

ECONOMIC FREEDOM IN AMERICA'S 50 STATES

A 1999 ANALYSIS

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This report is available online at

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Our underlying data are also available there for
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EXECUTIVE SUMMARY

This report provides the results of a first effort to build indexes of economic freedom for the 50 U.S. states.

Economic freedom—the right of individuals to pursue their own interests through voluntary exchange under a rule of law—forms the foundation of all market economies and is the essence of a free society. Many might quarrel with this humble definition, and a better set of words can surely be found to provide greater precision and clarity, but most will surely agree with the conclusion that followed. As Milton Friedman explained: Freedom is indivisible (Friedman 1962). Political freedom cannot long prevail where economic freedom is threatened.

With exceptions, freedom is an understudied phenomena in classical economic analysis. Certainly the contributions of Nobel Laureates Friedrich Hayek (1988) and Milton Friedman have been important. However, the empirical analysis of freedom has been sorely lacking in modern economics. Recently, however a group of scholars has embarked on a research path to uncover the links, if any, between freedom, however defined, and measurable economic activity. Here we seek to add to this body of research.

We have designed and created indexes of economic freedom for each of the fifty U.S. states. This index is based on more 100 different individual measures of economic freedom, spanning government spending, regulation, welfare, school choice, taxation, and the judicial system. To a certain extent our index is subjective. We have made decisions based on our own judgement of relevance and importance. Others may disagree. However, our index, when linked with observable economic activity, such as population in-migration and growth in per capita income, performs quite well. That is, where economic freedom is higher, there is more in-movement of population and higher economic growth of income.

We believe that freedom is an important component of a well-functioning, growing, capitalist, private property economic system. Using data from the mid- to late-1990s, we first accumulate data on economic freedom. We have assembled state-level data on a wide variety of economic activities. We then lumped these together into five different sectors. From these five sectors we created a number of indexes of economic freedom using the values or ranks of each variable for each state. In

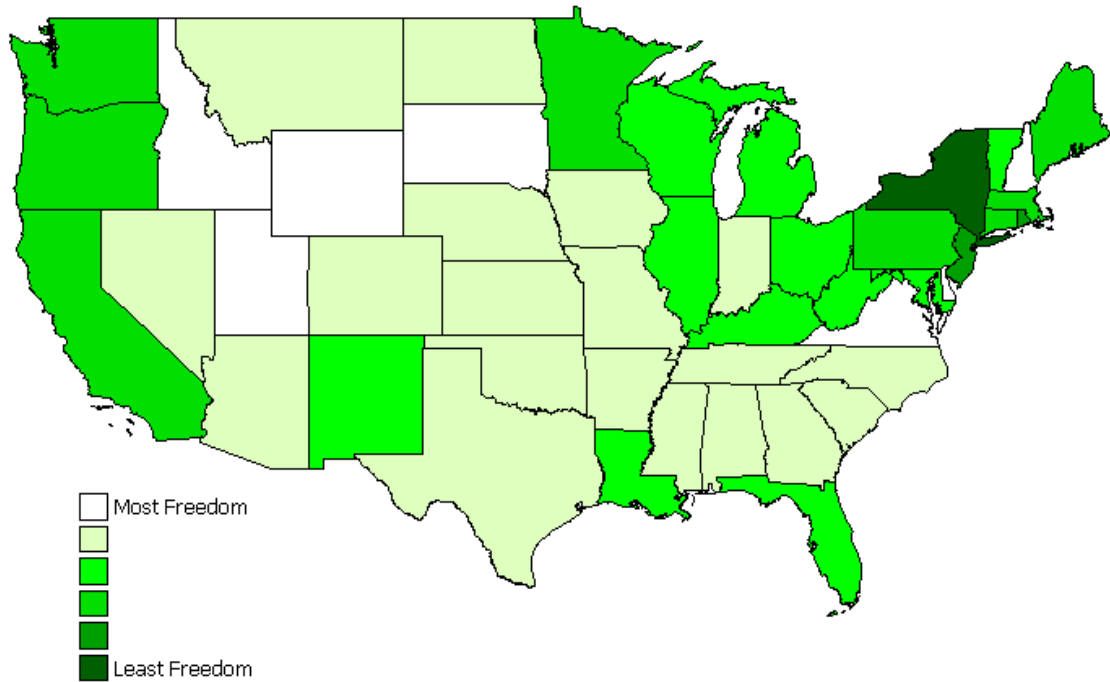
the end we deemed one index created from principle components analysis the most appropriate for our use.

This index reveals several distinct regional patterns to freedom. There are pockets of freedom in the mountain west region and in the south. The northeast is overcome by an absence of economic freedom as we measure it. Idaho is at the top and New York at the bottom. The table and map attached summarize the index across the country.

State	Principle Components Index	Index	Rank
<i>Alabama</i>	4.73		11
<i>Alaska</i>	6.01		38
<i>Arizona</i>	5.19		25
<i>Arkansas</i>	4.83		15
<i>California</i>	6.39		44
<i>Colorado</i>	4.77		14
<i>Connecticut</i>	6.66		46
<i>Delaware</i>	4.56		7
<i>Florida</i>	5.45		30
<i>Georgia</i>	4.76		12
<i>Hawaii</i>	6.08		39
<i>Idaho</i>	3.92		1
<i>Illinois</i>	5.95		36
<i>Indiana</i>	5.02		22
<i>Iowa</i>	5.11		24
<i>Kansas</i>	4.71		10
<i>Kentucky</i>	5.38		29
<i>Louisiana</i>	5.48		31
<i>Maine</i>	6.22		42
<i>Maryland</i>	5.77		35
<i>Massachusetts</i>	6.71		47
<i>Michigan</i>	5.32		27
<i>Minnesota</i>	6.38		43

<i>Mississippi</i>	4.70	9
<i>Missouri</i>	4.76	13
<i>Montana</i>	5.20	26
<i>Nebraska</i>	5.03	23
<i>Nevada</i>	4.99	20
<i>New Hampshire</i>	4.55	6
<i>New Jersey</i>	6.84	48
<i>New Mexico</i>	5.33	28
<i>New York</i>	7.90	50
<i>North Carolina</i>	4.91	17
<i>North Dakota</i>	5.00	21
<i>Ohio</i>	5.54	33
<i>Oklahoma</i>	4.93	18
<i>Oregon</i>	6.20	41
<i>Pennsylvania</i>	6.53	45
<i>Rhode Island</i>	7.00	49
<i>South Carolina</i>	4.85	16
<i>South Dakota</i>	4.47	5
<i>Tennessee</i>	4.95	19
<i>Texas</i>	4.62	8
<i>Utah</i>	4.32	3
<i>Vermont</i>	5.59	34
<i>Virginia</i>	4.08	2
<i>Washington</i>	6.19	40
<i>West Virginia</i>	5.50	32
<i>Wisconsin</i>	5.98	37
<i>Wyoming</i>	4.41	4
<i>mean</i>	5.39	

Figure I
The Freedom Index



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