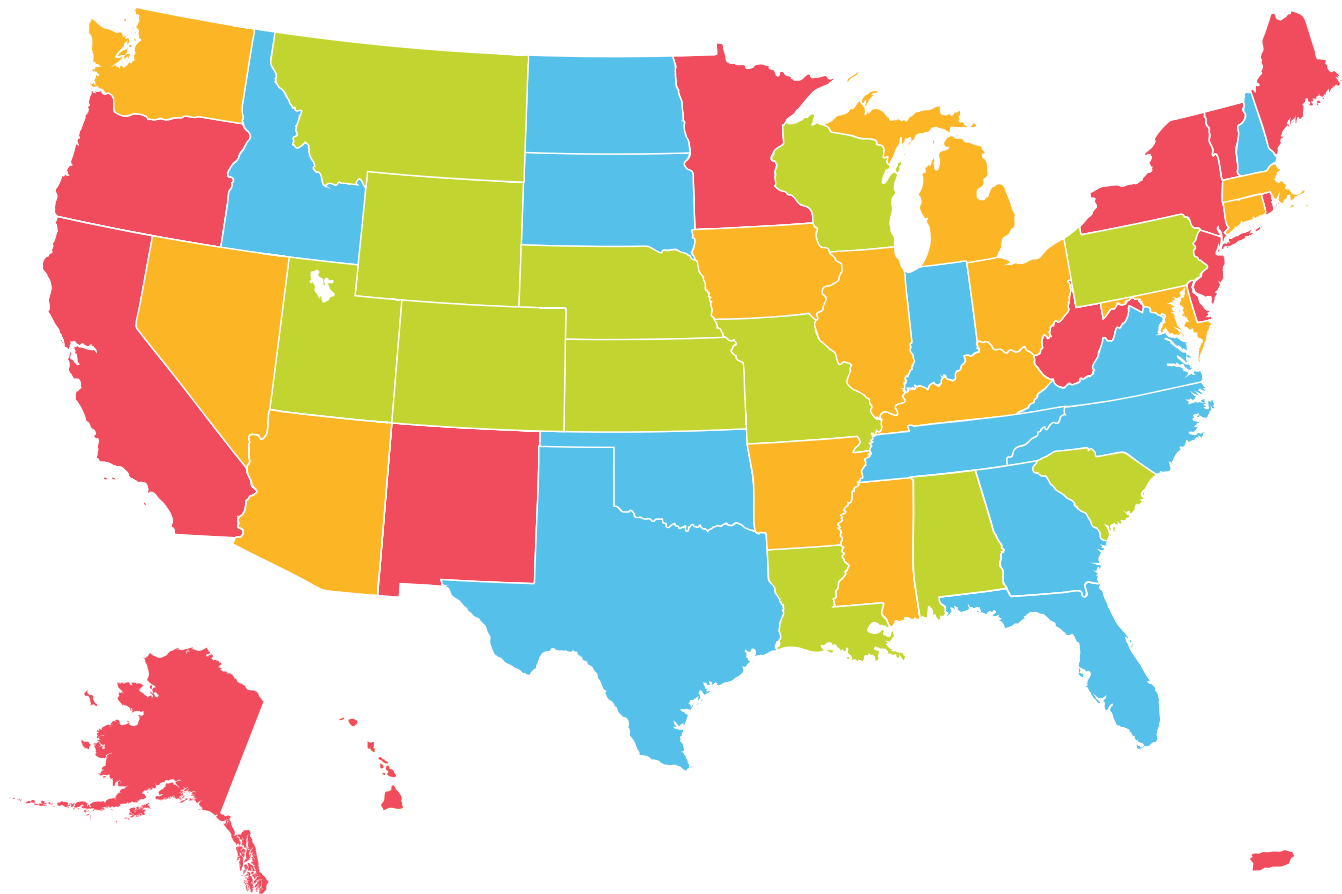


Dean Stansel,  
José Torra,  
Fred McMahon,  
& Ángel Carrión-Tavárez



# Economic Freedom of North America 2023



The map uses the subnational index.

 MOST FREE

 2ND QUARTILE

 3RD QUARTILE

 LEAST FREE



# Economic Freedom of North America 2023

Dean Stansel, José Torra,  
Fred McMahon,  
and Ángel Carrión-Tavárez

This is an excerpt of *Economic Freedom of North America 2023* with emphasis on the United States and Puerto Rico, compliments of the Puerto Rico Institute for Economic Liberty. To access, download, or read the full report, please visit <https://doi.org/10.53095/88975015>.



Fraser Institute  
2023

## Data available to researchers

The full data set, including all of the data published in this report as well as data omitted due to limited space, can be downloaded for free at <https://www.fraserinstitute.org/economic-freedom/dataset>. The data file available there contains the most up-to-date and accurate data for the index published in *Economic Freedom of North America*. All editions of the report are available in PDF and can be downloaded at [www.fraserinstitute.org/studies/economic-freedom](http://www.fraserinstitute.org/studies/economic-freedom). Users are always strongly encouraged to use the data from the most recent data file as updates and corrections, even to earlier years' data, do occur. Our new interactive website at [www.freetheworld.com](http://www.freetheworld.com) contains all the latest scores and rankings for each of the components of the index as well as historical data on the overall and area scores. If you have difficulty downloading the data, please contact [freetheworld@fraserinstitute.org](mailto:freetheworld@fraserinstitute.org). If you have technical questions about the data itself, please contact Dean Stansel at [dean.b.stansel@gmail.com](mailto:dean.b.stansel@gmail.com).

---

## Citation

Authors:	Dean Stansel, José Torra, Fred McMahon, Ángel Carrión-Tavárez
Title:	<i>Economic Freedom of North America 2023</i>
Publisher:	Fraser Institute
Date of publication:	2023
DOI of full report:	<a href="https://doi.org/10.53095/88975015">https://doi.org/10.53095/88975015</a>
DOI of full report U.S. edition:	<a href="https://doi.org/10.53095/88975016">https://doi.org/10.53095/88975016</a>
DOI of subnational dataset:	<a href="https://doi.org/10.53095/88975017">https://doi.org/10.53095/88975017</a>
DOI of all-government dataset:	<a href="https://doi.org/10.53095/88975018">https://doi.org/10.53095/88975018</a>
DOI of full dataset:	<a href="https://doi.org/10.53095/88975019">https://doi.org/10.53095/88975019</a>

---

## Additional Information

Copyright ©2023 by the Fraser Institute. All rights reserved.

The opinions expressed by the authors are those of the individuals themselves, and do not necessarily reflect those of the Fraser Institute, its Board of Directors, its donors and supporters, or its staff. This publication in no way implies that the Fraser Institute, its directors, or staff are in favor of, or oppose the passage of, any bill; or that they support or oppose any particular political party or candidate.

ISSN: 1910-1945

North America version: 978-0-88975-756-1 (2023 edition)  
U.S. version: 978-0-88975-757-8 (2023 edition)

Cover design: Peng Wei | Joel Poirier  
Layout of the excerpt: Magda Rocío Barrero  
Printing: 3A Press, Corp.

# Contents

Executive Summary / 7

Economic Freedom of North America in 2021 / 7  
Results for Canada, the United States, and Mexico / 7

Economic Freedom of Canada, the United States, and Mexico in 2021 / 11

Economic freedom and the index / 11  
Results on the all-government index / 13  
Results on the subnational indices / 15  
Overview of the results / 17  
Economic freedom and economic well-being / 18  
The importance of economic freedom / 19  
Description of the components / 20  
References / 28

A Closer Look at Economic Freedom in Puerto Rico / 31

Puerto Rico in *Economic Freedom of North America 2023* / 31  
Data / 32  
Results / 35  
Business permits / 38  
COVID-19 executive orders / 39  
The lack of economic freedom / 40  
Going forward / 41  
Conclusion / 41  
References / 42

About the Authors / 44

Peer Review / 46

Editorial Advisory Board / 46



# Executive Summary

## Economic Freedom of North America in 2021

*Economic Freedom of North America 2023* is the nineteenth edition of the Fraser Institute's annual report. This year it measures the extent to which—in 2021, the year with the most recent available comprehensive data—the policies of North American jurisdictions were 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 93 provincial/state governments in Canada, the United States, and Mexico, and for the US territory of Puerto Rico 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 investment (variable IC in EFW), Area 2 to include top marginal income and payroll tax rates (variable IDii 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 for Canada, the United States, and Mexico

### The all-government index

The all-government index includes data from *Economic Freedom of the World* (Gwartney et al., 2023). These data, available only on the national level, enable better comparisons among Canadian, US, and Mexican subnational jurisdictions that take into account national policies affecting all jurisdictions within each country. Canada and the United States have similar scores in *Economic Freedom of the World*; both have typically been among the top 10 nations, though Canada fell out of the top 10 in 2021 (reflecting conditions in 2019) and has remained out since then. Mexico ranks much lower, at 64<sup>th</sup> this year; this is an improvement over past years.

The top jurisdiction in the all-government index of *Economic Freedom of North America 2023* is New Hampshire at 8.14, followed by Florida (8.07), South Carolina

(8.06), and then Idaho and Indiana, tied for fourth (8.05). Alberta is the highest-ranking Canadian province, tied for 31<sup>st</sup> place with a score of 7.90. The next highest Canadian province is British Columbia in 45<sup>th</sup> at 7.80. Alberta had spent seven years at the top of the index but fell out of the top spot in the 2018 report (reflecting 2016 data) and has fallen further to outside the top 20 since then.

For the first time, we have made a preliminary attempt to include the US territory of Puerto Rico in the US all-government index. Puerto Rico ranks 61<sup>st</sup> at 6.65, 0.82 below the lowest-ranked Canadian province and only 0.08 above the highest-ranked Mexican state. The highest-ranked of the 32 Mexican states are Baja California and Chihuahua (6.57), followed by Nayarit (6.50), Hidalgo (6.49) and Puebla and Tlaxcala (6.48). They are nearly a full point behind those ranking lowest in Canada. The lowest-ranked Mexican state is Ciudad de México at 5.55, followed by Colima at 5.88, and Campeche at 6.02.

Seven of the Canadian provinces are ranked behind all 50 US states. Newfoundland & Labrador is 60<sup>th</sup> with a score of 7.47, just behind Prince Edward Island and New Brunswick (7.52), and Nova Scotia (7.54). The lowest ranked of the United States are Delaware (53<sup>rd</sup>, 7.69), New York (52<sup>nd</sup>, 7.71), and Hawaii (tied for 50<sup>th</sup>, 7.74).

Historically, average economic freedom in all three countries peaked in 2004 at 7.75 then fell steadily to 7.27 in 2011. Canadian provinces saw the smallest decline, only 0.24, whereas the decline in the United States was 0.45 and, in Mexico, 0.59. Average economic freedom in North America had risen slowly to 7.46 by 2017 but still remained below that 2004 peak. Canada was an outlier in that period, seeing a steady decline since 2014. Since 2017, average economic freedom has fallen further to 7.32. The vast majority of that decline occurred in 2020, which reflects the government response to the COVID-19 pandemic.

### **The subnational indices**

For the purpose of comparing jurisdictions within the same country, the subnational indices are the appropriate choice. There is a separate subnational index for each country. In Canada, the most economically free province in 2021 was again Alberta with 6.26, followed by Ontario and Manitoba, over a full point behind, tied with 5.12. The least free by far was Quebec at 2.67, following Prince Edward Island at 4.01, and Nova Scotia at 4.04.

In the United States, the most economically free state on the subnational index was New Hampshire at 7.96, followed by Florida at 7.80, Tennessee at 7.73, Texas at 7.64, and South Dakota at 7.59. (Note that since the indices were calculated separately for each country, the numeric scores on the subnational indices are not directly comparable across countries.) The least-free state was again New York at 4.09, following California and Vermont at 4.27, Oregon at 4.56, and Hawaii at 4.58. For the second year, we have made a preliminary attempt to include the US territory of Puerto Rico in the US subnational index. It came in with a score of 2.85. The next lowest score was 43% higher.



In Mexico, the most economically free state was Michoacán de Ocampo at 5.96. Baja California was second at 5.85, followed by Chihuahua at 5.52. The least free Mexican states were Quintana Roo Zacatecas at 2.41, Campeche at 2.86, and Tabasco at 2.99.

### **Economic freedom and economic well-being at the subnational level**

The jurisdictions in the least economically free quartile on the all-government index had, in 2021, an average per-capita income of just US\$2,696, compared to US\$59,401 for the most economically free quartile. On the subnational indices, the same relationship holds, with the least-free quartile having an average per-capita income 2.1% below their country's average, while the most-free quartile was 3.7% above the country's average.

In addition, economic freedom at the subnational level has generally been found to be positively associated with a variety of measures of the per-capita size of the economy and the growth of the economy as well as various measures of entrepreneurial activity. There are now more than 370 articles by independent researchers examining subnational economic freedom using the data from *Economic Freedom of North America*. Much of that literature discusses economic growth or entrepreneurship but the list also includes studies of a variety of topics such as income inequality, eminent domain, and labor markets. The vast majority of the results find higher levels of economic freedom to be correlated with positive outcomes, such as economic growth, lower unemployment, reduced poverty, and so on.



# Economic Freedom of Canada, the United States, and Mexico in 2021

## Economic freedom and the index

*Economic Freedom of North America* is an attempt to gauge the extent of the restrictions on economic freedom imposed by governments in North America. The index published here measures economic freedom at two levels, the subnational and the all-government. At the subnational level, it measures the impact on economic freedom of provincial and municipal governments in Canada, and of state and local governments in the United States and Mexico, and of territorial and local government in the US territory of Puerto Rico. At the all-government level, it measures the impact of all levels of government—federal, provincial/state, and municipal/local—in Canada, the United States, and Mexico. All 10 provinces, 50 US states, 32 Mexican states (including Ciudad de México), and Puerto Rico are included. The most recent data available for the report are from fiscal year 2021.

## What is economic freedom and how is it measured in this index?

Writing in *Economic Freedom of the World* (EFW), James Gwartney, Robert Lawson, and Walter Block defined economic freedom in the following way.

Individuals have economic freedom when (a) property they acquire without the use of force, fraud, or theft is protected from physical invasions by others and (b) they are free to use, exchange, or give their property as long as their actions do not violate the identical rights of others. Thus, an index of economic freedom should measure the extent to which rightly acquired property is protected and individuals are engaged in voluntary transactions. (Gwartney et al., 1996: 12)

The freest economies operate with minimal government interference, relying upon personal choice and markets to answer basic economic questions such as what is to be produced, how it is to be produced, how much is produced, and for whom production is intended. As government imposes restrictions on these choices, there is less economic freedom.

The research flowing from the data generated by the annually published EFW report, a project Michael Walker, who was then executive director of the Fraser Institute, initiated 35 years ago, shows that economic freedom is important to the well-being of a nation's citizens. This research has found that economic freedom is positively correlated with per-capita income, economic growth, greater life expectancy, lower child mortality, the development of democratic institutions, civil and

political freedoms, and other desirable social and economic outcomes.<sup>1</sup> Just as *Economic Freedom of the World* seeks to measure economic freedom of countries on an international basis, *Economic Freedom of North America* has the goal of measuring differences in economic freedom at both the subnational and all-governments level among the Canadian provinces, US states, and Mexican states.

In 1999, the Fraser Institute published *Provincial Economic Freedom in Canada: 1981–1998* (Arman, Samida, and Walker, 1999), a measure of economic freedom in 10 Canadian provinces. *Economic Freedom of North America* updates and, by including the 50 US states, the 32 Mexican states, and the US territory of Puerto Rico expands this initial endeavor. It looks at the 10 Canadian provinces (Northwest Territories, Nunavut, and Yukon are not included), the 50 US states from 1981 to 2019, the 32 Mexican states back to 2003, and Puerto Rico back to 2011. Each province and state is ranked on economic freedom at both the subnational (state/provincial and local/municipal) and the all-government (federal, state, and local) levels. This helps isolate the impact of different levels of government on economic freedom in Canada, the United States, and Mexico. The subnational index provides a comparison of how individual jurisdictions within a country measure up against other jurisdictions in that country. The all-governments index provides a comparison of how individual jurisdictions in different countries compare to each other.

Because of data limitations and revisions, some time periods are either not directly comparable or are not available. When necessary, we have generally used the data closest to the missing time period as an estimate for the missing data. If there have been changes in this component during this period, this procedure would introduce some degree of error in the estimate of economic freedom for the particular data point; however, omitting the component in the cases when it is missing and basing the index score on the remaining components may create more bias in the estimate of overall economic freedom.

We examine state- and province-level data in three areas of economic freedom: government spending, taxes, and labor-market regulation. To account for factors that vary primarily across countries but not subnational jurisdictions, our all-government index includes additional variables found in *Economic Freedom of the World*.

Prior to the 2012 report, we had not included in the North American index data from several areas used in the index published in *Economic Freedom of the World*—in particular, data for the legal system and property rights, and for regulation of credit and business. There were two reasons for this. Firstly, data in these areas are typically not available at the state/provincial level. Secondly, these are primarily areas of national policy and would vary little from province to province or state to state. Since Canada and the United States had similar scores for these areas in

- 
1. A list of such articles and additional information can be found at <https://www.fraserinstitute.org/economic-freedom/>. See also Easton and Walker, 1997; and De Haan and Sturm, 2000. For the latest summary of literature on economic freedom at an international level, see Doucouliagos and Ulubasoglu, 2006; Hall and Lawson, 2014, and Lawson, 2022.

the index of nations and territories covered by the broader world report, that also meant that these factors varied little from province to state and thus it was not essential to include these data in the index of *Economic Freedom in North America*.

Most of these national-level measures do vary substantially for Mexico compared to Canada and the United States; furthermore, Mexico's governmental system is much more centralized, with a significantly greater role for the federal government. To enable us to produce a more comparable measure across the three countries, at the all-government level we began including data from the world index for the legal system and property rights and for regulation of credit and business. We later expanded on that approach by adding ten additional components: sound money, freedom to trade internationally, government enterprises and investment, top marginal income and payroll tax rate, and the six components of the area of labor-market regulations.

For the first time, we have made a preliminary attempt to include the US territory of Puerto Rico in the US all-government index. It was introduced in the subnational index in the 2022 report, and that subnational index data has now been expanded backwards to 2011. The next chapter provides more details on Puerto Rico's inclusion in the indices.

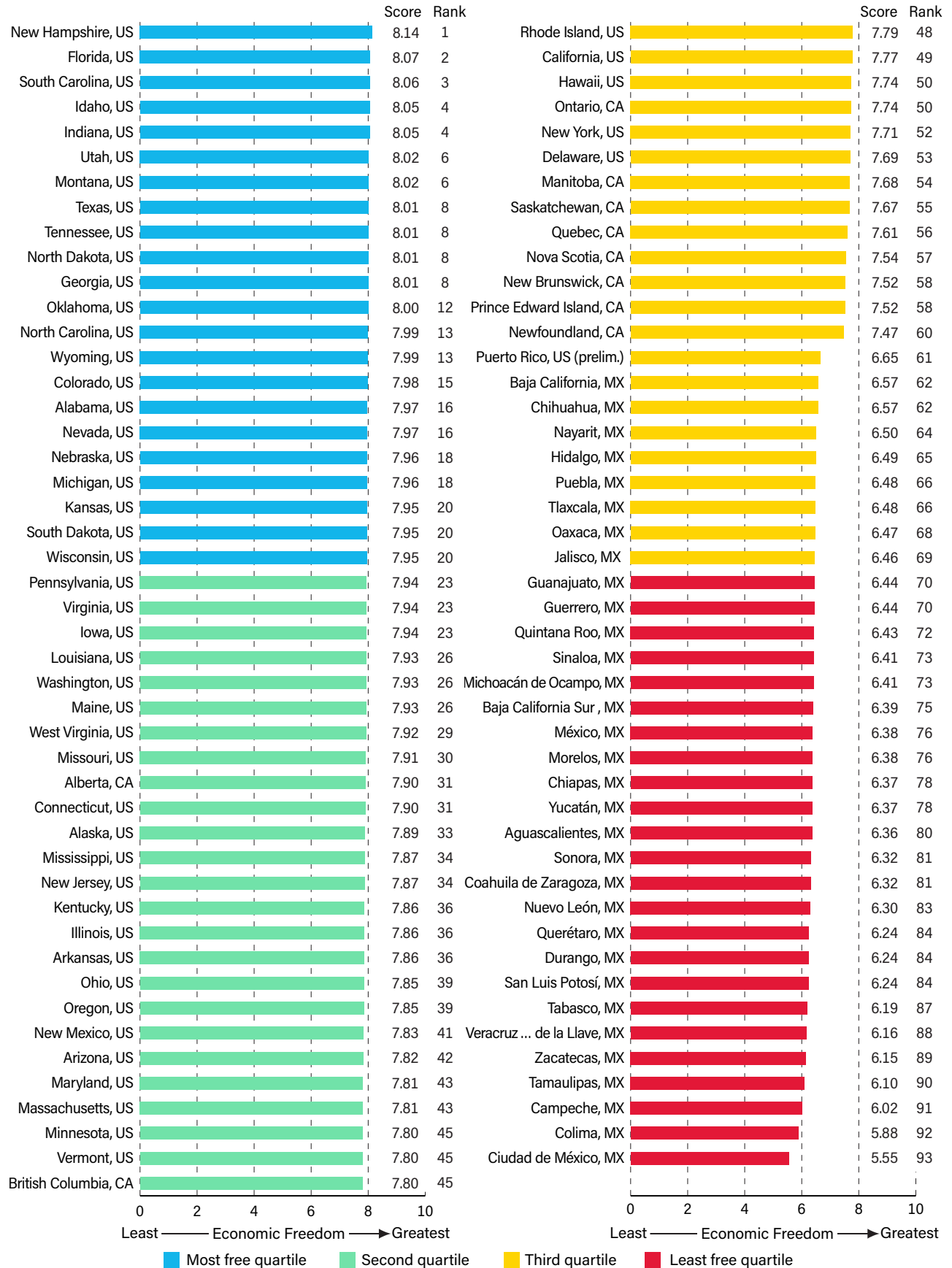
## Results on the all-government index

As Figure 1.1 indicates, on the all-government index the highest ranked jurisdiction is again New Hampshire with a score of 8.14, followed by Florida (8.07), South Carolina (8.06), and then Idaho and Indiana, tied for fourth (8.05). Alberta is the highest-ranked Canadian province, tied for 31<sup>st</sup> place with a score of 7.90. British Columbia, the province next highest after Alberta, is now at 45<sup>th</sup> with 7.80. The lowest-ranked Canadian province is Newfoundland & Labrador at 60<sup>th</sup> (7.47), just behind Prince Edward Island and New Brunswick (7.52), and Nova Scotia (7.54). Seven of the 10 Canadian provinces are behind the lowest-ranked US state, Delaware, at 53<sup>rd</sup> with 7.69. The next lowest-ranked states in the United States are New York (52<sup>nd</sup>, 7.71), Hawaii (50<sup>th</sup>, 7.74), and California (49<sup>th</sup>, 7.77).

Thanks to the efforts of Ángel Carrión-Tavárez of the *Instituto de Libertad Económica*, last year we made a preliminary attempt to include the US territory of Puerto Rico in the US subnational index. This year we have built on that by making a preliminary effort to include it in the all-government index as well. Puerto Rico comes in at 61<sup>st</sup> with 6.65, 0.82 below the lowest-ranked Canadian province and only 0.08 above the highest-ranked Mexican states.

The highest-rated Mexican states are Baja California and Chihuahua tied at 61<sup>st</sup> with 6.57, behind all 50 US states and 10 Canadian provinces, and below the lowest-ranked Canadian province by 0.90. That gap had been shrinking in recent years, down from over a full point for many years to 0.75 in last year's report. Nayarit (6.50) and Hidalgo (6.49) are next highest. The lowest rated is Ciudad de México (93<sup>rd</sup> with 5.55), followed by Colima at 5.88 and Campeche at 6.02.

**Figure 1.1: Summary of Ratings for Economic Freedom at the All-Government Level, 2021**



## Results on the subnational indices

For comparisons of jurisdictions within the same country, the subnational indices are most appropriate. Because much of the new government spending in response to the COVID-19 pandemic was done at the federal level, we did not see a decline in the subnational averages for Canada and the United States, although the Mexican average did go down slightly.

### Canada

Alberta, with a score of 6.26, was in 2021 the most economically free province in Canada. The next highest provinces were Ontario and Manitoba tied at 5.12, followed by British Columbia at 4.60. Before last year's report, British Columbia had been in second place for many years running. Quebec was at the bottom with 2.67, well below Prince Edward Island at 4.01, Nova Scotia at 4.04, and New Brunswick at 4.27.

### United States

Figure 1.2b shows the subnational scores for the US states. New Hampshire (7.96) returned to the top spot. Florida fell to second with 7.80, followed by Tennessee (7.73), Texas (7.64), and South Dakota (7.59).<sup>2</sup> The least-free state was again New York with 4.09, well behind California and Vermont (4.27), Oregon (4.56), Hawaii (4.58), and New Mexico (4.98).

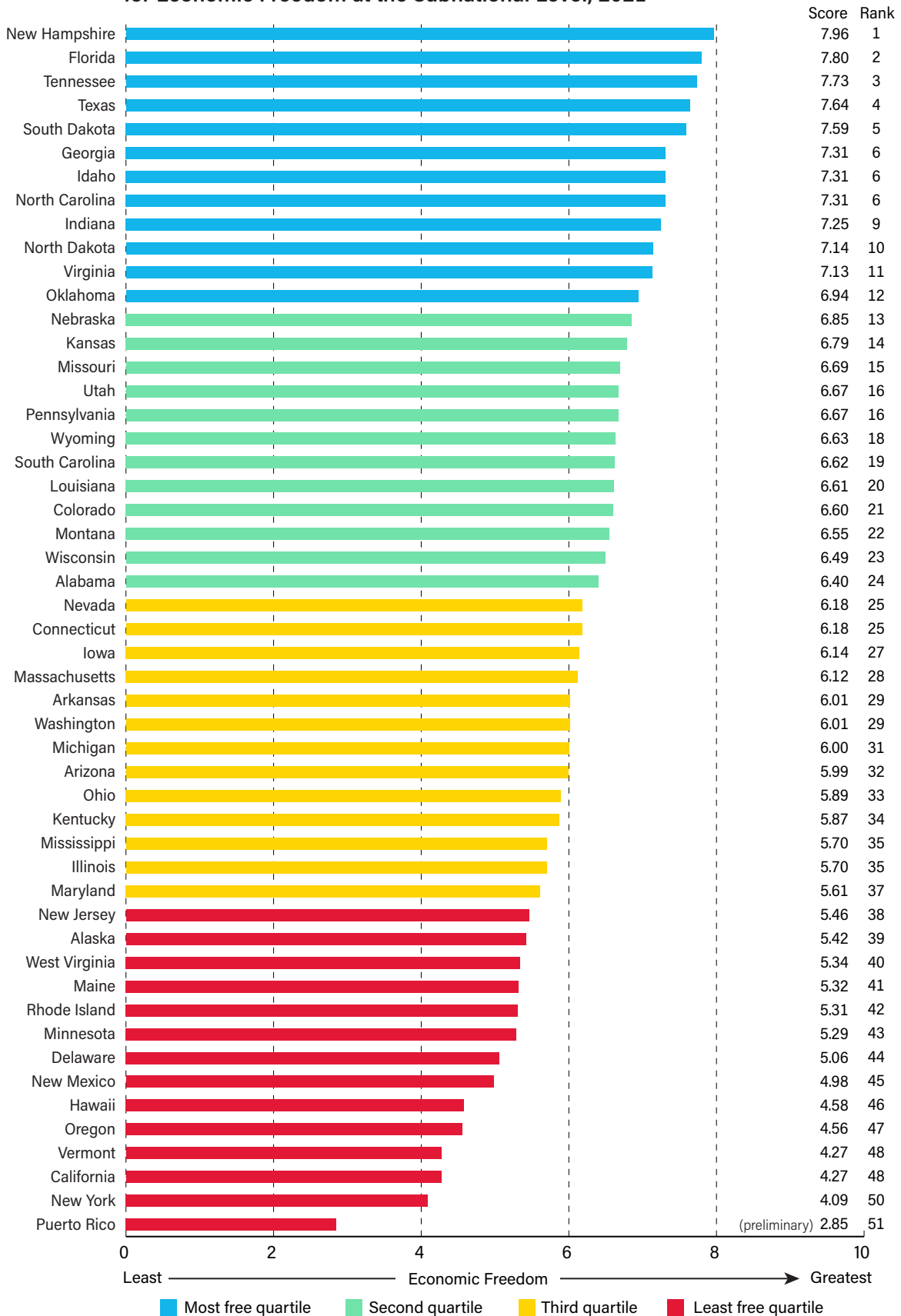
The US territory of Puerto Rico again had by far the lowest score, 2.85. The next lowest score was nearly 50% higher. We believe that even 2.85 is too high because including Puerto Rico in the US subnational index implicitly assumes that property rights and the rule of law as well as regulatory policy there are substantially similar to those in the 50 states. While we do not believe that to be the case, that assumption was necessary for its inclusion. In the future, we will attempt to account for those differences. Its preliminary inclusion in the all-government index this year is the first step in that process. See the next chapter for a more detailed discussion of economic freedom in Puerto Rico.

### Mexico

The most economically free state by this measure was Michoacán de Ocampo at 5.96, followed by Baja California at 5.85, and Chihuahua at 5.52.<sup>3</sup> This year, Zacatecas was the least-free Mexican state at 2.41, followed by Campeche (2.86) and Tabasco (2.99).

2. Note that since the indices were calculated separately for each country the numeric scores on the subnational indices are not directly comparable across countries.
3. Mexico has a much more centralized government structure than Canada and the United States. As a result, since the subnational index leaves out the impact of the federal government, it is a less useful measure of the relative level of economic freedom across the Mexican states. Chapter 2 of the full report contains a more detailed discussion of the Mexican index.

**Figure 1.2b: Summary of the Ratings of US States and Puerto Rico for Economic Freedom at the Subnational Level, 2021**





## Overview of the results

Following are some graphs that demonstrate dramatically the important links between prosperity and economic freedom. Figure 1.10 breaks the states and provinces into quartiles (or fourths) by economic freedom at the all-government level. For example, the category on the far left of the chart, “Least Free”, represents the jurisdictions that score in the lowest fourth of the economic freedom ratings. The jurisdictions in this least-free quartile have an average per-capita income of just US\$2,696. This compares to an average per-capita income of US\$59,401 for the most free quartile.

**Figure 1.10: Economic Freedom at the All-Government Level and Income per Capita in Canada, the United States, and Mexico, 2021**

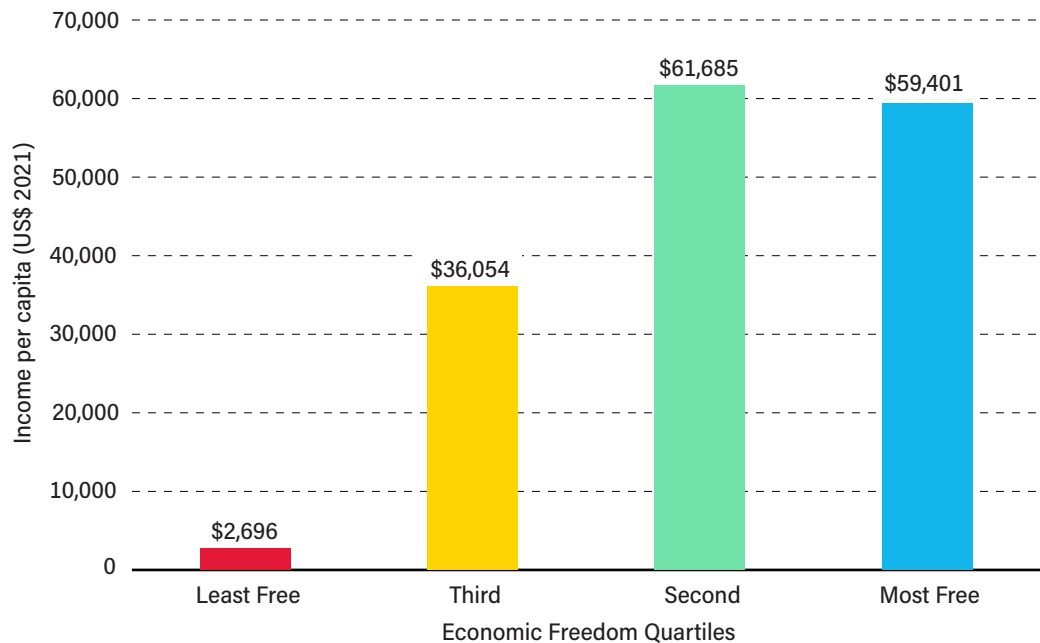
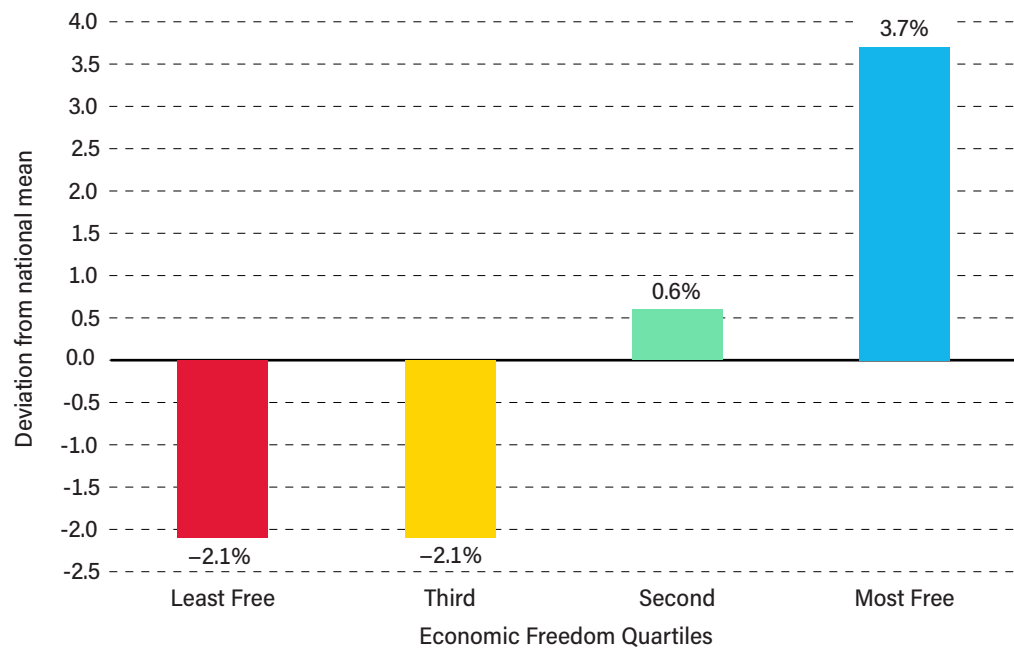


Figure 1.11 is similar to Figure 1.10 but it shows economic freedom at the sub-national level and measures it as deviations from the national average, since the three subnational indices are not directly comparable.<sup>4</sup> Jurisdictions in the two most-free quartiles had average per-capita incomes that were 3.7% above the national average in their country, while those in the least-free quartile were 2.1% below the national average. In each index, per-capita income in the most-free jurisdictions is substantially higher than in those that are the least free.

4. Since the subnational index scores are calculated separately for each country, we cannot average the scores of jurisdictions in different countries. Instead, for each jurisdiction we have calculated the deviation of its economic-freedom score from the national average, and used that to determine the quartiles.

**Figure 1.11: Economic Freedom at the Subnational Level and per-Capita Income as a Deviation from the National Mean, 2021**



## Economic freedom and economic well-being

Many independent studies have linked levels of economic freedom, as measured by the index published annually in *Economic Freedom of the World*, with higher levels of economic growth and income.<sup>5</sup> For example, Easton and Walker (1997) found that changes in economic freedom have a significant impact on the steady-state level of income even after the level of technology, the level of education of the workforce, and the level of investment are taken into account. The results of this study imply that economic freedom is a separate determinant of the level of income. The Fraser Institute's series, *Economic Freedom of the World*, also shows a positive relationship between economic freedom and both the level of per-capita GDP and its growth rate.

Similarly, De Haan and Sturm (2000) show that positive and negative changes in economic freedom lead to positive and negative changes in rates of economic growth. Using the index of economic freedom from Gwartney et al., 1996 and per-capita GDP data for 80 countries, their results indicate that, after accounting for education level, investment, and population growth, changes in economic freedom have a significant impact on economic growth.

5. For a sample of empirical papers investigating the impact of economic freedom, as measured by the index published annually in *Economic Freedom of the World*, and economic prosperity, see <<https://www.fraserinstitute.org/economic-freedom/citations>>. For a summary of literature on the impact of economic freedom at an international level, see Doucouliagos and Ulubasoglu, 2006; Hall and Lawson, 2014; and Lawson, 2022.

The calculation of the index of the economic freedom of Canadian provinces and Mexican and US states allows for the investigation, via econometric testing, of the relationship between economic freedom and prosperity within North America. Since the publication of the first edition of *Economic Freedom of North America* in 2002, more than 370 academic and policy articles exploring the relationship between our measure of economic freedom and other indicators such as economic growth and entrepreneurial activity have appeared.<sup>6</sup> Findings have been similar to those using the national index. In one recent example, a 10% increase in economic freedom was found to be associated with a 5% increase in real per-capita gross state product (Hall et al., 2019).

## The importance of economic freedom

In this publication, we have focused on the measurement of economic freedom. In Chapter 3 of the 2013 report, we discussed some of the empirical testing of the impact of economic freedom that has been done by other independent researchers;<sup>7</sup> however, the reader may wonder why economic freedom is so clearly related to growth and prosperity—as much of that literature has found. Throughout the twentieth century there was vigorous debate about whether planned or free economies produce the best outcomes. In many ways, this debate goes back to the beginnings of modern economics when Adam Smith famously argued that each of us, freely pursuing our own ends, create the wealth of nations and of the individual citizens.

The results of the experiments of the twentieth century should now be clear: free economies produce the greatest prosperity in human history for their citizens. Even poverty in these economically free nations would have been considered luxury in unfree economies. This lesson was reinforced by the collapse of centrally planned states in the Soviet sphere. Among developing nations, those that adopted the centrally planned model have only produced lives of misery for their citizens. Those that adopted the economics of competitive markets have begun to share with their citizens the prosperity of advanced market economies.

While these comparisons are extreme examples from opposite ends of the spectrum of economic freedom, a considerable body of research shows that the relationship between prosperity and economic freedom holds in narrower ranges. Sophisticated econometric testing backs up this relationship but examples are also interesting. In the United States, the relatively free Virginia does much better than the relatively unfree West Virginia. While this is hardly the place to review several centuries of economic debate, the mechanics of economic freedom are easy to understand. Any transaction freely entered into must benefit both parties; any transaction that does not benefit both parties would be rejected by the party

6. For a selected list of the most recent works, see “Appendix C” of the report.

7. More recent surveys can be found in Hall et al., 2015 and Stansel and Tuszynski, 2018.

that would come up short. This has consequences throughout the economy. Consumers who are free to choose will only be attracted by superior quality and price. Producers must constantly improve the price and quality of their products to meet customers' demands or customers will not freely enter into transactions with them. Many billions of mutually beneficial transactions occur every day, powering the dynamic that spurs increased productivity and wealth throughout the economy.

Restrictions on freedom prevent people from making mutually beneficial transactions. Such free transactions are replaced by government action. This is marked by coercion in collecting taxes and lack of choice in accepting services: instead of gains for both parties arising from each transaction, citizens must pay whatever bill is demanded in taxes and accept whatever service is offered in return. Moreover, while the incentives of producers in a competitive market revolve around providing superior goods and services in order to attract consumers, the public sector faces no such incentives. Instead, as public-choice theory reveals, incentives in the public sector often focus on rewarding interest groups, seeking political advantage, or even penalizing unpopular groups. This is far different from mutually beneficial exchange although, as noted earlier, government does have essential protective and productive functions.

In some ways, it is surprising the debate still rages because the evidence and theory favoring economic freedom match intuition: it makes sense that the drive and ingenuity of individuals will produce better outcomes through the mechanism of mutually beneficial exchange than the designs of a small coterie of government planners, who can hardly have knowledge of everyone's values and who, being human, are likely to consider first their own well-being and that of the constituencies they must please when making decisions for all of us.

## **Description of the components**

The theory of economic freedom is no different at the subnational level than it is at the global level, although different variables consistent with the theory of economic freedom must be found that suit subnational measures. The 10 components of the subnational index fall into three areas: 1. Government Spending, 2. Taxes, and 3. Labor Market Freedom (Regulation, 3Ai–3Aiii). Most of the components we use are calculated as a ratio of income in each jurisdiction and thus do not require the use of exchange rates or purchasing power parities (PPP). The exception is component 2B, Top Marginal Income Tax Rate and the Income Threshold at Which It Applies, where purchasing power parity is used to calculate equivalent top thresholds in Canada and Mexico in US dollars.

Using a simple mathematical formula to reduce subjective judgments, a scale from zero to 10 for each component was constructed to represent the underlying distribution of each of the 10 components in the index. The highest possible score on each component is 10, which indicates a high degree of economic freedom and the

lowest possible score is 0, which indicates a low degree of economic freedom;<sup>8</sup> thus, this index is a relative ranking.

The rating formula is consistent across time to allow an examination of the evolution of economic freedom. To construct the overall index without imposing subjective judgments about the relative importance of the components, each area was equally weighted and each component within each area was equally weighted.

In order to produce comparable tax and spending data for jurisdictions of widely different sizes and income levels, all such variables are standardized by dividing by income (as is the minimum-wage variable). In Canada and Mexico, we use “household income”; in the United States, the comparable concept is called “personal income”. We use income instead of GDP because there are some jurisdictions where there are large levels of economic activity (included in GDP) that do not directly benefit residents and GDP thus overstates the resources that residents have available to pay the burden of government.

For example, because of peculiarities in its tax law, the US state of Delaware has an abnormally high number of corporate bank headquarters. Much of the revenue generated by those operations goes to shareholders outside Delaware. Those dollars are included in GDP, making taxes and spending seem less burdensome as a percentage of the economy than they actually are. Those dollars are not included in personal income, so using income provides a more accurate measure of the level of economic freedom.

## Area 1 Government Spending

### 1A General Consumption Expenditures by Government as a Percentage of Income

As the size of government expands, less room is available for private choice. While government can fulfill useful roles in society, there is a tendency for government to undertake superfluous activities as it expands: “there are two broad functions of government that are consistent with economic freedom: (1) protection of individuals against invasions by intruders, both domestic and foreign, and (2) provision of a few selected goods—what economists call public goods” (Gwartney et al., 1996: 22). These two broad functions of government are often called the “protective” and “productive” functions of government. Once government moves beyond these two functions into the provision of private goods, goods that can be produced by private firms and individuals, it restricts consumer choice and, thus, economic freedom (Gwartney et al., 1996). In other words, government spending, independent of taxation, by itself reduces economic freedom once this spending exceeds what is necessary to provide a minimal level of protective and productive functions; thus, as the size of

8. Because of the way scores for economic freedom are calculated, a minimum-maximum procedure discussed in “Appendix A: Methodology” of the report, a score of 10 is not indicative of perfect economic freedom, but rather the most freedom among the existing jurisdictions.

government consumption expenditure grows, a jurisdiction receives a lower score in this component.

### **1B Transfers and Subsidies as a Percentage of Income**

When the government taxes one person in order to give money to another, it separates individuals from the full benefits of their labor and reduces the real returns of such activity (Gwartney et al., 1996). These transfers represent the removal of property without providing a compensating benefit and are, thus, an infringement on economic freedom. Put another way, when governments take from one group in order to give to another, they are violating the same property rights they are supposed to protect. The greater the level of transfers and subsidies, the lower the score a jurisdiction receives.

### **1C Insurance and Retirement Payments as a Percentage of Income**

When private, voluntary arrangements for retirement, disability insurance, and so on are replaced by mandatory government programs, economic freedom is diminished. As the amount of such spending increases, the score on this component declines.

### **1D Government Investment (*all-government index only*)**

When government engages in more of what would otherwise be private investment, economic freedom is reduced. This variable, used only in the all-government index, is the country score for variable 1C in *Economic Freedom of the World: 2023 Annual Report*. A detailed description and data sources can be found in that report, available at <https://doi.org/10.53095/88975012>.

## **Area 2 Taxes**

As the tax burden grows, the restrictions on private choice increase and thus economic freedom declines. We examine the major forms of taxation separately.

### **2A Income and Payroll Tax Revenue as a Percentage of Income**

This variable includes all personal and corporate income taxes as well as payroll taxes used to fund social insurance schemes (i.e., employment insurance, Workers Compensation, and various pension plans).

#### *2Bi Top Marginal Income Tax Rate<sup>9</sup> and the Income Threshold at Which It Applies*

Because marginal income tax rates represent the direct penalty on economic activity, in addition to the revenue variable, we include a variable that incorporates the top tax rate as well as the income level at which that rate applies. Top personal income-tax rates are rated by the income thresholds at which they apply. Higher thresholds result in a better score.

---

9. See “Appendix A: Methodology” of the report for further discussion of how the rating for the top marginal tax rate and its threshold was derived.

**2Bii Top Marginal Income and Payroll Tax Rates** (all-government index only)

This variable, used only in the all-government index, is the country score for variable 1Dii in *Economic Freedom of the World: 2023 Annual Report*. A detailed description and data sources can be found in that report, available at <https://doi.org/10.53095/88975012>.

**2C Property Tax and Other Taxes as a Percentage of Income**

This variable includes all forms of taxation other than income, payroll, and sales taxes (which are already captured in variables 2A and 2D), with one exception. Revenue from taxes on natural resources are excluded for three reasons: 1. most areas do not have them; 2. their burden is largely exported to taxpayers in other areas; 3. they can fluctuate widely along with the prices of natural resources (for example, oil), thereby creating outliers that distort the relative rankings.

**2D Sales Tax Revenue as a Percentage of Income**

This variable includes all sales and gross receipts taxes (including excise taxes). Such taxes are a major source of revenue for subnational governments.

*Note about intergovernmental transfers and double counting*

In examining the two areas above, it may seem that Areas 1 and 2 create a double counting, in that they capture the two sides of the government ledger sheet, revenues and expenditures, which presumably should balance over time; however, in examining subnational jurisdictions, this situation does not hold. A number of intergovernmental transfers break the link between taxation and spending at the subnational level.<sup>10</sup> The break between revenues and spending is even more pronounced at the all-government level, which includes the federal government. Obviously, what the federal government spends in a state or a province does not necessarily bear a strong relationship to the amount of money it raises in that jurisdiction; thus, to take examples from both Canada and the United States, the respective federal governments spend more in the province of Newfoundland & Labrador and the state of West Virginia than they raise through taxation in these jurisdictions while the opposite pattern holds for Alberta and Connecticut. As discussed above, both taxation and spending can suppress economic freedom. Since the link between the two is broken when examining subnational jurisdictions, it is necessary to examine both sides of the government's balance sheet.

10. Most governments have revenue sources other than taxation and national governments also have international financial obligations so that the relation between taxation and spending will not be exactly one to one, even at the national level; nevertheless, over time, the relationship will be close for most national governments, except those receiving large amounts of foreign aid.



## Area 3 Regulation

### 3A Labor Market Regulation

#### 3Ai *Minimum Wage*

High minimum wages restrict the ability of employees and employers to negotiate contracts to their liking. In particular, minimum wage legislation restricts the ability of low-skilled workers and new entrants to the workforce to negotiate for employment they might otherwise accept and, thus, restricts the economic freedom of these workers and the employers who might have hired them.

This component measures the annual income earned by someone working full time at the minimum wage as a percentage of per-capita income. Since per-capita income is a proxy for the average productivity in a jurisdiction, this ratio takes into account differences in the ability to pay wages across jurisdictions. As the minimum wage grows relative to productivity, thus narrowing the range of employment contracts that can be freely negotiated, there are further reductions in economic freedom, resulting in a lower score for the jurisdiction. For example, minimum wage legislation set at 0.1% of average productivity is likely to have little impact on economic freedom; set at 50% of average productivity, the legislation would limit the freedom of workers and firms to negotiate employment to a much greater extent. For instance, a minimum wage requirement of \$2 an hour for New York will have little impact but, for a developing nation, it might remove most potential workers from the effective workforce. The same idea holds, though in a narrower range, for jurisdictions within Canada, the United States, and Mexico.

#### 3Aii *Government Employment as a Percentage of Total State/Provincial Employment*

Economic freedom decreases for several reasons as government employment increases beyond what is necessary for government's productive and protective functions. Government, in effect, is using expropriated money to take an amount of labor out of the labor market. This restricts the ability of individuals and organizations to contract freely for labor services since employers looking to hire have to bid against their own tax dollars to obtain labor. High levels of government employment may also indicate that government is attempting to supply goods and services that individuals contracting freely with each other could provide on their own; that the government is attempting to provide goods and services that individuals would not care to obtain if able to contract freely; or that government is engaging in regulatory and other activities that restrict the freedom of citizens. Finally, high levels of government employment suggest government is directly undertaking work that could be contracted privately. When government, instead of funding private providers, decides to provide a good or service directly, it reduces economic freedom by limiting choice and by typically creating a governmental quasi-monopoly in provision of services. For instance, the creation of school vouchers may not decrease government expenditures but it will reduce government employment, eroding government's monopoly on the provision of publicly funded education services while creating more choice for parents and students and, thus, enhancing economic freedom.



### 3Aiii *Union Density*

Workers should have the right to form and join unions, or not to do so, as they choose; however, laws and regulations governing the labor market often force workers to join unions when they would rather not, permit unionization drives where coercion can be employed (particularly when there are undemocratic provisions such as union certification without a vote by secret ballot), and may make decertification difficult even when a majority of workers would favor it. On the other hand, with rare exceptions, a majority of workers can always unionize a workplace and workers are free to join an existing or newly formed union.

To this point in time, there is no reliable compilation of historical data about labor-market laws and regulations that would permit comparisons across jurisdictions for the United States, Canada, and Mexico. In this report, therefore, we attempt to provide a proxy for this component. We begin with union density, that is, the percentage of unionized workers in a state or province; however, a number of factors affect union density: laws and regulations, the level of government employment, and manufacturing density. In measuring economic freedom, our goal is to capture the impact of policy factors, laws and regulations, and so on, not other factors. We also wish to exclude government employment—although it is a policy factor that is highly correlated with levels of unionization—since government employment is captured in component 3Aii above.

Thus, we ran statistical tests to determine how significant an effect government employment had on unionization—a highly significant effect—and held this factor constant in calculating the component. We also ran tests to determine if the size of the manufacturing sector was significant. It was not and, therefore, we did not correct for this factor in calculating the component. It may also be that the size of the rural population has an impact on unionization. Unfortunately, consistent data from Canada, the United States, and Mexico are not available. Despite this limitation, the authors believe this proxy component is the best available at this time. Its results are consistent with the published information that is available (see, for example, Godin et al., 2006).<sup>11</sup>

Most of the components of the three areas described above exist for both the subnational and the all-government levels. Income and payroll tax revenue, for example, is calculated first for local/municipal and provincial/state governments, and then again counting all levels of government that capture such revenue from individuals living in a given province or state.

- 
11. The National Right to Work Legal Defense Foundation (2011) provides a reasonable measure of right-to-work laws and when they were established for US states. We considered using this to replace or complement the measure of unionization rates used in the past; however, the benefit of using a measure of unionization rates is that it picks up some of the differences in enforcement and informal freedoms not picked up by the legislation. For instance, some states may have right-to-work laws with weak enforcement while other states that do not have such laws may actually protect labor freedom more in practice. Although we decided not to include a measure for right-to-work legislation, the analysis was fruitful in that it strongly validates the proxy as an appropriate measure of workers' freedom.

## Components added for the all-government index

To incorporate more accurately the differences in economic freedom in the Mexican states relative to the rest of North America, we include a number of variables from the world index in our all-government index of North American states and provinces. The index expands the regulatory area to include data on these areas. Labour regulation becomes one of three components of Area 3: Regulation, which comprises 3A: Labour market regulation; 3B: Credit market regulation (Area 5A from *Economic Freedom of the World*); and 3C: Business regulations (Area 5C from EFW). See “Appendix A Methodology” of the full report for a description of how Area 3 is now calculated.

Why the regulation of credit and business affects economic freedom is easily understood. When government limits who can lend to and borrow from whom and puts other restrictions on credit markets, economic freedom is reduced; when government limits business people’s ability to make their own decisions, freedom is reduced.

### **3A Labor Market Regulation**

- 3Aiv *Labor Regulations and Minimum Wage*
- 3Av *Hiring and Firing Regulations*
- 3Avi *Flexible Wage Determination*
- 3Avii *Hours Regulations*
- 3Aiii *Costs of Worker Dismissal*
- 3Aix *Conscription*
- 3Ax *Foreign Labor*

### **3B Credit Market Regulation**

- 3Bi *Ownership of Banks*
- 3Bii *Private Sector Credit*
- 3Biii *Interest Rate Controls/Negative Real Interest Rates*

### **3C Business Regulations**

- 3Ci *Administrative Requirements*
- 3Cii *Bureaucracy Costs*
- 3Ciii *Starting a Business*
- 3Civ *Impartial Public Administration*
- 3Cv *Licensing Restrictions*
- 3Cvi *Cost of Tax Compliance*

We also include three other areas: Area 4: Legal System and Property Rights (Area 2 from *Economic Freedom of the World*), Area 5: Sound Money (Area 3 from *Economic Freedom of the World*), and Area 6: Freedom to Trade Internationally (Area 4 from *Economic Freedom of the World*).

## Area 4 Legal System and Property Rights

Protection of property rights and a sound legal system are vital for economic freedom, otherwise the government and other powerful economic actors for their own benefit can limit the economic freedom of the less powerful. The variables for Legal System and Property Rights from the world index are the following.

- 4A Judicial Independence**
- 4B Impartial Courts**
- 4C Protection of Property Rights**
- 4D Military Interference**
- 4E Integrity of the Legal System**
- 4F Contracts**
- 4G Real Property**
- 4H Police and Crime**

## Area 5 Sound Money

Provision of sound money is important for economic freedom because without it the resulting high rate of inflation serves as a hidden tax on consumers. The variables for Sound Money from the world index are the following.

- 5A Money Growth**
- 5B Standard Deviation of Inflation**
- 5C Inflation: Most Recent Year**
- 5D Foreign Currency Bank Accounts**

## Area 6 Freedom to Trade Internationally

Freedom to trade internationally is crucial to economic freedom because it increases the ability of individuals to engage in voluntary exchange, which creates wealth for both buyer and seller. The variables for Area 6 from the index in *Economic Freedom of the World* are the following.

- 6A Tariffs**
  - 6Ai *Trade Tax Revenue*
  - 6Aii *Mean Tariff Rate*
  - 6Aiii *Standard Deviation of Tariff Rates*

- 6B Regulatory trade barriers**
  - 6Bi *Non-tariff Trade Barriers*
  - 6Bii *Costs of Importing and Exporting*

- 6C Black-market exchange rates**

- 6D Controls of the movement of capital and people**
  - 6Di *Financial Openness*

- 6Dii *Capital Controls*
- 6Diii *Freedom of Foreigners to Visit*
- 6Div *Protection of Foreign Assets*

More information on the variables and the calculations can be found in Appendices A and B of the report. For detailed descriptions of the country-level variables, readers can refer to “Appendix: Explanatory Notes and Data Sources” in *Economic Freedom of the World: 2023 Annual Report* (Gwartney et al., 2023). The inclusion of these data from the world index raises the scores for both the Canadian provinces and US states since both Canada and the United States do well in these areas when compared to other nations, as is done in the world index. The effect on the Mexican states tends to be the opposite.

## References

- Arman, F., D. Samida, and M. Walker (1999). *Provincial Economic Freedom in Canada, 1981–1998*. Critical Issues Bulletin (January). Fraser Institute.
- Clemens, Jason, Matthew Lau, Milagros Palacios, and Niels Veldhuis (2017). *End of the Chrétien Consensus?* Fraser Institute. <<https://www.fraserinstitute.org/studies/end-of-the-chretien-consensus>>.
- De Haan, Jakob, and Jan Egbert Sturm (2000). On the Relationship between Economic Freedom and Economic Growth. *European Journal of Political Economy* 16: 215–241.
- Doucouliafos, Chris, and Mehmet Ali Ulubasoglu (2006). Economic Freedom and Economic Growth: Does Specification Make a Difference? *European Journal of Political Economy* 22, 1: 60–81.
- Easton, Stephen, and Michael Walker (1997). Income, Growth, and Economic Freedom. *American Economic Review* 87, 2: 328–332.
- Godin, Keith, Milagros Palacios, Jason Clemens, Niels Veldhuis, and Amela Karabegović (2006). An Empirical Comparison of Labour Relations Laws in Canada and the United States. *Studies in Labour Markets* 2 (May). Fraser Institute.
- Gwartney, James, Robert Lawson, and Walter Block (1996). *Economic Freedom of the World*. Fraser Institute.
- Gwartney, James, Robert Lawson, and Ryan Murphy (2023). *Economic Freedom of the World: 2023 Annual Report*. Fraser Institute. <<https://fraserinstitute.org/studies/economic-freedom-of-the-world-2023-annual-report>>.

Hall, Joshua C., Donald J. Lacombe, and Timothy M. Shaughnessy (2019). Economic Freedom and Income Levels across US States: A Spatial Panel Data Analysis. *Contemporary Economic Policy* 37, 1: 40–49.

Hall, Joshua C., and Robert Lawson (2014). Economic Freedom of the World: An Accounting of the Literature. *Contemporary Economic Policy* 32, 1: 1–20.

Hall, Joshua C., Dean Stansel, and Danko Tarabar (2015). Economic Freedom Studies: A Survey. In Richard J. Cebula, Joshua C. Hall, Franklin G. Mixon, Jr., and James E. Payne, eds., *Economic Behavior, Economic Freedom, and Entrepreneurship* (Edward Elgar): 38–50.

Lawson, Robert (2022). Economic Freedom in the Literature: What Is It Good (Bad) For? In James Gwartney, Robert Lawson, Joshua Hall, and Ryan Murphy, *Economic Freedom of the World: 2022 Annual Report* (Fraser Institute, 2022): 187–199. <<https://www.fraserinstitute.org/studies/economic-freedom-of-the-world-2022-annual-report>>; <<https://www.fraserinstitute.org/studies/economic-freedom-in-the-literature-what-is-it-good-bad-for>>.

National Right to Work Legal Defense Foundation (2011). *Right to Work States*. <<http://www.nrtw.org/rtws.htm>>, as of July 8, 2011.

Stansel, Dean, and Meg Tuszynski (2018). Sub-National Economic Freedom: A Review and Analysis of the Literature. *Journal of Regional Analysis and Policy* 48, 1: 61–71.



# A Closer Look at Economic Freedom in Puerto Rico

Ángel Carrión-Tavárez

The incorporation of Puerto Rico in *Economic Freedom of North America 2022* was a first attempt at assessing economic freedom on the Island. Indicators suggested that Puerto Rico would compare poorly with any US state and last year's results confirmed that. Of particular importance from a research point of view was that the questions raised and the dialogue initiated during this process served to expand on the work carried out; and, in this year's edition, we take a closer look at the Island's situation.

This chapter provides information on the process of incorporating Puerto Rico in the all-government index and subnational index—including a description of the data and the results obtained. It also offers some brief notes about business permits and COVID-19 restrictions on the Island. Finally, we address how the lack of economic freedom is affecting Puerto Rico and advance possible courses of action and methods to increase further the accuracy and comparability of Puerto Rico's scores and ranks in the next edition.

## **Puerto Rico in *Economic Freedom of North America 2023***

The all-government index of *Economic Freedom of North America* contains variables on the areas Government Spending, Taxes, Regulation, Legal System and Property Rights, Sound Money, and Freedom to Trade Internationally, giving each jurisdiction the score in their nation's world data for the last three areas. For example, all Canadian provinces receive the Canadian national score on the index published in *Economic Freedom of the World: 2023 Annual Report* (Gwartney et al., 2023), on the assumption of equivalence across Canada.

Data on most regulatory areas, rule of law, sound money, and freedom to trade are either not available or not considered relevant to subnational jurisdictions; hence, the subnational index is based on state- and local-level components and subcomponents, on the areas Government Spending, Taxes, and Regulation only. The report assumes that those other policy areas are roughly equivalent within nations, so the subnational scores and ranks do not include them.

Incorporating Puerto Rico into *Economic Freedom of North America* was important in order to have a benchmark to assess the situation of economic freedom on the Island. From the outset, the initiative faced two limitations that posed a challenge of

measurement: first, a lack of data since *Economic Freedom of the World* (EFW) does not include Puerto Rico; and second, the Island’s weakness compared to the United States’ averages in core areas of rule of law and regulation.<sup>1</sup>

This laid out the problem of whether or not to give Puerto Rico the international scores of the United States. The question did not have a clear and simple solution since the limitations mentioned affect both the all-government index and subnational index. As noted, the all-government index gives the 50 US states the score of the United States as a country in the index of EFW 2023 and the subnational index assumes equality among the states—that the 50 US states have relatively similar scores for the areas covered only in the world report.<sup>2</sup>

Since the available data suggest this is not true for Puerto Rico, the decision was made to collect comparable data from Puerto Rico for all components and sub-components used in the all-government index, for the year 2021. Although it would not be a perfect exercise, regardless of how the score would be adjusted, this effort would provide a general idea of how the Island compared to the other jurisdictions, as a first step. In addition, data collection for the 10 subnational variables was expanded for the 11 most recent years of the index (2011–2021).

## Data

For the data collection and calculations of the components and subcomponents used only in the all-government index, the definitions, descriptions, and formulas included in the “Appendix Explanatory Notes and Data Source” of *Economic Freedom of the World: 2023 Annual Report* were used.<sup>3</sup> Data collection and the statistical analyses for the subnational index were based on the methodological notes for the areas and variables for Canada, the United States, and Mexico from *Economic Freedom of North America 2022*.

Data for Personal Income and the components 1A. General Consumption Expenditures by Government, 1B. Transfers and Subsidies, and 1C. Insurance and Retirement Payments, and the subcomponent 3Aii. Government Employment were obtained from the Economic and Social Planning Area of the *Junta de Planificación* (JP) (Planning Board, similar to the US Bureau of Economic Analysis). The data source for 2A. Income and Payroll Tax Revenue, 2Bi. Top Marginal Income Tax

1. For example, consider the indirect measure of the rule of law and regulation in *Doing Business 2020*. In this report, Puerto Rico ranked 65<sup>th</sup> while the United States was 6<sup>th</sup> and Canada 23<sup>rd</sup>; thus, the assumption made for the other states and provinces—that they have roughly comparable scores to their national average—does not hold for the Island. Puerto Rico might be roughly comparable to Mexico, 60<sup>th</sup> in the *Doing Business 2020* index.
2. While most of the missing data are in the federal policy area, state or territorial governments also play a role in trade, rule of law, and regulation that can be just as important, if not more. Similarly, national scores for Canada and Mexico are assumed to apply across subnational jurisdictions in these nations (F. McMahon, personal communication, December 14, 2021).
3. The data of some variables were acquired directly from the sources used while others required elaboration based on the information in this annual report.



Rate, and 2D. Sales Tax Revenue was the *Departamento de Hacienda* (similar to the US Treasury).<sup>4</sup>

Other sources used were the US Census Bureau, for “Population”; the *Centro de Recaudación de Ingresos Municipales*, for component 2C. Property Tax and Other Taxes; *LexJuris de Puerto Rico*, for subcomponent 3Ai. Minimum Wage; and the Department of Labor and Human Resources (similar to the US Department of Labor), for Employment and subcomponent 3Aiii. Union Density; incidentally, data on 3Aiii were collected and published sporadically until 2015; since then, no institutional data have been published in Puerto Rico.

Data for the variables used in the all-government index only were obtained from (a) sources cited in EFW 2023, (b) international surveys, (c) local surveys, (d) Puerto Rico government publications, and (e) other publications. Puerto Rico was given the same rating as the United States in 16 components and subcomponents, most of them in the areas Sound Money<sup>5</sup> and Freedom to Trade Internationally. To score the other variables, the data found in the sources and the corresponding formulas were used.

The ratings obtained directly from the sources or as a result of the formula were adjusted based on the scores of Canada, United States, and Mexico included in the preliminary EFW 2023 dataset, in the following components and subcomponents: 4A. Judicial Independence, 4B. Impartial Courts, 4F. Legal Enforcement of Contracts, 4G. Regulatory Restrictions on the Sale of Real Property, 5Ci. Regulatory Burden, and 3Cvi. Cost of Tax Compliance.

In *Doing Business 2020*, Puerto Rico’s score was 83% of the United States score; and, in *The Global Competitiveness Report 2014–2015*, which included Puerto Rico, the ratio was 84%. The results of the calculations of the variables used for the all-government index gave a score for Puerto Rico of 84% of that of the United States, in rule of law, and 91%, in regulation. In summary, the scores obtained are not “out of line with comparative international scores” (F. McMahon, personal communication, July 1, 2023).

In those indicators in which the results of the calculations were higher than the scores found in the international sources, it was decided to reduce Puerto Rico’s score to 83% of that of the United States. This determination was made based on the ratio of Puerto Rico and the United States in *Doing Business 2020*, with the perspective of maintaining international comparability. This adjustment was made only in components 3A. Labor Market Regulation, 3B. Credit Market Regulation, and 3C. Business Regulations, and Area 4. Legal System and Property Rights.

The dataset included a Comments section with the following information about Puerto Rico and the data.

4. The Economic and Social Planning Area of the *Junta de Planificación* and the *Departamento de Hacienda* are the main sources of economic information in Puerto Rico.
5. In 5B. Standard Deviation of Inflation and 5C. Inflation: Most Recent Year, official data from Puerto Rico’s Planning Board were considered. It is possible, however, that these data are underestimated; therefore, Puerto Rico was given the United States’ score instead.

- The Government of Puerto Rico is considered a state government subject to the jurisdiction of the United States; it has fiscal autonomy to impose taxes, manage its budget, and issue debt; and receives funds from the federal government.
- In Puerto Rico, economic and fiscal data are presented mostly in fiscal years (July 1 to June 30).
- The variations in the economic and fiscal data from 2016 to 2021 represent the net effect of a set of economic events.
- In 2016, the Government of Puerto Rico declared itself unable to pay its debt. As a result, the US Congress enacted the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA),<sup>6</sup> which established the Financial Oversight and Management Board for Puerto Rico (FOMBPR).<sup>7</sup> This board manages Puerto Rico’s fiscal crisis, while the government restructures its debt.
- Under PROMESA, the Government of Puerto Rico filed for bankruptcy in 2017 and did not have to pay debt-servicing costs from 2017 to 2021 as it was in bankruptcy proceedings.<sup>8</sup>
- In September 2017, the Island was struck by two hurricanes—Irma and María—that caused catastrophic damages.<sup>9</sup> This interrupted production and billions of dollars were received from the federal government to mitigate damages and rebuild infrastructure.
- A series of earthquakes affected Puerto Rico in January 2020.
- Beginning in March 2020, the Island was affected by the COVID-19 pandemic.

A major challenge in the data collection was the scarcity of information on Puerto Rico available in world indexes and reports. The research did not face different or greater challenges than those of a quantitative data search project. Puerto Rico’s

- 
6. The acronym PROMESA means promise in Spanish.
  7. For Bevir (2010), the rule of law is usually defined in opposition to the arbitrariness typical of various forms of despotism, absolutism, authoritarianism, and totalitarianism, which are widely thought to be evils that the rule of law is supposed to curb. According to Bevir, these include even highly institutionalized forms of rule where atop the apex of a power structure sits some sovereign entity such as a *junta*. It is interesting, therefore, that this body is commonly called the “*Junta de Control Fiscal*” (Fiscal Control Junta) or simply the “*Junta*” by the people in general on the Island.
  8. The interest-paid series of the 1A. General Consumption Expenditures by Government component was revised in the 2023 dataset. After Puerto Rico filed for bankruptcy in 2017, this item was substantially reduced between 2018 and 2021. Also, in the 2A. Income and Payroll Tax Revenue component the partnerships income item was added for 2020 and 2021, because Law 60 (of 2019) introduced options in the payment of the income-tax return.
  9. Puerto Rico experienced a migration loss a year after these hurricanes. About 133,500 people moved from the territory to the US states in 2018—up 36.9% from 97,500 movers the year before. The US states that received the largest number of Puerto Ricans were Florida, Pennsylvania, Massachusetts, New York, and Texas (Glassman, 2019).

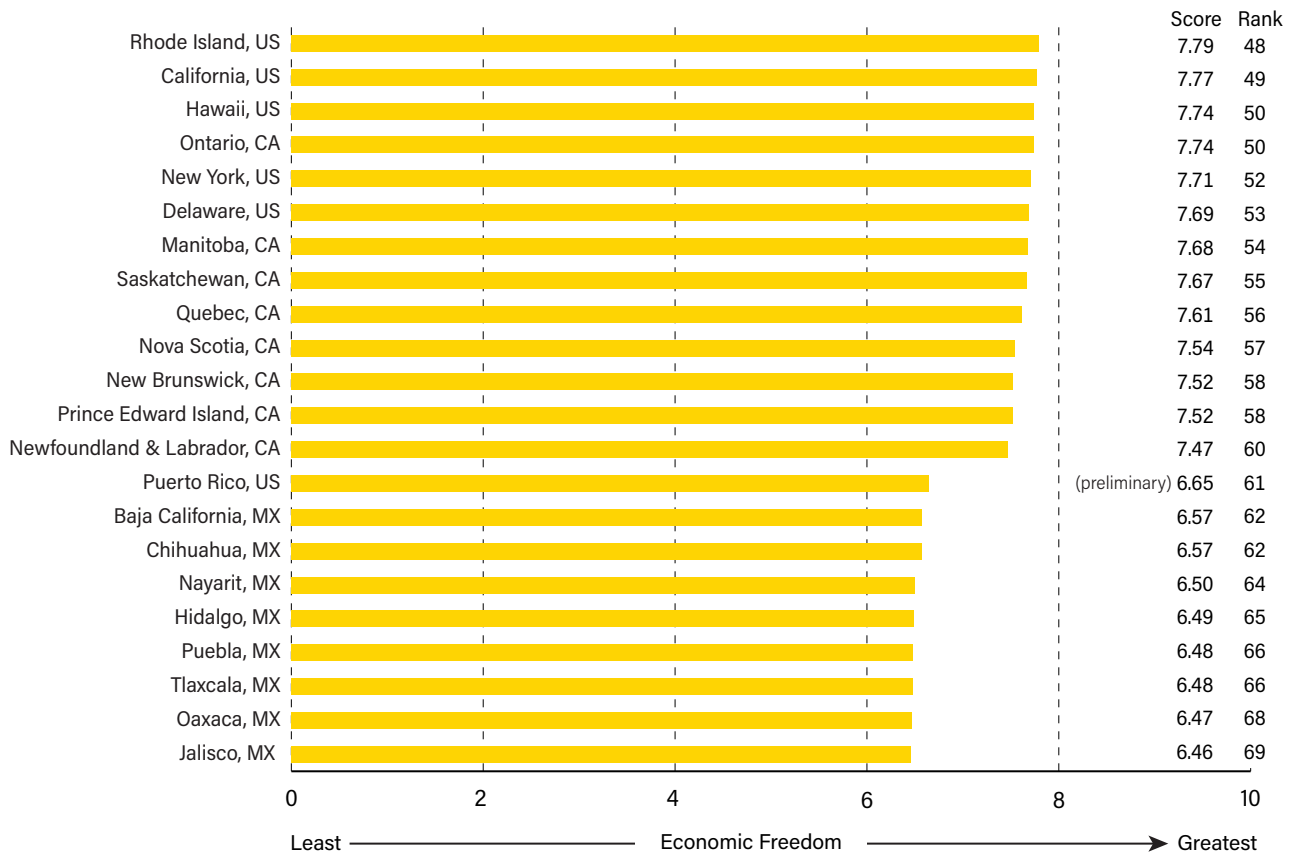
scores in *Economic Freedom of North America 2023* are based on data for fiscal year 2021. Lastly, the scores and rankings included in the results are preliminary because Puerto Rico’s incorporation in this report is a work in progress.

## Results

Puerto Rico was included in the all-government index for the first time this year. This index comprises the 10 provinces of Canada, the 50 US states and now Puerto Rico, as well as the 31 states and the capital of Mexico for a total of 93 jurisdictions. The Island ranks in 61<sup>st</sup> place, with a score of 6.65. The lowest jurisdictions of the United States and Canada are respectively Delaware at 53<sup>rd</sup> with 7.69 and Newfoundland & Labrador at 60<sup>th</sup> with 7.47. The highest states of Mexico are Baja California and Chihuahua, tied at 62<sup>nd</sup> place with 6.57 (Figure 3.1); therefore, Puerto Rico is closer to Mexico than to the United States and Canada.

Among the jurisdictions of Canada, United States, and Mexico in the all-government index, Puerto Rico ranks last on Government Spending (including being last on Insurance and Retirement Payments, as a Percentage of Income), 48<sup>th</sup> on

**Figure 3.1: Summary of Ratings for Economic Freedom at the All-Government Level, Puerto Rico and the Third Quartile of North American Jurisdictions, 2021**



Taxes, and 62<sup>nd</sup> on Labor Market Freedom. In addition, the Island is also in last place on one of the seven indicators of economic freedom used only in this index; 61<sup>st</sup> on three of them; and 43<sup>rd</sup>, 33<sup>rd</sup>, and 1<sup>st</sup> on the other three (Table 3.1). The area in which Puerto Rico is first is Sound Money, in which it received the same score as the United States.

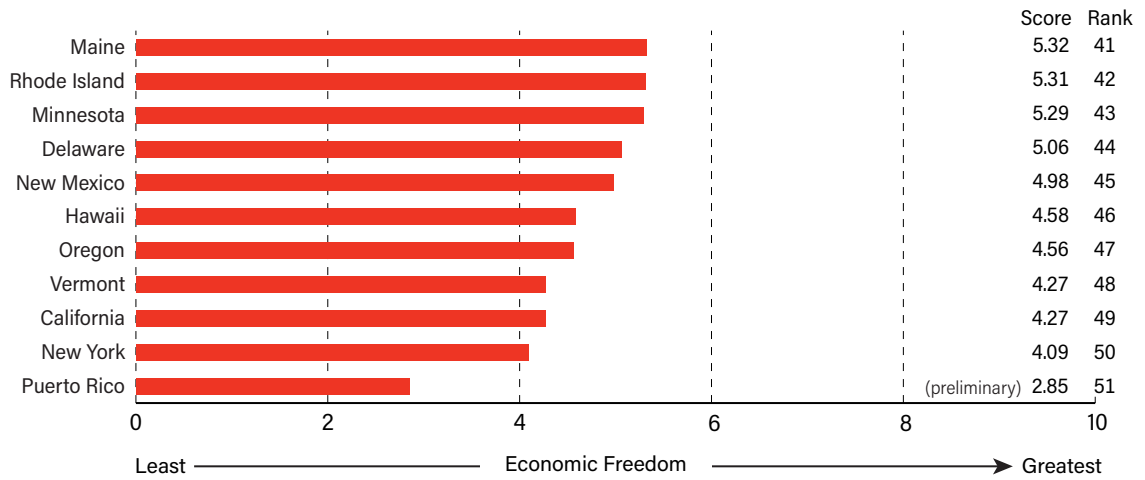
In the subnational index for the United States, Puerto Rico's situation did not change much compared to last year. The results rank the Island at 51<sup>st</sup> overall in this edition, for the second consecutive year, with a score of 2.85. This score is higher than last year's but is still far below that of the last of the states. For comparison, the next lowest jurisdictions are New York, at 50<sup>th</sup> with 4.09 (43% higher than Puerto Rico) and California and Vermont, tied at 48<sup>th</sup> with 4.27 (Figure 3.2); while New Hampshire was the highest state with 7.96.

**Table 3.1: Economic Freedom at the All-Government Level in Puerto Rico, 2021**

Areas and components	Data	Score	Rank
<b>Area 1: Government Spending</b>		3.40	93
1A: Consumption spending, % of personal income	43.8%	6.19	72
1B: Transfers & subsidies, % of personal income	13.14%	7.42	54
1C: Insurance & retirement payments, % of personal income	14.2%	0.00	93
<b>Area 2: Taxes</b>		6.41	48
2A: Income & payroll tax revenue, % of personal income	18.1%	7.52	18
2Bi: Top income tax rate	30.4%	6.00	42
<i>Top income tax threshold</i>	\$61,500		
2Bii: Top marginal income and payroll tax rate (component 1Dii in EFW)*		5.00	33
2C: Property tax & other tax revenue, % of personal income	5.6%	6.82	82
2D: Sales tax revenue, % of personal income	9.1%	5.80	56
<b>Area 3: Regulation</b>		6.12	62
3Ai: Minimum wage, % of per capita personal income	71.2%	0.64	77
3Aii: Government employees, % of total employees	18.9%	4.31	83
3Aiii: Union density, % of total employees	6.2%	10.00	1
3Aiv: Labor market regulations (component 5B in EFW)*		7.58	61
3B: Regulation of credit markets (component 5A in EFW)*		6.15	93
3C: Business regulations (component 5C in EFW)*		5.61	61
<b>Area 4: Legal System and Property Rights (Area 2 in EFW)*</b>		6.52	61
<b>Area 5: Sound Money (Area 3 in EFW)*</b>		9.38	1
<b>Area 6: Freedom to Trade Internationally (Area 4 in EFW)*</b>		8.07	43

Note: \*All-government index only.

**Figure 3.2: Summary of Ratings for Economic Freedom at the Subnational Level, Puerto Rico and the Bottom 10 US States, 2020**



**Table 3.2: Economic Freedom at the Subnational Level in Puerto Rico, 2021**

Areas and components	Data	Score	Rank
<b>Area 1: Government Spending</b>		5.06	37
1A: Consumption spending, % of personal income	18.8%	5.19	46
1B: Transfers & subsidies, % of personal income	0.04%	10.00	1
1C: Insurance & retirement payments, % of personal income	7.0%	0.00	43
<b>Area 2: Taxes</b>		0.16	51
2A: Income & payroll tax revenue, % of personal income	10.4%	0.00	50*
2Bi: Top income tax rate	30.4%	0.00	51
<i>Top income tax threshold</i>	\$61,500		
2C: Property tax & other tax revenue, % of personal income	5.5%	0.66	50
2D: Sales tax revenue, % of personal income	9.1%	0.00	51
<b>Area 3: Labour Market Freedom</b>		3.33	51
3Ai: <i>Minimum wage, % of per capita personal income</i>	71.2%	0.00	51
3Aii: <i>Government employees, % of total employees</i>	17.1%	0.00	51
3Aiii: <i>Union density, % of total employees</i>	6.2%	10.00	1

Note: \*Tied for last; no state had a lower score.

Puerto Rico also ranks 51st in two of the three areas of the subnational index. As Table 3.2 shows, the Island is 51<sup>st</sup> on four of the ten variables, ties for last on another, and is ranked below 40 in three of the other five.<sup>10</sup> Looking further back,

10. Our data for the 3Aiii. Union Density variable for Puerto Rico are from year 2014 (published on April 17, 2015), since more recent data were unavailable.

Puerto Rico is 51<sup>st</sup> on all three area scores in the five years of the period from 2016 to 2020, except in 2016 when it ranked 50<sup>th</sup> in Area 1 (Government Spending), followed by Alaska.

The Island's overall score declined steadily from 1.98 in 2016 to 1.14 in 2019. Its scores of 2.04 in 2020 and 2.85 in 2021 changed that pattern; nonetheless, they are well below the US average of 6.29 in 2020 and 6.20 in 2021. In Puerto Rico, there have been no changes in public policy that have improved the situation of economic freedom; consequently, in Regulatory Burden and other indicators such as market openness and business permits,<sup>11</sup> the Island continues to lag behind.

## Business permits

Business permits have been a persistent issue, for decades, in the discussion of Puerto Rico's regulatory burden. Permitting processes have even faced legal challenges, such as the annulment of the *Reglamento Conjunto para la Evaluación y Expedición de Permisos Relacionados al Desarrollo, Uso de Terrenos y Operación de Negocios* (JP, 2020).<sup>12</sup> The difficulty of obtaining permits to carry out legitimate business activities has been described as a proverbial brick wall for entrepreneurship, especially for the establishment and development of small and medium-sized enterprises.

The permitting process is so complex in Puerto Rico that it is commonly referred to as *permisología* (permitology). This barbarism is composed of the noun *permiso* (from the Latin *permissum*), the meanings of which include license or consent to do something; and the compositional element *logía* (from the Greek *λογία*), which means treatise, study, or science. *Permisología* would be, therefore, the science that studies permits or the knowledge of the management or processing of permits;<sup>13</sup> and, consequently, permit agents and managers on the Island are known as *permisólogos* (permitologists).

11. Market openness and business permits are two new subcomponents added in EFW 2023; they are not used in *Economic Freedom of North America 2023*.
12. The *2023 Transformation Plan for Puerto Rico* (better known as the 2023 Fiscal Plan) states that “unpredictability and inconsistency in the permitting environment are further driven by the ambiguity of the law(s) governing permitting activity. The Joint Regulation for Evaluation and Issuance of Permits Related to Development, Land Use and Business Operations was initially implemented in 2021 but was declared null by the Court of Appeals on March 31, 2021, on April 12, 2021, and on March 14, 2022, in three different judgements. Since that time, there has been considerable confusion over the governing regulations for the current permitting law. A revised Joint Regulation document was released by the PRPB [Puerto Rico Planning Board] for public comment in late October 2022 and has yet to be formally approved. Lastly, numerous municipalities have outdated Territorial Plans which further delay and complicate the ability of the Commonwealth to support their economic development initiatives” (FOMBPR, 2023: 60). The annulment was upheld by the Supreme Court of Puerto Rico (Microjuris, 2023).
13. The Real Academia de la Lengua Española recommends the use of the traditional expressions *permisos* (permits), *trámites* (processes), and *gestión de permisos* (permit management), as well as the colloquialism *papeleo* (paperwork), instead of the term *permisología*.

In the last 15 years, laws that are considered reforms<sup>14</sup> have been passed, but these did not reflect a change in public policy that eased the burden of requirements and streamlined the permitting process. In general, they maintained the same requirements and only changed the order in which they must be processed and the government entity responsible for administering them.<sup>15</sup> On the Island, the need for the requirements and the efficiency of the construction and business permitting processes have not been questioned and analyzed in depth, which is an indispensable element of a reform and a change in public policy.

The Financial Oversight and Management Board for Puerto Rico (2023) has included permit reform in all its yearly fiscal plans, since the first one in 2017, as part of the reforms needed. Six years later, however, it still indicates that the Government must focus on streamlining the permitting process, which is considered “an obstacle to economic development”. The fact is that “the permit process in Puerto Rico is time-consuming and difficult to navigate, involving multiple stakeholders and government agencies, and requires a significant level of documentation—often resulting in several iterations to complete a permit application” (FOMBPR, 2023: 60).

## COVID-19 executive orders

Puerto Rico had more than 80 executive orders in two years in relation to COVID-19. According to a study by the *Junta de Planificación* (2022), these reduced industrial production by \$14,995.4 million and caused a reduction in final demand estimated at \$7,546.4 million, in fiscal year 2020. Losses in trade sales were estimated at \$1,794.1 million and employment could have been reduced by 101,935 jobs. The impact on gross national product was estimated at 9.0%; but it could reach 12.1% taking into consideration the effect that a reduction in wage income has on personal consumption.<sup>16</sup>

In fiscal year 2021, the reduction in final demand as a result of restrictions was estimated at \$7,600.5 million. This reduction represents 12.8% of gross national product at constant prices (JP, 2022). The restrictions resulting from the executive orders caused a reduction of \$21,420.6 million in industrial production and the loss of 165,104 jobs. Forty-six percent of the drop in production occurred in the services

14. These have been the *Ley para la Reforma del Proceso de Permisos de Puerto Rico* (2009) (Puerto Rico Permitting Process Reform Act), the *Ley Núm. 19 del Año 2017 para Enmendar la Ley Núm. 161 de 2009* (2017) (Act No. 19 of 2017 to Amend Act No. 161 of 2009), and the *Ley para Simplificar y Transformar el Proceso de Permisos de 2017* (2022) (Act to Simplify and Transform the 2017 Permitting Process).
15. J. L. Rodríguez, CEO, Puerto Rico Institute for Economic Liberty, personal communication, September 15, 2023.
16. The Planning Board’s study considers the measures taken in the executive orders but does not measure the response of consumers or the actions taken by businesses faced with these measures. Nor did it consider both state and federal economic stimulus measures implemented to offset the harm caused by the government’s pandemic control restrictions (Oficina del Contralor, 2022).



sector, with a decrease of \$9,906.3 million, followed by manufacturing, with a reduction of \$5,815.3 million (Oficina del Contralor, 2022). In these two sectors and commerce, 81% of the total losses were recorded.

## The lack of economic freedom

The lack of economic freedom in Puerto Rico stands at the center of the main socio-economic issues facing its residents. For the last 70 years, Puerto Rico has had poor economic growth relative to the United States; and the gap between the Island and the US states has become increasingly wider. The expectation of converging with the richest jurisdictions in the United States did not materialize; on the contrary, instead of a convergence there has been a divergence—a distancing of the economy of the Island from that of the US states.

Puerto Rico has not been able to close the gap even with the poorest US states. The US Census Bureau reports that 41.7% of the people in Puerto Rico lived in poverty while the official United States poverty rate was 11.6%, in 2021 (2022a, 2022b). New Mexico's official poverty rate is 18.2%,<sup>17</sup> less than half that of the Island; and its per capita income of \$29,624 is more than double Puerto Rico's \$14,047 (Shrider and Creamer, 2023; USCB, 2022a, 2022c). Additionally, with a Gini Index of 0.542, the Island's income inequality is higher than that of any state, and of the District of Columbia, which is second with 0.531 (USCB, 2022d).

Puerto Rico has had a markedly low labor-force participation rate for decades. From 1990 to 2021, it averaged 44.52%, reaching an all-time high of 49.80% in February 2007 and a record low of 38.50% in October 2017 (International Labour Organization [ILO], 2022a). In the US states and the District of Columbia, the average was 65.3% from 1990 to 2021 (ILO, 2022b). Unemployment on the Island has been historically higher than in the United States as well, with an average unemployment rate of 14.3% from 1976 to 2021 (US Bureau of Labor Statistics, 2022).

Puerto Rico experienced high outbound migration from 2011 to 2020; it is estimated that 550,421 individuals migrated to the US states in this period (Universidad de Puerto Rico, 2021). This is a significant figure considering that the population of the Island is 3,221,789 at present (USCB, 2022a). Puerto Ricans will probably continue to emigrate in large numbers as a result of the persistent economic hardships and the wage gaps between the Island and the US states (Duany, 2022). This pattern is consistent with the findings of previous research that emigration is associated with the lack of economic freedom.

17. Based on the supplemental poverty measure, the percentage of people in poverty in New Mexico is 10.2% using a three-year average (2020, 2021, and 2022); and the jurisdiction with the highest percentage is the District of Columbia at 14.8 (Shrider and Creamer, 2023).



## Going forward

In the process of incorporating Puerto Rico in *Economic Freedom of North America*, the coauthors of the report have discussed ideas to increase the accuracy of the Island’s data. The course of action to be pursued in the new research cycle will be to expand data collection to complement the absence of information on Puerto Rico in world indexes and reports. This could be done by (a) using alternative data sources included in *Economic Freedom of the World: 2023 Annual Report* or (b) conducting a survey with the questions specified in the “Appendix Explanatory Notes and Data Sources” of that report.

With the additional data collected, the 2021 scores for Puerto Rico used in *Economic Freedom of North America 2023* will be reviewed and a ratio between the relevant United States and Puerto Rico scores will be calculated. This ratio could be applied to the overall score or directly to the variables with data.<sup>18</sup> Finally, in order to be able to estimate economic freedom in more previous years (as we have done this year with the subnational index), the ratio will be used to calculate Puerto Rico’s scores in a predetermined number of years prior to 2021 for the all-government index.<sup>19</sup>

## Conclusion

Economic freedom tends to be positively associated with a variety of economic outcomes, including the level and growth of income. It is not surprising, then, that the lack of economic freedom is reflected in the economic and social situation that has afflicted Puerto Rico for decades. The incorporation of the Island in *Economic Freedom of North America* has provided a benchmark with other jurisdictions and the opportunity to bring it to public discussion in Puerto Rico. It also served to educate about the importance of economic freedom for the economic and social development of the Island.

The precise situation of economic freedom in Puerto Rico can only be gauged through the collection of additional data on the rule of law, regulation, and related areas. The work carried out in these first two years is a starting point with a new path to follow in the next cycle. For now, it is important to disclose this year’s results to raise awareness about the need for greater economic freedom on the Island, and to present public-policy alternatives to achieve it, both in Puerto Rico and in the United States—where the majority of Puerto Ricans currently reside.

- 
18. This process is explained in detail on page 42 of Stansel, Torra, McMahon, and Carrión-Tavárez, 2022.
  19. This approach is different from the process used this year, which (a) was based on the use of a ratio from *Doing Business 2020* (as explained above); (b) was only applied to a few variables; and (c) was used only to calculate a preliminary score for Puerto Rico in 2021 for the all-government index.

## References

- Bevir, M. (2010). Rule of Law. In *Encyclopedia of Political Theory*, vol. 1 (SAGE Publications): 1227–1229. <<https://dx.doi.org/10.4135/9781412958660.n397>>, as of October 10, 2023.
- Duany, Jorge (2022). Refugiados climáticos. *El Nuevo Día* (October 9). <<https://www.elnuevodia.com/opinion/desde-la-diaspora/refugiados-climaticos/>>, as of October 10, 2023.
- Financial Oversight and Management Board for Puerto Rico [FOMBPR] (2023). *2023 Transformation Plan for Puerto Rico. Restoring Growth and Prosperity. Volume 3: Implementation Requirements and Plan*. <<https://oversightboard.pr.gov/fiscal-plans-2/>>, as of October 15, 2023.
- Glassman, B. (2019). *A Third of Movers from Puerto Rico to the Mainland United States Relocated to Florida in 2018*. US Census Bureau, US Department of Commerce. <<https://www.census.gov/library/stories/2019/09/puerto-rico-outmigration-increases-poverty-declines.html#:~:text=More%20people%20moved%20from%20Puerto,than%20in%20the%20prior%20year>>, as of October 10, 2023.
- Gwartney, James, Robert Lawson, and Ryan Murphy (2023). *Economic Freedom of the World: 2023 Annual Report*. Fraser Institute. <<https://fraserinstitute.org/studies/economic-freedom-of-the-world-2023-annual-report>>, as of October 15, 2023.
- International Labour Organization (ILO) (2022a, June). *Labor Force Participation Rate, Total (% of total population ages 15+) (modeled ILO estimate) - Puerto Rico*. <<https://data.worldbank.org/indicator/SL.TLF.CACT.ZS?locations=PR>>, as of October 24, 2022.
- International Labour Organization (ILO) (2022b, June). *Labor Force Participation Rate, Total (% of total population ages 15+) (national estimate) - United States*. <<https://data.worldbank.org/indicator/SL.TLF.CACT.NE.ZS?locations=US>>, as of October 24, 2022
- Junta de Planificación [JP] (2020). *Reglamento Conjunto para la Evaluación y Expedición de Permisos Relacionados al Desarrollo, Uso de Terrenos y Operación de Negocios (Reglamento Conjunto)*. <<https://jp.pr.gov/reglamento-conjunto-2020/>>, as of October 15, 2023.
- Junta de Planificación [JP] (2022). *Estudio de Impacto Social y Económico del COVID-19 en Puerto Rico*. <<https://jp.pr.gov/wp-content/uploads/2022/12/Estudio-Impacto-Social-y-Economico-del-COVID-19-en-Puerto-Rico-para-redes.pdf>>, as of October 16, 2023.
- Ley para la Reforma del Proceso de Permisos de Puerto Rico, Ley Núm. 161 del año 2009* (2009). <<https://www.lexjuris.com/lexlex/leyes2009/lexl2009161.htm>>, as of October 15, 2023.
- Ley para Enmendar la Ley Núm. 161 de 2009, Ley Núm. 19 del año 2017* (2017). <<https://www.lexjuris.com/lexlex/leyes2017/lexl2017019.htm>>, as of October 15, 2023.

*Ley para Simplificar y Transformar el Proceso de Permisos de 2017, Ley Núm. 19 de 4 de abril de 2017, según enmendada* (2022). <<https://bvirtualogp.pr.gov/ogp/Bvirtual/leyesreferencia/PDF/19-2017.pdf>>, as of October 15, 2023.

Microjuris (2023). *Supremo Confirma Decisión del Tribunal de Apelaciones sobre el Reglamento de Permisos*. March 15. <<https://aldia.microjuris.com/2023/03/15/supremo-confirma-decision-del-tribunal-de-apelaciones-sobre-el-reglamento-que-expide-permisos-relacionados-al-desarrollo/>>, as of October 15, 2023.

Oficina del Contralor (2022). *El costo económico del Covid-19: reducción de \$7,627.2 millones en la demanda final*. January 11. <<https://www.ocpr.gov.pr/articulos/el-coste-economico-del-covid-19-reduccion-de-7627-2-millones-en-la-demanda-final/>>, as of October 16, 2023.

Shrider, Emily A., and John Creamer (2023). *Poverty in the United States: 2022*. U.S. Government Publishing Office. <<https://www.census.gov/content/dam/Census/library/publications/2023/demo/p60-280.pdf>>, as of October 17, 2023.

Stansel, Dean, José Torra, Fred McMahon, and Ángel Carrión-Tavárez (2022). *Economic Freedom of North America 2022*. Fraser Institute. <<https://doi.org/10.53095/88975004>>, as of October 12, 2023.

Universidad de Puerto Rico (2021). *Centro de Información Censal (CIC) de la UPR Cayey publica análisis de estimados de emigración neta entre Puerto Rico y Estados Unidos del 2011 a 2020* (June).

US Bureau of Labor Statistics (2022). *Unemployment Rate in Puerto Rico* (August). US Department of Labor. <<https://fred.stlouisfed.org/series/LAUST72000000000003A>>, as of October 21, 2023.

US Census Bureau [USCB] (2022a). *Quickfacts Puerto Rico* (July). US Department of Commerce. <<https://www.census.gov/quickfacts/PR>>, as of October 12, 2023.

US Census Bureau [USCB] (2022b). *Poverty in the United States: 2021* (September). US Department of Commerce. <<https://www.census.gov/library/publications/2022/demo/p60-277.html>>, as of October 12, 2023.

US Census Bureau [USCB] (2022c). *Quickfacts New Mexico* (July). US Department of Commerce. <<https://www.census.gov/quickfacts/fact/table/NM/PST045222>>, as of October 12, 2023.

US Census Bureau [USCB] (2022d). *Gini Index of Income Inequality* (October). US Department of Commerce. <<https://data.census.gov/cedsci/table?q=B19083%3A%20GINI%20INDEX%20OF%20INCOME%20INEQUALITY&g=0100000US%240400000&tid=ACSDT5Y2020.B19083>>, as of October 12, 2023.

## About the Authors



### Dean Stansel

Dean Stansel is a Research Associate Professor at the Bridwell Institute for Economic Freedom in the Cox School of Business at Southern Methodist University. He earned his B.A. in economics (with honors) and politics from Wake Forest University and his M.A. and Ph.D. in economics from George Mason University. Before entering academia, Prof. Stansel worked for seven years at the Cato Institute, a public-policy research organization in Washington, D.C., where he produced over 60 publications on fiscal policy issues. In addition to his work on *Economic Freedom of North America*, he is sole author of the Reason Foundation's *U.S. Metropolitan Area Economic Freedom Index*, as well as the author of numerous academic journal articles on a variety of issues in public finance and urban economics. Prof. Stansel's research has been discussed in many publications including the *Wall Street Journal*, *New York Times*, *San Francisco Chronicle*, and *Atlanta Journal-Constitution*; and his commentaries have appeared in the *Wall Street Journal*, *Washington Post*, *Investor's Business Daily*, and *Chicago Tribune*, and *Dallas Morning News*, among others.



### José Torra

José Torra is the head of research at *Caminos de la Libertad*, a member of the Economic Freedom Network; its mission is to promote discussion about, and reflection upon, the different aspects of freedom. He holds a degree in economics from the *Universidad Nacional Autónoma de México*, Mexico City. In addition to *Economic Freedom of North America*, he is author of *Emprender México*, a report of the difficulties that entrepreneurs face in the Mexican economy.



### Fred McMahon

Fred McMahon is the Dr. Michael A. Walker Chair of Economic Freedom Research at the Fraser Institute. He manages the Economic Freedom of the World Project and examines global issues, such as development, trade, governance, and economic structure; and coordinates the Economic Freedom Network, an international alliance of independent think tanks in nearly 90 nations and territories. He holds an M.A. in Economics from McGill University, Montreal. Mr. McMahon is the author of numerous research articles and several books, including *Looking the Gift Horse in the Mouth: The Impact of Federal Transfers on Atlantic Canada*, which won the Sir Antony Fisher International Memorial Award for advancing public-policy debate, *Road to Growth: How Lagging Economies Become Prosperous*, and *Retreat from Growth: Atlantic Canada and the Negative Sum Economy*. He has written for numerous publications, including the *European Journal of Political Economy*, the *SAIS Journal* (School of Advanced International Studies, Johns Hopkins University), the *Wall Street Journal*, *Policy Options*, *National Post*, *Time* (Canada), *Globe & Mail*, *Ottawa Citizen*, and most other major Canadian newspapers.



### **Ángel Carrión-Tavárez**

Ángel Carrión-Tavárez is the Director of Research and Policy at the Institute for Economic Liberty. He holds a Ph.D. in Integration and Economic and Territorial Development from Universidad de León, Spain. He was the founder and editor of the economic and policy magazine *Panorama 21*, published in English, Spanish, and Portuguese. He held the positions of Managing Editor of the business weekly *Caribbean Business* and Editor-in-Chief and President of the Board of the peer-reviewed journal *Fórum Empresarial*. He has also served as the Academic Coordinator of the Certificate in Editing and Publishing Arts, a professor of Regional and Business Geography, and the Director of the Center for Business Research at the University of Puerto Rico. In addition to his work on *Economic Freedom of North America*, his research has resulted in reports including *From NAP to SNAP: A Bridge to Economic Liberty for Residents of Puerto Rico*; *Free Market in Puerto Rico 2022*; *Doing Business North America 2022*; and *Unleashing Potential. The Burdens of Occupational Licensing and How It Can Be Reformed in Puerto Rico*.

## Peer Review

The Fraser Institute maintains a rigorous peer review process for its research. New research, major research projects, and substantively modified research conducted by the Fraser Institute are reviewed by a minimum of one internal expert and two external experts. Reviewers are expected to have a recognized expertise in the topic area being addressed. Whenever possible, external review is a blind process. Commentaries and conference papers are reviewed by internal experts. Updates to previously reviewed research or new editions of previously reviewed research are not reviewed unless the update includes substantive or material changes in the methodology. The review process is overseen by the directors of the Institute's research departments who are responsible for ensuring all research published by the Institute passes through the appropriate peer review. If a dispute about the recommendations of the reviewers should arise during the Institute's peer review process, the Institute has an Editorial Advisory Board, a panel of scholars from Canada, the United States, and Europe to whom it can turn for help in resolving the dispute.

## Editorial Advisory Board

### Members

Prof. Terry L. Anderson  
Prof. Robert Barro  
Prof. Jean-Pierre Centi  
Prof. John Chant  
Prof. Bev Dahlby  
Prof. Erwin Diewert  
Prof. Stephen Easton  
Prof. J.C. Herbert Emery  
Prof. Jack L. Granatstein

Prof. Herbert G. Grubel  
Prof. James Gwartney  
Dr. Jerry Jordan  
Prof. Ross McKittrick  
Prof. Michael Parkin  
Prof. Friedrich Schneider  
Prof. Lawrence B. Smith  
Dr. Vito Tanzi

### Past members

Prof. Armen Alchian\*  
Prof. Michael Bliss\*  
Prof. James M. Buchanan\*<sup>†</sup>  
Prof. Friedrich A. Hayek\*<sup>†</sup>  
Prof. H.G. Johnson\*

Prof. Ronald W. Jones  
Prof. F.G. Pannance\*  
Prof. George Stigler\*<sup>†</sup>  
Sir Alan Walters\*  
Prof. Edwin G. West\*

\* Deceased; <sup>†</sup> Nobel Laureate



**Economic freedom enables individuals and families to make their own economic decisions, without government interference.**

*Economic Freedom of North America 2023* is our 19th edition. For researchers, this report has become the most widely used of the North American indexes to explore empirically the effects of economic freedom; more than 370 research articles have used the index.

All states and provinces were rated on a 10-point scale at two levels, the subnational and the all-government. At the all-government level, the index captures the impact of restrictions on economic freedom by all levels of government (federal, state/provincial, and municipal/local). At the subnational level, it captures the impact of restrictions by state or provincial and local governments.

#### Data available to researchers

*The full data set, including all of the data published in this report as well as data omitted due to limited space, can be downloaded for free.*

<https://www.fraserinstitute.org/economic-freedom/dataset>

#### TOP AND BOTTOM

For the purpose of comparing individual jurisdictions within the same country, the subnational index is the appropriate choice. The most recently available data are from 2021. In the United States, the most economically free state was New Hampshire at 7.96, followed by Florida at 7.80. Tennessee is third at 7.73; Texas is fourth at 7.64. The US Territory of Puerto Rico came in last with a score of 2.85. The least-free state was New York at 4.09, following California and Vermont, which were tied at 48<sup>th</sup> with 4.27. Oregon was 47<sup>th</sup> at 4.56, Hawaii was 46<sup>th</sup> at 4.58, and New Mexico was 45<sup>th</sup> at 4.98.

On the all-government index, the top jurisdiction in the United States is New Hampshire at 8.14, followed by Florida at 8.07 and South Carolina at 8.06. Alberta, the highest Canadian province, is in 31<sup>st</sup> place with a score of 7.90 followed by British Columbia in 45<sup>th</sup> at 7.80.

The lowest-ranked US state is Delaware at 7.69 in 53<sup>rd</sup> place, following New York (7.71) at 52<sup>nd</sup>. The lowest ranked Canadian province is Newfoundland & Labrador with 7.47, in 60<sup>th</sup> place behind New Brunswick and Prince Edward Island tied for 58<sup>th</sup> at 7.52, and Nova Scotia, 57<sup>th</sup> at 7.54.

The highest-ranked Mexican states are Baja California and Chihuahua with 6.57, followed by Nayarit (6.50). They are less than one-tenth of a point behind Puerto Rico, but almost a full point behind the jurisdictions ranking lowest in Canada and the rest of the United States. The lowest-ranked Mexican state is Ciudad de México at 5.55, followed by Colima at 5.88, and Campeche at 6.02.

From 2011 to 2017, the average score for all 93 jurisdictions rose from 7.27 to 7.46. Since 2017 it has fallen to 7.32. The vast majority of that decline occurred in 2020, which reflects the government response to the COVID-19 pandemic.



978-0-88975-757-8

