking of 30<sup>th</sup> was a mild improvement over the previous several years but, at a subnational level in more than 20 years of data, it has never been out of single digits and in 2002 was 5<sup>th</sup> for the seventh consecutive year. Another bit of good news: only a handful of states had a lower effective state and local tax burden (9.1% compared to the national average of 10%), and Alabama was 49<sup>th</sup> out of the 50 states when the federal tax burden was added. The Yellowhammer State has a relatively low general sales and use tax (4%), one of the lowest cigarette taxes in the country (16.5¢ per pack of 20), and a gasoline tax tied at seventh-lowest in United States at 16¢ per gallon.

### Alaska

After holding a strong, single-digit position throughout most of the 1980s, Alaska began a slide in the measurements of overall economic freedom, ranking 40<sup>th</sup> in 2002 in the all-government area. It has never been a player at the state and local level, where its 47<sup>th</sup> place showing is actually an improvement over two years earlier. Despite a number one ranking for size of government in the first five years of data beginning in 1981, Alaska was 52<sup>nd</sup> of all states and provinces in 2002 in the all-government rankings, 59<sup>th</sup> subnational (after four years at 60<sup>th</sup>). And in labor market freedom it ranked 52<sup>nd</sup> in both categories. The results are far better in takings and taxation, where the state was 2<sup>nd</sup> in all-government and state and local alike. Not surprisingly, Alaska is last among the states in the size of its tax burden, both state and local and after federal taxes are figured in. There is no state-level sales tax and an extremely low gasoline tax (8¢). However, the spirits and beer taxes are on the high end and the table wine tax of \$2.50 per gallon is the highest in the country.

### Arizona

Arizona maintained the gains it began making in the mid- and late 1990s, finishing 10<sup>th</sup> all-government and 4<sup>th</sup> in the subnational area in the overall rankings. The Grand Canyon State showed little change over the past few years in the three major measurements: it finished 19<sup>th</sup> all-government and 11<sup>th</sup> subnational in size of government; 18<sup>th</sup> and 23<sup>rd</sup> in takings and taxation; and 8<sup>th</sup> and 2<sup>nd</sup> in labor market freedom. At the subnational level, Arizona has never been rated worse than 3<sup>rd</sup> in labor market freedom over the past two decades. The state has moved up to 20<sup>th</sup> in its combined state and local tax burden of 10%. It is about in the middle of the pack with its 5% general sales and use tax.

### Arkansas

Arkansas placed 38<sup>th</sup> overall in the all-government category and 33<sup>rd</sup> in the state and local comparisons. Its best showing was in state and local labor market freedom, where it ranked 16<sup>th</sup> and as compared to 23<sup>rd</sup> in all-government. Otherwise, the state fell into the bottom half in takings and taxation (37<sup>th</sup> in all-government and 39<sup>th</sup> in state and local); and size of government area, where it ranked 28<sup>th</sup> and 49<sup>th</sup> in all-government (a measurement where it has never been higher than 41<sup>st</sup>). Its effective state and local tax burden of 9.8% is right in the middle of the 50 states but, when federal taxes are added, its burden drops to 39<sup>th</sup>.

### California

Overall, California's rankings have remained relatively consistent over the past several years, now standing at 26<sup>th</sup> for the all-government level and 44<sup>th</sup> state and local. This gap is also reflected in two of the 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 subnational level (45<sup>th</sup>). Similarly, all-government placed higher in takings and discriminatory taxation (32<sup>nd</sup>) than state and local (47<sup>th</sup>). Both labor market freedom measurements were 43<sup>rd</sup>. California's state and local tax burden has improved, dropping down to the middle of the states, but its state-level sales tops the country at 7.25%.

## Colorado

Colorado continues to play its role as one of the stars of economic freedom, holding on to 2<sup>nd</sup> in all-government overall and maintaining single digit status in the subnational rankings at 9<sup>th</sup>. With one exception—the state and local measurement for takings and taxation, where it ranked 15<sup>th</sup>—Colorado was in the top 10 in all comparisons. For size of government, it ranked 4<sup>th</sup> in the all-government list for the fifth straight year and dropped slightly to 8<sup>th</sup> in state and local. In labor market freedom, it finished 3<sup>rd</sup> in the all-government group and 10<sup>th</sup> in state and local. Its all-government takings and taxation ranked Colorado at 8<sup>th</sup>. The state's general use and sales tax (2.9%) remains the lowest in the country for those states that have one. Only 10 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 and most have higher cigarette taxes.

## Connecticut

Connecticut places 18<sup>th</sup> overall in the all-government ratings and 26<sup>th</sup> in the state and local comparison. Its size of government ranking has been in single digits in the all-government measurement since the 1980s (now standing at 8<sup>th</sup>) and it has been slowly improving in the subnational group to 16<sup>th</sup>. The 2002 ratings confirmed the fall-off in the state's one-time strong suit, labor market freedom, dropping seven places to 22<sup>nd</sup> all-government and 12 places to 35<sup>th</sup> subnational. The takings and taxation results were not much help to Connecticut's overall standings: 42<sup>nd</sup> all-government, 27<sup>th</sup> state and local. Its general sales and use tax is at the high end at 6%. Its gasoline tax of 25¢ per gallon is tied for sixth highest in the country. The effective state and local tax burden has dropped slightly to 9<sup>th</sup> highest in the country (from 6<sup>th</sup>) but its total tax burden (32.3% with federal taxes added) remains the worst.

## Delaware

Delaware continues to go from strength to strength, placing 1<sup>st</sup> in overall economic freedom in both the all-government (an unbroken streak since 1986) and state and local rankings (a category where it began an undistinguished 33<sup>rd</sup> in 1981). In terms of government size, it was rated 1<sup>st</sup> both in all-government (another unbroken post-1986 run) and state and local (five years running). It was 1<sup>st</sup> in both measurements of takings and taxation (the all-government record stretching back to 1990) and moved into 1<sup>st</sup> in labor market freedom at all-government level. The only double-digit blemish came in Delaware's state and local labor market freedom ranking at 13<sup>th</sup>. Delaware has no general sales and use tax. Its effective state and local tax burden is lower than all but two other states (adding the federal burden moves it up to 33<sup>rd</sup> on the list).

## Florida

Florida made a major improvement in its overall all-government economic freedom ranking, jumping from 31<sup>st</sup> to 18<sup>th</sup>. It has been in single digits in the subnational measurement since 1981 and in 2002 was 3<sup>rd</sup>. When size of government was taken into consideration, it ranked considerably higher in the state and local comparisons than in the all-government group, 11<sup>th</sup> as compared to 27<sup>th</sup>. That pattern held true in taxation and takings (18<sup>th</sup> subnational and 40<sup>th</sup> all-government) and labor market freedom (1<sup>st</sup>—and never below 2<sup>nd</sup> in the last 21 years—and 5<sup>th</sup>). Its effective state and local tax burden of 8.8% puts it near the bottom among the states. Florida's general sales and use tax is at the high end (6%). Once the nation's-lowest, its gasoline tax has moved up to fourth lowest in the United States.

## Georgia

Georgia has solid ratings on most measurements of economic freedom, placing 4<sup>th</sup> overall in the all-government area and 10<sup>th</sup> in state and local. Its rankings for size of government were 11<sup>th</sup> all-government and 8<sup>th</sup> subnational; in takings and taxation, Georgia ranked 8<sup>th</sup> and 18<sup>th</sup>. Its best showing was in the all-government rankings for labor market freedom, where it was 3<sup>rd</sup>, making 13 straight years in the top five. It was 10<sup>th</sup> in the state and local comparison. Georgia is one of several states tied for the second-lowest state-level sales tax (4%) among those that have one and its gasoline tax is the lowest in the country at 7.5¢. Its effective state and local tax burden (10%) is exactly the national average.

## Hawaii

Hawaii may bask in the sunshine but the light doesn't brighten the picture much where economic freedom is concerned. The state was 44<sup>th</sup> in both overall rankings and never cracked 30<sup>th</sup> in any of the three major areas of comparison. The best showing came in size of government, where the state ranked 41<sup>st</sup> all-government and 36<sup>th</sup> subnational. Takings and taxation stood at 32<sup>nd</sup> and 49<sup>th</sup>, respectively, with labor market freedom ranking 50<sup>th</sup> and 49<sup>th</sup>. Hawaii's combined state and local tax burden is tied for third highest with Ohio, although when combined with the federal tax burden, the state is about average. On the other hand, at 4%, the state-level sales tax is tied at second lowest of the states that impose one, and only seven states have a lower gasoline tax. What beer drinkers save on gas tax, though, they'll need for suds: Hawaii's beer tax of 93¢ is by far the highest in the country.

## Idaho

Idaho has shown little change over the past several years in its overall rankings, which in 2002 were 31<sup>st</sup> in all-government and 35<sup>th</sup> for the fourth straight year in the subnational area. It ranked 37<sup>th</sup> in all-government and 28<sup>th</sup> in the state and local size of government comparison, and 26<sup>th</sup> and 42<sup>nd</sup> in the takings and taxation category. The best showing came in labor market freedom, where it ranked 22<sup>nd</sup> all-government and 25<sup>th</sup> state and local. Idaho may not be setting the world alight but at least it is consistent—none of the eight measurements changed more than three places from 2001. The state has one of the higher combined state and local tax burdens at 10.4% and a high state-level sales tax at 6%.

## Illinois

Most of Illinois' rankings fell slightly from 2001. In the overall all-government measurement, it dropped three spots to 15<sup>th</sup>, and in state and local from 16<sup>th</sup> to 22<sup>nd</sup>. Takings and taxation were also slightly off, to 26<sup>th</sup> all-government and 21<sup>st</sup> subnational. There was a bigger drop of 11 places to 30<sup>th</sup> in all-government labor market freedom, while state and local ranked 20<sup>th</sup>. Illinois' best showing for years has been in the size of government national area (single digits since 1984, 8<sup>th</sup> in 2002), while it ranked 22<sup>nd</sup> subnational. The combined state and local tax burden is slightly below the national average at 9.7% but, at 6.25%, its state-level sales tax is among the nation's highest.

## Indiana

Indiana, like its neighbor Illinois, was off somewhat in the overall measures for economic freedom—it just fell from a higher place, dropping slightly to 10<sup>th</sup> all-government and 13<sup>th</sup> in the subnational rankings. In the size of government area, it was down to 17<sup>th</sup> and 8<sup>th</sup>, respectively; in takings and taxation, it was 11<sup>th</sup> all-government (after three years at 7<sup>th</sup>) and repeated in the subnational rankings at 8<sup>th</sup>. Labor market freedom is historically Indiana's weak suit but the all-government numbers continued their slow rally to 16<sup>th</sup>, although the subnational rankings repeated at 25<sup>th</sup>. Indiana's combined state and local tax burden has increased slightly to 10.1%, just topping the national average. Its 6% state sales tax puts it at the high end among states that impose one. The Hoosier State's 15¢ per gallon gasoline tax is toward the low end of the scale, as is its beer tax of 12¢ per gallon.

## Iowa

Iowa's overall rankings on economic freedom are up slightly to 18<sup>th</sup> in the all-government area and 24<sup>th</sup> subnational, and most of its numbers are in the middle range. In terms of government size, Iowa fell to 30<sup>th</sup> all-government and was almost unchanged at 22<sup>nd</sup> in the subnational area, while takings and taxation showed little movement at 15<sup>th</sup> and 23<sup>rd</sup>. Historically, labor market freedom was a reliable area. After being either 8<sup>th</sup> or 9<sup>th</sup> all through the 1980s, however, its subnational ranking of 30<sup>th</sup> in 2002 was the best since 1990, while the all-government ranking made a substantial move up to 16<sup>th</sup>. The state and local tax burden is just below the national average at 9.8%, although when the federal burden is added to the mix, only eight states tax less than Iowa.

## Kansas

Kansas is another state in which economic freedom is neither supreme nor defeated: it ranked 26<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 16<sup>th</sup> (national was 24<sup>th</sup>). Takings and taxation finished 28<sup>th</sup> in all-government and 34<sup>th</sup> in state and local. The state's labor market freedom ranking jumped six places to 22<sup>nd</sup> in the all-government area, while the subnational ranking has been the state's strongest for several years, now standing at 14<sup>th</sup>. Kansas ranks a shade below the national average in terms of combined state and local tax burden at 9.9%. At 24¢ per gallon, its gas tax is slightly on the high side but the ghost of Carry Nation no longer stalks the Kansas prairie: taxes on spirits, table wine, and beer are among the country's lowest.

### Kentucky

Kentucky rates 33<sup>rd</sup> overall in the all-government list (confirming its drop-off there over the past several years) and 28<sup>th</sup> subnational, a slight uptick. Both size of government measurements have fallen off, all-government to 45<sup>th</sup>, state and local to 31<sup>st</sup>; takings and taxation were ranked at 22<sup>nd</sup> and 27<sup>th</sup>. Labor market freedom rankings confirmed the state's middle-of-the-pack status at 29<sup>th</sup> and 30<sup>th</sup>, in both cases close to rankings of recent years. The effective state and local tax burden has risen somewhat to reflect the national average of 10% but, with the federal tax burden included, Kentucky drops to 36<sup>th</sup> nationally. While the state sales tax is high at 6%, sin continues to avoid being heavily taxed: Kentucky's 3¢ cigarette tax is now the country's lowest, beer is tied for 3<sup>rd</sup> lowest, and table wine is comparatively lightly taxed.

### Louisiana

What's happened to Louisiana? A state that was in low single digits a decade ago in both overall groups has slid over the past 10 years to stand at 37<sup>th</sup> all-national and 26<sup>th</sup> subnational. With one exception, each of the six area breakdowns reflects the same woeful slide. The single good showing is in the state and local labor market freedom ranking, where it has been 7<sup>th</sup> since 1996. However, the all-government number has slipped eight places to 36<sup>th</sup>. The government size ranking in the all-government measurement hit an all-time low of 45<sup>th</sup>, with the state and local an equally bottom-scraping 43<sup>rd</sup>. Takings and taxation—no worse than 4<sup>th</sup> as late as 2000, and frequently 1<sup>st</sup> or 2<sup>nd</sup>—stood at 28<sup>th</sup> in 2002 all-government and 33<sup>rd</sup> subnational, also both all-time worst. Louisiana's state and local sales tax burden, just below the national average, gets a break when the federal burden is added (7<sup>th</sup> lowest). Also on the bright side, although "bright" is relative, the state-level sales tax is tied for second lowest among states that have one, the spirits tax is low, the gas tax at 20¢ is about in the middle of national range, and the state tax on table wine is still the lowest in the country at 11¢ per gallon. That's gallon.

### Maine

Maybe it's the winters but Maine continues to give a cold shoulder to economic freedom's sunny overtures. The state has never been above 40<sup>th</sup> in either of the overall categories and, in 2002, stood at 48<sup>th</sup> all-government and 49<sup>th</sup> subnational. The breakdowns were unrelievedly gloomy: size of government 47<sup>th</sup> and 46<sup>th</sup>, respectively, takings and taxation 48<sup>th</sup> and 55<sup>th</sup>, and labor market freedom was 41<sup>st</sup> in both measurements. Only New York hits residents with a higher state and local tax burden, at 12.3% a full percentage point above number-three Ohio (the state has the sixth-highest tax rate when the federal burden is added). At 5%, the state sales tax is below that of the top-tier states (6% and above).

### Maryland

The Old Line State's overall numbers both show modest improvement from two years ago, the all-government ranking moving from 38<sup>th</sup> to 33<sup>rd</sup>, the subnational from 24<sup>th</sup> to 17<sup>th</sup>. The same two-year period improvement holds for government size (42<sup>nd</sup> to 32<sup>nd</sup>, all-government, 28<sup>th</sup> to 20<sup>th</sup> subnational). Changes in the other two major areas were less dramatic. All-government takings and taxation actually dropped to 37<sup>th</sup> while the state and local ranked 23<sup>rd</sup>. Labor market freedom all-government also went down slightly to 30<sup>th</sup> while the subnational ranking, the state's best-performing measurement over the last decade, was 14<sup>th</sup>. Like a number of states, Maryland hovers around the national average for combined state and local tax burden at 9.9% but is at number 15 on the overall tax list after the federal burden is folded in. Its various alcohol taxes are at or below average, especially beer at 11¢.

### Massachusetts

Over 20 years, Massachusetts has gradually worked its way into solid top-20, if not yet spectacular top-10, status in most areas—although it did reach 10<sup>th</sup> on the all-government overall list (it was 17<sup>th</sup> subnational). Both of its government size rankings tailed off (13<sup>th</sup> all-government, 16<sup>th</sup> state and local) while labor market freedom edged up slightly (16<sup>th</sup> and 20<sup>th</sup>, respectively.) Its big gain came in takings and taxation, where it was stable in the subnational area at 15<sup>th</sup>, but in all-government moved to 12<sup>th</sup> from 22<sup>nd</sup> in 2001 and 36<sup>th</sup> in 2000. Not surprisingly, Massachusetts's combined state and local tax burden is below the national average at 9.4% (although once the federal tax burden is added only three states have a bigger bill). Its cigarette and spirits taxes are relatively high, although the state tax on beer is among the lowest.

### Michigan

Michigan is typical of states that have become gradually hospitable to economic freedom since the 1980s. If the current rankings aren't yet top-10 material it's because the state had so far to come. Until the mid-1990s, Michigan's overall numbers were in the 30s and 40s. In 2002, its all-government ranking was 18<sup>th</sup>, subnational 28<sup>th</sup>. In government size, in the all-government area, it's been 18<sup>th</sup> four years running. And while 28<sup>th</sup> is still below the halfway point in the state and national rankings, Michigan spent the period from 1981 to 1991 (sometimes deep) in the 50s. In takings and taxation, the state was 18<sup>th</sup> in the national and 21<sup>st</sup> subnational. The one area in which it has yet to catch fire (that is, rarely broken into the top-40) is labor market freedom. In 2002, its ranking was 38<sup>th</sup> in all-government and 43<sup>rd</sup> subnational. Michigan's state and local tax burden is slightly above the national average at 10.2% and the state sales tax is among the highest at 6%.

### Minnesota

Minnesota improved its overall rankings slightly from 2001 to 15<sup>th</sup> all-government and 35<sup>th</sup> subnational—although even 35<sup>th</sup> represents the highest ever ranking in that area. The state shows other wide variations between the two measurements. The all-government rank for government size is 11<sup>th</sup>; for state and local, it's 36<sup>th</sup>. Labor market freedom rankings are 16<sup>th</sup> in the national and 25<sup>th</sup> subnational; takings and taxation are 28<sup>th</sup> and 38<sup>th</sup>. Minnesota's tax burden is relatively high—10<sup>th</sup> for combined state and local, 12<sup>th</sup> after federal taxes are added. At 6.5%, its state sales tax is tied as the nation's fourth highest. Its spirits tax is also high, although taxes on table wine (30¢) and beer (15¢) are among the lowest.

### Mississippi

Mississippi's competitive score in the subnational labor market freedom measurement (6<sup>th</sup>; all-government was 43<sup>rd</sup>) was about the only high point for a state whose rankings have either never impressed or have fallen markedly over the past several years. In the overall measurements of economic freedom, the all-government ranking has never topped 42<sup>nd</sup> and is now 49<sup>th</sup>. The subnational, 14<sup>th</sup> in 1995, is now 33<sup>rd</sup>. The all-government ranking for takings and taxation (consistently in the 20s until 1998) was 42<sup>nd</sup> in 2002; state and local has gone down almost yearly for a decade to 43<sup>rd</sup>. The subnational size of government ranking has also dropped to 46<sup>th</sup>, while the all-government (which had a best-ever showing of 49<sup>th</sup>) now stands at 58<sup>th</sup>, better than only Prince Edward Island and West Virginia. The federal tax burden at least doesn't add to Mississippi's woes; the state is number 45 on the local/state/federal tax-bite list. But Mississippi imposed its own 7% sales tax, only a quarter-point behind the highest in the nation. At 18¢ each, the gasoline and cigarette taxes are among the lowest in the country.

### Missouri

Missouri ranks 18<sup>th</sup> overall in the all-government rankings and 17<sup>th</sup> in state and local, with respectable scores in both takings and discriminatory taxation (15<sup>th</sup> and 13<sup>th</sup>) and somewhat lower ones in labor market freedom (22<sup>nd</sup> and 25<sup>th</sup>). The state fares worst in the all-government measurement for size of government, coming in 32<sup>nd</sup>, although in the state and local rankings it placed 16<sup>th</sup>. It has one of the lowest state sales taxes among the states that charge one, at 4.25%. It's in the bottom quintile on the gas tax, has one of the lowest table wine taxes (30¢), and the second lowest tax nationally on beer (6¢). 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 9.3%.

## Montana

Montana was 50<sup>th</sup> in the overall all-government rankings, which is about where it has languished since 1985. The subnational ranking has fought its way up to 43<sup>rd</sup>. Takings and taxation rankings are 44<sup>th</sup> and 34<sup>th</sup> (the latter the best showing in any area for the state), while labor market freedom rankings were 47<sup>th</sup> and 43<sup>rd</sup>. The all-government measure for government size dropped to the mid-50s in 1985 and is now 57<sup>th</sup>, while the subnational ranking for the category is 46<sup>th</sup>. The combined state and local tax burden is just below the national average at 9.8% and the state is one of the five that imposes no state sales tax. Driving to a more economically friendly state will be pricey—only five states have a higher gasoline tax.

## Nebraska

Nebraska's overall rankings for economic freedom have spent most of their time in the 'teens and did again in 2002: 17<sup>th</sup> in the all-government rankings and 15<sup>th</sup> in the state and local. After briefly peaking in the mid-1990s, the all-government measure of size of government settled in at 19<sup>th</sup>, although the subnational figure—number one for seven consecutive years starting in 1990—repeated at 4<sup>th</sup>. Takings and taxation ranked 22<sup>nd</sup> all-government, 30<sup>th</sup> subnational; in labor market freedom the state was 13<sup>th</sup> and 23<sup>rd</sup>. Nebraska is slightly over the national average for its state and local tax burden (10.2%), and the gasoline tax is relatively high at 24.6% (although it is adjusted periodically).

## Nevada

Nevada was a solid performer across the board, not falling below 22<sup>nd</sup> in any of the eight areas of measurement. In terms of overall economic freedom the state ranked 7<sup>th</sup> in all-government and 10<sup>th</sup> in the state and local measurement. Size of government provided the best showing, with Nevada finishing 3<sup>rd</sup> in the all-government rankings (it hasn't been below 5<sup>th</sup> since 1988), and coming in 4<sup>th</sup> in state and local. In takings and taxation, Nevada was 22<sup>nd</sup> and 18<sup>th</sup>, respectively, while in labor market freedom it was 11<sup>th</sup> and 19<sup>th</sup>. Nevada is below the national average for the combined state and local sales tax, although the addition of the federal tax burden moves it to 9<sup>th</sup> on the most-taxed list. Nevada's state sales tax is near the top at 6.5%

## New Hampshire

New Hampshire has had the occasional stumble over the past 20-plus years but usually recovers quickly. In its welcoming of economic freedom, it has been a sound performer, finishing 7<sup>th</sup> overall in the all-government rankings and 4<sup>th</sup> in the state and local, and topping that in the government size area at 5<sup>th</sup> and 2<sup>nd</sup>. The closest New Hampshire came to a let-down was in the all-government measurement of takings and taxation, where it finished 18<sup>th</sup> (though 2<sup>nd</sup> in the subnational). The state was ranked 5<sup>th</sup> and 14<sup>th</sup> for labor market freedom. Only Alaska has a lower state and local tax burden than New Hampshire's 7.5%, and there is no state sales tax.

## New Jersey

New Jersey's modest improvements gave the state its highest rankings in overall economic freedom in a number of years, 18<sup>th</sup> in the all-government area and 28<sup>th</sup> in the subnational. Size of government provided the best showing at 5<sup>th</sup> all-government and 20<sup>th</sup> subnational. It finished 22<sup>nd</sup> and 30<sup>th</sup> in the labor market freedom measurement. Takings and taxation has always been the state's trouble spot, at least in the all-government rankings, where it has been as low as the high 50s and in 2002 finished 44<sup>th</sup>, with a state and local ranking of 34<sup>th</sup>. New Jersey is only  $\frac{1}{10}$  of a point above the national average for state and local tax burden but, once the federal boom is lowered, the state is the third most taxed in the country and imposes a high 6% state sales tax. On the other hand, the 10½¢ gasoline tax is bested by only two states.

## New Mexico

New Mexico's climate for economic freedom has worsened steadily over the past two decades, to the point that, by 2002, its overall all-government ranking was 50<sup>th</sup>, while the subnational was 44<sup>th</sup> for the fifth straight year. Size of government helped sink the overall ratings, coming in at 55<sup>th</sup> all-government and 54<sup>th</sup> state and local. Takings and taxation provided no help, coming in at 48<sup>th</sup> all-government (in free fall since finishing 12<sup>th</sup> just

two years earlier) and 43<sup>rd</sup> subnational. In the labor market freedom area, it was ranked 41<sup>st</sup> and 35<sup>th</sup>. At 9.7%, its state and local tax burden is a bit below the average as is the gasoline tax at 17¢. And don't try drowning your sorrows; all three alcohol-related taxes are among the nation's highest.

### **New York**

New York ranks 40<sup>th</sup> in the all-government figures for economic freedom and 49<sup>th</sup> in the subnational area, and little in any of the major measurements suggests a breakout is in the offing. In terms of government size, the state ranks 27<sup>th</sup> all-government, tying its worst showing ever, and, in the subnational area, it's a dismal 56<sup>th</sup> (and has never topped 47<sup>th</sup>). In takings and taxation, the state has tumbled to 46<sup>th</sup> all-government and is 47<sup>th</sup> subnational; in labor market freedom, New York ranked 45<sup>th</sup> and 46<sup>th</sup>. Part of the sluggishness could be tax-related: the Empire State's 12.9% state and local tax burden is the nation's highest and, when the federal tax burden is added, only Connecticut's citizens pay more. Its other tax rates are all over the board: a low 4.25% sales tax (due to go to 4% in mid-2005) and a beer-friendly 11¢ per gallon tax on suds, but the highest gasoline tax in the country at 32.7¢ and the third-highest tax on spirits.

### **North Carolina**

North Carolina has never been out of single digits in its all-government ranking of overall economic. In 2002, it was 2<sup>nd</sup> (only Delaware rated higher), while also finishing 10<sup>th</sup> in the subnational area. Its size of government rankings were 14<sup>th</sup> and 15<sup>th</sup>, respectively, and that's about as bad as the news gets for North Carolina. In takings and taxation the state finished 3<sup>rd</sup> in the all-government group and tied a best-ever 10<sup>th</sup> state and local. Measuring labor market freedom, North Carolina finished 1<sup>st</sup> all-government for the 14<sup>th</sup> time in the last 17 years, and 10<sup>th</sup> in the subnational group. The state and local tax burden is below the national average and even the federal add-ons still leave more than 30 states with higher total tax hits. The Old North State's sales tax is low at 4.5% and the cigarette tax, at a nickel, is the second lowest in the country, although only a handful of states have a higher gasoline tax.

### **North Dakota**

North Dakota ranks 45<sup>th</sup> in the all-government numbers for overall economic freedom and a considerably higher 28<sup>th</sup> in the state and local area. The disparity can be explained in part by its showing in government size where, despite the subnational ranking snapping back to 22<sup>nd</sup> (its best showing in 20 years), the all-government ranking was 55<sup>th</sup> for the fourth year in a row. Takings and taxation were 32<sup>nd</sup> all-government and 30<sup>th</sup> subnational, and labor market freedom not dissimilar at 30<sup>th</sup> and 35<sup>th</sup>. The state and local tax burden was below the national average, the federal additions were low enough that the overall burden was only 42<sup>nd</sup> among the states. The state sales tax was below that of the highest group of taxing states at 5%.

### **Ohio**

Ohio dropped to 31<sup>st</sup> overall in the all-government rankings of economic freedom after spending a half-decade in the mid-20s. Its subnational rankings has never topped 34<sup>th</sup> and in 2002 stood at 40<sup>th</sup>. The rest of the groups follow that same just-below-average pattern. The government size rankings are 27<sup>th</sup> all-government and a brutal 54<sup>th</sup> in the state and local comparisons; and takings and taxation were 32<sup>nd</sup> and 39<sup>th</sup>. Its labor market freedom rankings were 30<sup>th</sup> all-government and 25<sup>th</sup> subnational. Ohio suffers the third highest state and local tax burden at 12.3%. It has had a high 6% sales tax, although it is scheduled to revert to 5% in mid-2005. Only a handful of states have a higher tax on gasoline.

### **Oklahoma**

If this were the 1985 report, looking back on the first four years of data, Oklahoma would be one of the country's stars. What a difference two decades make. Then, the state was in the mid-'teens or better in all eight measurements. In 2002's overall measurements of economic freedom, the state's all-government ranking was 43<sup>rd</sup> and it came in at 37<sup>th</sup> in the subnational group. Size of government yielded a 48<sup>th</sup> all-government and 32<sup>nd</sup> state and local, while takings and taxation both dropped to 40<sup>th</sup> and 39<sup>th</sup>. The labor market freedom numbers were simi-

larly close and undistinguished: 36<sup>th</sup> and 35<sup>th</sup>. And the state isn't fighting a killer tax bill: its combined state and local tax burden of 9.2% puts it closer to the bottom than the top, and it fouls off the federal inside pitch, coming in as the 46<sup>th</sup> most-taxed state. Furthermore, its state sales tax is low at 4.5%, the gasoline tax is among the handful of lowest states at 16¢, and the cigarette tax is lower than most states.

### Oregon

Unlike Oklahoma, which started out golden and turned to lead, Oregon began far down the lists of economic freedom and has fought its way up to semi-respectability: 33<sup>rd</sup> in the overall all-government rankings (from a first decade spent in the 40s) and 40<sup>th</sup> subnational (a relapse from the period when it reached the 30s). "Relapse" sums up the state's size-of-government experience, doing better earlier, now sitting 36<sup>th</sup> at all-government and 57<sup>th</sup> subnational. Labor market freedom doesn't provide the good news with its predictable 45<sup>th</sup> all-government and 46<sup>th</sup> subnational. The overall boost comes from the state's numbers in takings and taxation, a steady climb over time to 12<sup>th</sup> all-government and 15<sup>th</sup> state and local (the latter was off the scale at 52<sup>nd</sup> in the late 1980s). The state's 9.5% state and local sales tax burden is below the national average and the federal additions aren't that hurtful. There's no state sales tax, the alcohol-related taxes are low (especially beer at 8¢ per gallon). Only a few states have a higher gasoline tax at 24¢ per gallon.

### Pennsylvania

Pennsylvania, like Oregon, has been on an improving track regarding economic freedom but has put on a more concerted push the last five years, ranking 18<sup>th</sup> all-government and 24<sup>th</sup> subnational in the overall measurements (and this from a state that in 1981 was in the 40s in most categories). The state isn't doing it on its size of government showing (32<sup>nd</sup> in both indices), but the scores pick up with labor market freedom (16<sup>th</sup> and 20<sup>th</sup> all-government and subnational) and are even a bit better in takings and taxation, where Pennsylvania ranked 18<sup>th</sup> and 10<sup>th</sup>, respectively (the latter measurement has always been its strongest). The state and local tax burden is below-average 9.4%, the sales tax a top-tier 6%. But few states say "get in the car and drive" like Pennsylvania with its third-lowest 12¢ gasoline tax and beer is at the bottom as well with the state's membership in the 8¢-a-gallon club.

### Rhode Island

Rhode Island just refuses to improve: 51<sup>st</sup> overall in the all-government measurement in 1981, 45<sup>th</sup> in 2002; 51<sup>st</sup> subnational then, 51<sup>st</sup> now. Its size of government rankings bear out the overall assessment: 41<sup>st</sup> all-government, 58<sup>th</sup> state and local (and never better than 51<sup>st</sup> in the past decade-plus). Takings and taxation are a mostly-50s nightmare since 1981, finishing in 2002 at 50<sup>th</sup> in both areas. When a state's high points are in the mid-to-low 30s, it's a sign of trouble, and that's where Rhode Island is with labor market freedom: 38<sup>th</sup> all-government and 35<sup>th</sup> state and local. The state has the fifth highest state and local tax burden (11.1%) and is also number five when federal taxes are added. At 7%, its state sales tax (along with Tennessee's) is second only to California's as the nation's highest, and it also ties for second at 30¢ for the highest gasoline tax. Table wine and beer taxes are on the cheap side. Otherwise, reach for your wallet.

### South Carolina

South Carolina is an example of a state where a single excellent rating can nudge so-so numbers up to a decent overall position. The state ranks 26<sup>th</sup> overall in the all-government category and 17<sup>th</sup> in the state and local measurements (a drop from a 15-year single-digit run through 1995). Both size of government ratings dropped from the previous year to 41<sup>st</sup> all-government and 39<sup>th</sup> subnational—a five- and six-place drop, respectively; takings and taxation finished at 22<sup>nd</sup> and 27<sup>th</sup>. South Carolina's ace in the hole has always been labor market freedom. It ended its long single-digit run in the all-government area, but still came in at 13<sup>th</sup> in 2002. In the subnational measurement, the state was number one except two years at number two every year from 1981 through 1995. It's now at its all-time low of 4<sup>th</sup>. South Carolina's state and local tax burden is a low 9% and only three states are more lightly taxed when the federal burden is added. The sales tax is down from the top tier at 5%, the gasoline tax low at 16¢, and the cigarette tax is the nation's third lowest at 7¢.

### South Dakota

As has been noted here before, what a difference an adjective makes. The difference may not be quite as pronounced this year, but North Dakota still may have something to learn about economic freedom from its southern neighbor. South Dakota ranks 18<sup>th</sup> all-government and 8<sup>th</sup> subnational in the overall measurements. Its rankings would be higher but for one of the six area measurements, size of government, where the all-government ranking fell back to 41<sup>st</sup> (although the subnational rating continued a 13-year single-digit run to finish 6<sup>th</sup>). Otherwise, the state was 8<sup>th</sup> all-government in takings and taxation and 6<sup>th</sup> for the fourth year in the state and local group. Labor market freedom has slowly rounded into form over the years to reach 10<sup>th</sup> all-government and 17<sup>th</sup> subnational. The state and local tax burden is a full percentage point under the national average and South Dakota is only the 43<sup>rd</sup> most-taxed state when federal taxes are folded in. State sales and gasoline taxes are both low at 4¢ and 16¢.

### Tennessee

Tennessee continues to display solid economic freedom credentials across the board, placing 10<sup>th</sup> overall in the all-government category and repeating at 2<sup>nd</sup> subnational, where it had an unbroken number one streak from 1988 to 2000. Once the state gets past size of government (24<sup>th</sup> all-government, 13<sup>th</sup> subnational) it is clear sailing: 6<sup>th</sup> and 5<sup>th</sup>, respectively, in takings and taxation, 11<sup>th</sup> and 3<sup>rd</sup> in labor market freedom. In the subnational measurement for labor market freedom, Tennessee has been either 3<sup>rd</sup> or 4<sup>th</sup> every year since 1981, one of the few long, unbroken streaks of exemplary performance. Only three states have a lower state and local tax burden and only two are worse off when the federal burden is folded in. The Volunteer State pulls it off despite being tied to the second highest state sales tax, although its gas, beer, and cigarette taxes are on the low side.

### Texas

When a state's overall ratings for economic freedom draw attention by dropping to 4<sup>th</sup> all-government and 7<sup>th</sup> subnational, it can be forgiven for not breaking into a cold sweat just yet. That's where Texas finds itself. It has never been out of single digits in either overall category since 1981, putting it in the longest-streak pantheon with Delaware and Tennessee. As for the three major measurements, pick a category, any category: in size of government, Texas ranks 8<sup>th</sup> all-government and 7<sup>th</sup> state and local; in takings and taxation, it's 12<sup>th</sup> and 8<sup>th</sup> (the latter another post-1981 single-digit streak); in labor market freedom, its 2002 rankings were 5<sup>th</sup> and (another single-digit run since 1981) and 7<sup>th</sup>. Texas does this with a high 6.25% state sales tax, but with moderate gasoline and sin taxes (including the third-lowest table wine tax). Its state and local tax burden is higher than only four other states, although, when the federal onus is added, it moves to the middle of the pack of 50 states.

### Utah

Utah ranked 7<sup>th</sup> in the all-government group overall for the third consecutive year in 2002 and 15<sup>th</sup> in the state and local index, its best showing ever in that measurement. It was a solid, if not spectacular, performer in all categories, beginning with size of government, where it pulled a 14<sup>th</sup> ranking all-government and 22<sup>nd</sup> state and local. In labor market freedom, it has chipped away at low scores over the years to reach 13<sup>th</sup> all-government and 17<sup>th</sup> subnational. Its best numbers come in takings and taxation, 4<sup>th</sup> and 13<sup>th</sup>, respectively. Utah has done it with the seventh highest state and local tax burden of 10.8%, although it settles into the middle of the states with the federal taxes added. The sales tax is low at 4.75%, the gasoline tax on the high side at 24.5¢.

### Vermont

Vermont rallies periodically only to fall back in terms of economic freedom. In the overall measurement, it flirted with the 20s more than a decade ago in the all-government group, but finished in 2002 at 40<sup>th</sup>. It managed a 39<sup>th</sup> in the subnational area. Another flurry years ago in the size of government category faded and the state's all-government ranking was 37<sup>th</sup> (the subnational caught an updraft this time to 36<sup>th</sup>). Takings and taxation, never a strength, yielded a 47<sup>th</sup> and a 43<sup>rd</sup>. In labor market freedom, Vermont is trying to recapture once-respectable numbers, moving up to 30<sup>th</sup> in both the all-government and subnational rankings. The local and state tax burden is over the national average by 0.4% and it's number 16 on the most-taxed list after federal taxes are added. Its sales tax is high at 6%.

## Virginia

In its overall rankings for economic freedom, Virginia has marched steadily over the long haul to the top-10 in the all-government ranks (10<sup>th</sup> in 2002). It's been there in single digits since 1983 in the subnational rankings and in 2002 moved up to the number-4 spot. Historically, its state and local numbers have trended higher but most of the rankings in the three major subgroups meet in or near the top 10. In 2002, it was 7<sup>th</sup> in both measurements for takings and taxation and 8<sup>th</sup> in all-government (a drop from the number-2 spot) and 9<sup>th</sup> in subnational (for the sixth straight year) in labor market freedom. The all-government showing for government size was the only flaw at 30<sup>th</sup>, although that was almost a historical low. The state and local ranking jumped to 2<sup>nd</sup> overall. Virginia's state and local tax burden is below the national average at 9.3% and its state sales tax is 5%. The 17.5¢ gasoline tax is lower than most states.

## Washington

The Evergreen State ranks 33<sup>rd</sup> and 40<sup>th</sup> overall in the all-government and subnational rankings for economic freedom and those below-average showings reflect most of the sub-categories. To lead with its best foot (size of government), Washington ranks 19<sup>th</sup> (close to its best all-time) all-government and 39<sup>th</sup> subnational. Takings and taxation struggled out of years in the 40s to 32<sup>nd</sup> all-government and came in at 30<sup>th</sup> state and local. The 40s have been home for its labor market freedom scores for a long time and Washington didn't leave home, ranking 49<sup>th</sup> in both measurements. Washington's state and local tax burden is just under the national average but, in this case, the federal additions are killers, moving Washington up to seventh on the most-taxed list. The state sales tax is among the nation's highest at 6.5%, the gasoline tax is the fourth highest at 28¢ per gallon, and only a few states make it more expensive to smoke.

## West Virginia

If there is an economics version of life support, it's time to put West Virginia on it. Let's start with the good news: in labor market freedom, the state has bulled its way to 47<sup>th</sup> all-government and 46<sup>th</sup> subnational. Now that we've dispensed with the good news, West Virginia's overall rankings for economic freedom were 53<sup>rd</sup> all-government and a record low 56<sup>th</sup> state and local. Takings and taxation were 50<sup>th</sup> and 53<sup>rd</sup>. The size of government ranking, always bad, is now last at 60<sup>th</sup> in both categories. West Virginia is the eighth most taxed with a state and local burden of 10.6%, although it dodges the federal bullet to fall to the 38<sup>th</sup> most-taxed. The state sales tax is high at 6%.

## Wisconsin

Wisconsin finished 26<sup>th</sup> in the national and 37<sup>th</sup> in the subnational ratings for overall economic freedom and in the size of government area was 19<sup>th</sup> and 42<sup>nd</sup>, respectively. The same split has held historically for labor market freedom, and came through again in 2002, with the all-government ranking at 22<sup>nd</sup> and the state and local at 30<sup>th</sup>. Takings and taxation were closer, both having fought back from historically higher scores to 37<sup>th</sup> and 34<sup>th</sup>. Wisconsin has the sixth highest state and local tax burden in the nation at 11.1% and slaps the third highest tax on gasoline at 28.5%. On the other hand, wine and beer taxes (the latter the country's third lowest) are a bargain.

## Wyoming

The economic freedom data show that 20 years ago Wyoming was one of the star performers but, as occasionally happens, times change. In 2002, the state had to rally to make 26<sup>th</sup> on the overall all-government list and slipped slightly to 28<sup>th</sup> in the subnational measurement. Its early 1980s single-digit rankings for government size have been replaced by a 24<sup>th</sup> all-government and 27<sup>th</sup> subnational. A similar fate befell labor market freedom, now at 22<sup>nd</sup> and 40<sup>th</sup>. In takings and taxation, Wyoming's glory days are much more recent, though today's results are the same: 28<sup>th</sup> all-government (from 5<sup>th</sup> as recently as 1996) and 26<sup>th</sup> state and local (4<sup>th</sup> in 1996). The state has a very low state and local tax burden at 8.9% but no other state is hit with a bigger jolt when federal taxes are added in, rocketing Wyoming to the eighth most-taxed spot in the national rankings. The 4% state sales tax is as low as it gets among states that have one, and only two states charge a lower gasoline tax than Wyoming's 14¢. The nation's lowest tax on beer is so small they needn't bother: 2¢.