

# Economic Freedom of North America 2016

by Dean Stansel, José Torra, and Fred McMahon

*Economic Freedom of North America 2016* is the twelfth edition of the Fraser Institute's annual report. This year it measures the extent to which the policies of individual provinces and states were, in 2014, supportive of economic freedom, the ability of individuals to act in the economic sphere free of undue restrictions. There are two indices: one that examines provincial/state and municipal/local governments only and another that includes federal governments as well. The former, our subnational index, is for comparison of individual jurisdictions within the same country. The latter, our all-government index, is for comparison of jurisdictions in different countries.

---

For the subnational index, *Economic Freedom of North America* employs 10 variables for the 92 provincial/state governments in Canada, the United States, and Mexico in three areas: 1. Government Spending; 2. Taxes; and 3. Labor Market Freedom. In the case of the all-government index, we incorporate three additional areas at the federal level from *Economic Freedom of the World* (EFW): 4. Legal Systems and Property Rights; 5. Sound Money; and 6. Freedom to Trade Internationally; and we expand Area 1 to include government enterprises and investment (variable 1C in EFW), Area 2 to include top marginal income and payroll tax rate (variable 1Dii in EFW), and Area 3 to include credit market regulation and business regulations (also at the federal level). These additions help capture restrictions on economic freedom that are difficult to measure at the provincial/state and municipal/local level.

## Results on the all-government index

In *Economic Freedom of the World*, for several years now Canada has been ahead of the United States, which is in turn even further ahead of Mexico. The inclusion of variables from

that report in our all-government index allows us to display more accurately the gap between Canada, the United States, and Mexico. Thus, in the all-government index for 2014 two of the top three jurisdictions were Canadian, with Alberta in first place with a score of 8.1 and British Columbia tied for second with New Hampshire at 7.9. Alberta's hold on first place is not secure, however, as from 2015 its government has been making changes in taxation, spending, and regulation that are likely to have a significant negative effect on the province's economic freedom. Saskatchewan, Ontario, and Newfoundland & Labrador were tied for fourth (with Florida, Texas, and 14 other US states) at 7.8.

It is important to understand just how close the scores are in this index. In addition to the 19 jurisdictions tied for fourth, there are 23 jurisdictions tied for 23<sup>rd</sup> at 7.7 (20 states and three Canadian provinces) and 13 more tied for 46<sup>th</sup> at 7.6 (11 states and two Canadian provinces). The highest ranked Mexican states are Jalisco and Baja California, tied at 61<sup>st</sup> with 6.5. Those three are behind all 60 of the US and Canadian jurisdictions.

The lowest ranked state is Distrito Federal at 5.6, followed by Colima at 5.7 and Campeche at 5.9. The lowest-ranked Canadian provinces are Prince Edward Island and Nova Scotia at 7.6, tied for 46<sup>th</sup> with California and 10 other states. The lowest-ranked states in the United States are New York and Delaware, tied at 7.5 in 59<sup>th</sup> place.

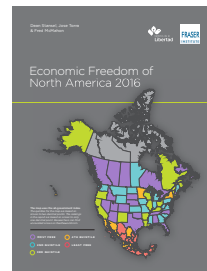
Historically, economic freedom has been declining in all three countries. Since 2004, the average score for Canadian provinces on the all-government index has fallen from 7.90 to 7.78; the average score for US states fell from 8.26 to 7.70; and for Mexico, from 6.68 to 6.19. However, economic freedom has increased in all three nations since 2013 when Canadian provinces averaged 7.73, the US states, 7.64, and the Mexican states, 6.09.

**Results on the subnational indices**

For the purpose of comparing jurisdictions within the same country, the subnational indices are the appropriate choice. There is a subnational index for each country. In Canada, the most economically free province was, in 2014, Alberta with 8.0, followed by British Columbia with 6.4 and Ontario at 6.2. The least free by far was Quebec at 3.9, followed by Nova Scotia and Saskatchewan, tied at 5.2.

In the United States, the most economically free state was New Hampshire at 8.3, followed at 8.1 by Florida. South Dakota and Texas are tied for third at 8.0. (Note that since the indexes were calculated separately for each country, the numeric scores on the subnational indices are not directly comparable across countries.) The least free state was New York at 5.7; California was slightly better at 5.9. Alaska, Hawaii, and New Mexico were tied for 46<sup>th</sup> at 6.0.

In Mexico, the most economically free state was Baja California at 7.8. Jalisco was second at 7.6, followed by Coahuila at 7.3. The least free Mexican state was Chiapas at 4.3; slightly better were Campeche at 4.5 and Oaxaca at 4.9.



*Economic Freedom of North America 2016*

by Dean Stansel, José Torra, and Fred McMahon

[Click here to read the full report](#)



**Economic Freedom at the Subnational Level and Percentage of Income per Capita above or below the National Average in Canada, the United States, and Mexico, 2014**

