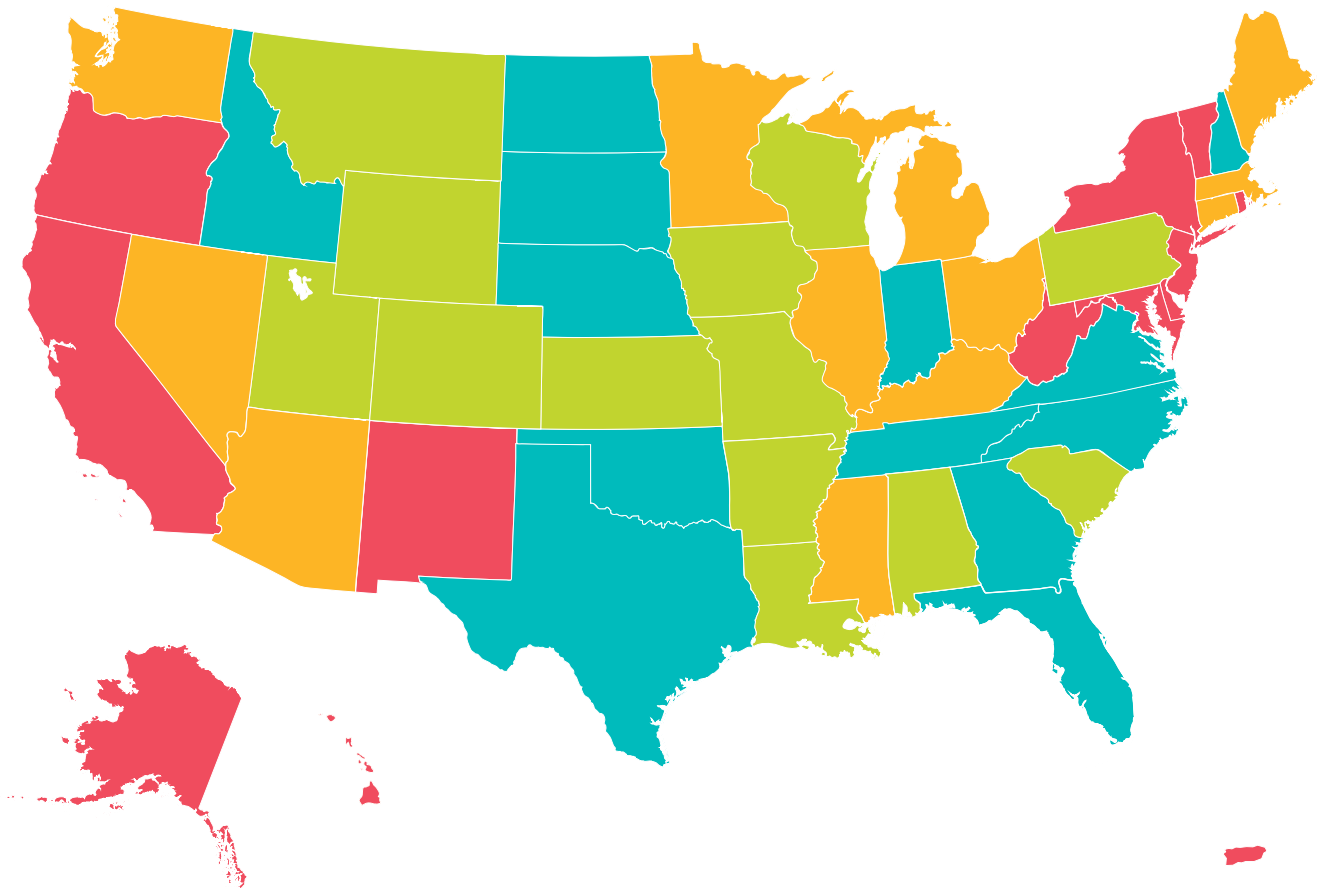


Dean Stansel,
José Torra,
Matthew Mitchell,
& Ángel Carrión-Tavárez



Economic Freedom of North America 2024



The map uses the subnational index.

 MOST FREE

 2ND QUARTILE

 3RD QUARTILE

 LEAST FREE

Economic Freedom of North America 2024

Dean Stansel, José Torra, Matthew Mitchell,
and Ángel Carrión-Tavárez

This is an excerpt of Economic Freedom of North America 2024 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/10.53095/13583009>.



2024

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EXECUTIVE SUMMARY

Economic Freedom of North America in 2022

Economic freedoms are a subset of human freedoms. And when people have more economic freedom, they are allowed to make more of their own economic choices—choices about work, about buying and selling goods and services, about acquiring and using property, and about forming contracts with others.

The indices published in the *Economic Freedom of North America 2024* (EFNA) report measure the degree to which provincial, state, and local governments in North America permit their citizens to make their own economic choices. These governments can limit economic freedom through taxes, regulations, barriers to trade, and manipulation of the value of money, or they can safeguard economic freedom by protecting people and their property.

Economic Freedom of North America 2024 is the twentieth edition of the Fraser Institute's annual report. It measures the extent of economic freedom in each of the 10 Canadian provinces, 50 US states, the US territory of Puerto Rico, and all 32 Mexican states.

It includes four distinct indices. The all-government index, which includes all 93 jurisdictions, takes account of federal government policies and should be used to compare jurisdictions across all three countries. Three separate subnational indices—one for each country—account for provincial/state and local government policies and these indices should be used to compare jurisdictions within the same country.

In the subnational indices, we employ 10 variables for each provincial/state government in three areas: 1) Government Spending; 2) Taxes; and 3) Labor Market Freedom.

The all-government index builds on the subnational indices to account for federal policies in two ways. First, we add federal spending and taxes in the provinces and states to the provincial/state and local totals used in the subnational index.

This accounts for the fact that federal policies may differentially affect one state relative to another or one province relative to another. Second, the all-government index incorporates six variables from the *Economic Freedom of the World* (EFW) index to account for differences in economic freedom between the countries. These include three additional areas: 4) Legal Systems and Property Rights; 5) Sound Money; and 6) Freedom to Trade Internationally. And it includes three additions to existing areas: It expands on EFNA's Area 1 to include federal government investment (variable 1C in EFW), Area 2 to include federal top marginal income and payroll tax rates (variable 1Dii in EFW), and Area 3 to include federal credit market regulation and business regulations. These additions help capture restrictions on economic freedom that arise from federal policy.

Results for Canada, the United States, and Mexico

The all-government index

The all-government index should be used to compare jurisdictions across the three countries. Canada and the United States have similar national scores in *Economic Freedom of the World*, and both have typically been among the top 15 nations in that report. In the 2024 *Economic Freedom of the World* index, the US ranks fifth while Canada is eighth. Mexico, on the other hand, typically ranks much lower and is 65th in the 2024 report. These different country rankings in the *Economic Freedom of the World* report affect state and provincial rankings in the all-government *Economic Freedom of North America* index.

The top jurisdiction in the all-government index of *Economic Freedom of North America 2024* is New Hampshire at 8.13 on the 0 to 10 scale. New Hampshire is followed by Idaho (8.07), Oklahoma and South Carolina (8.06) tied for third, and Florida and Indiana (8.05) tied for fifth.

The lowest-ranking jurisdictions are all Mexican states. In last place is Ciudad de México (5.62) at 93rd. Above that is Colima (5.78) at 92nd, Campeche (5.98) at 91st place, Tamaulipas (6.06) at 90th, and Zacatecas (6.09) at 89th.

Alberta (8.01) is the highest-ranking Canadian province, tied for 12th place with Tennessee, South Dakota, Colorado, and Texas. The next-highest Canadian province is British Columbia (7.84) which is tied with Massachusetts, Minnesota, and New Mexico for 43rd place. Canada's four Atlantic provinces rank below all 50 US states:

New Brunswick (7.64) is 57th, Prince Edward Island (7.63) is 58th, Nova Scotia (7.62) is 59th, and Newfoundland & Labrador (7.58) is 60th.

Puerto Rico and all the Mexican states are more than a full point behind the lowest-ranking Canadian province, Newfoundland & Labrador. Puerto Rico (6.57) is in 61st place. The highest-ranked Mexican state is close behind, Baja California (6.54) at 62nd place. The next-highest ranked Mexican state is Chihuahua (6.46) in 63rd place, followed by Jalisco (6.44) in 64th place, Puebla (6.43) in 65th place, and Guanajuato (6.42) in 66th place.

The lowest-ranking US state is Delaware (7.65) at 56th place. The next-lowest is New York (7.68) at 55th, Hawaii (7.73) at 52nd, and Alaska (7.76) which is tied with Saskatchewan in 50th.

Averaging across all 93 jurisdictions, economic freedom in North America peaked in 2004 at 7.76 then fell to a low of 7.30 in 2009. Average economic freedom in North America then rose slowly to 7.50 in 2017, but it has remained more than a quarter-point below its 2004 peak ever since. Average economic freedom across all 93 jurisdictions has fallen every year since 2017 and is now only 0.02 points above its all-time low.

The subnational indices

The subnational indices should be used to compare jurisdictions within the same country. There is a separate subnational index for each country. In Canada's subnational index, the most economically free province in 2022 was again Alberta with 6.59, followed by Ontario (5.40) in second place and Manitoba (5.14) in third. The least free by far was Quebec at 3.41, with the next-lowest being Nova Scotia (4.22) at ninth, and Saskatchewan (4.46) in eighth.

In the United States subnational index, the most economically free state was New Hampshire at 8.12, followed by South Dakota (8.05) in second, Florida (8.03) in third, Tennessee (8.01) in fourth, and Texas (8.00) in fifth. 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 (4.25) at 50th, well behind California (4.44) at 49th, Hawaii (4.68) at 48th, and New Mexico (4.81) at 47th. The US territory of Puerto Rico's score was even lower at 2.13, only half that of the lowest state.

In the Mexican subnational index, the most economically free state was Michoacán de Ocampo at 6.30, far ahead of Baja California (5.67) in second, followed by Morelos (5.56) in third, Jalisco (5.34) in fourth, and Puebla (5.32) in fifth. The least free Mexican state was Zacatecas (2.60). The next-lowest was Campeche (2.99) at 31st, Tabasco (3.47) at 30th, Quintana Roo (3.62) at 29th, and México (3.69) at 28th.

In addition to the tables found in chapter 5, our interactive website at <https://www.freetheworld.com/> contains all the latest scores and rankings for each of the components of the indices as well as historical data on the overall and area scores. The full dataset is also available for download at that same website, which can also be accessed by scanning the following QR code:



Economic freedom and economic well-being at the subnational level

Economically free places tend to prosper. One way to see this is to compare economic freedom with income per person. Among those North American jurisdictions that were in the bottom 25% for all-government economic freedom (averaged from 2013 to 2022) income per person in 2022 was US\$2,997. But among those jurisdictions that were in the top 25% on all-government economic freedom, income per person was US\$62,184. In other words, incomes in the freest North American jurisdictions were 21 times higher than in the least-free jurisdictions.

Incomes are not only higher in economically free places, but they tend to grow faster in these places as well. From 2013 to 2022 total income in the freest 25% of North American jurisdictions grew 29% after adjusting for inflation. In the least-free jurisdictions, however, inflation-adjusted income fell 13%.

The same patterns hold when we compare jurisdictions within countries. In those places that were the most-free relative to the rest of their country, incomes were, on average, about 3% higher than in the rest of the country. But among those places that

were the least-free relative to the rest of their country, incomes were 6.8% below the country average.

Among the freest US states, population grew 10 times faster than it did in the least-free from 2013 to 2022. Total employment in these states also grew about three times faster than in the least-free states over this time.

These general patterns have been corroborated by independent scholars using careful statistical analyses that control for possibly confounding factors such as geography, climate, and historical development. There are now nearly 400 articles by independent researchers examining subnational economic freedom using the data from *Economic Freedom of North America*. Appendix C lists some of the most recent ones.

Much of that literature focuses on 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. The results of these studies tend to mirror those found for these same relationships at the country level using the index published in *Economic Freedom of the World*.

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 for free at <www.fraserinstitute.org/studies/economic-freedom>. However, 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.

If you have difficulty downloading the data, please contact <freetheworld@fraserinstitute.org>. If you have technical questions about the data itself, please contact Dean Stansel via e-mail to <dean.b.stansel@gmail.com>.

Cite the dataset

Authors Dean Stansel, José Torra, Matthew Mitchell, and Ángel Carrión-Tavárez

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

Chapter One

Economic Freedom of Canada,
the United States, and Mexico in 2022

Economic freedom and the index

The indices published in *Economic Freedom of North America* (EFNA) are an attempt to gauge the extent to which governments in North America permit their citizens economic freedom. The indices published here measure economic freedom at two levels, the subnational and the all-government. There are three separate subnational indices, one each for Canada, the United States, and Mexico. These indices measure the impact of provincial/state and local governments on economic freedom and should be used to compare jurisdictions within the same country. The all-government index builds on the subnational indices to measure the impact of all levels of government—federal, provincial/state, and local—in all three countries. The all-government index should be used to compare jurisdictions across countries. All 10 Canadian provinces, 50 US states, 32 Mexican states (including Ciudad de México), and the US territory of Puerto Rico are included (figures 1.1, 1.2a, 1.2b, and 1.2c). The most recent data available for the report are from fiscal year 2022.

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

Economic freedoms are a subset of human freedoms. They concern economic activity such as transacting, working, acquiring and using property, and contracting with others. When people have more economic freedom, they are allowed to make more of their own economic choices. On one hand, governments can prevent people from making their own economic choices through regulations, taxes, barriers to trade, and manipulation of the value of money. On the other hand, governments can safeguard individual economic choice by protecting persons and their property from fraud or force.

The Fraser Institute has been measuring economic freedom for nearly three decades, beginning with the first *Economic Freedom of the World* (EFW) report, published

in 1996.¹ Since that first publication, independent researchers have used the EFW to conduct about 1,000 studies assessing the relationship between economic freedom and various measures of human wellbeing. These studies find overwhelming evidence that economic freedom is associated with better outcomes. For example, economic freedom is positively correlated with higher per-capita income, faster economic growth, greater life expectancy, lower child mortality, stronger democratic institutions, better protection of civil and political freedoms, greater tolerance, and more trust.² While the goal of the *Economic Freedom of the World* index is to measure the economic freedom of countries on an international basis, the goal of the *Economic Freedom of North America* index is to measure economic freedom across Canadian provinces, US jurisdictions, 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 expands this initial endeavor by including the 50 US states, the 32 Mexican states, and the US territory of Puerto Rico. This latest edition includes data from 1981 through 2022 for all Canadian provinces and US states, data from 2000 through 2022 for Puerto Rico, and data from 2003 through 2022 for all Mexican states.

All jurisdictions are ranked on economic freedom at both the subnational (state/provincial and local) and the all-government (federal, state/provincial, and local) levels. This helps isolate the impact of different levels of government on economic freedom in each jurisdiction. The subnational index provides a comparison of how individual jurisdictions within a country measure up against other jurisdictions in that country. The all-government index provides a comparison of how individual jurisdictions in different countries compare to each other.

We examine state- and provincial-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*.

1 It was the Fraser Institute's founder and first president, Michael Walker, who first suggested the idea of measuring economic freedom. To see it to fruition, he worked with Milton and Rose Friedman to organize a series of conferences with dozens of experts, including three Nobel Prize-winning economists.

2 A list of such articles and additional information can be found at <<https://www.fraserinstitute.org/economic-freedom/>>. For more details on the history of the index and the literature see Lawson (2022) and Mitchell (2024).

For the third time, we have included the US territory of Puerto Rico in the report. It was introduced in the subnational index in the 2022 report and into the all-government index in 2023. Chapter 3 provides more details on Puerto Rico's inclusion in the indices.

All-government economic freedom

As figure 1.1 on page 10 indicates, in the all-government index, the highest-ranked jurisdiction is again New Hampshire with a score of 8.13, followed by Idaho (8.07), Oklahoma and South Carolina tied for third (8.06), and then Florida and Indiana tied for fifth (8.05). Alberta is the highest-ranked Canadian province, tied with four US states for 12th place with a score of 8.01. British Columbia, the province next highest after Alberta, is now tied with three US states at 43rd with 7.84. The lowest-ranked Canadian province in the all-government index is Newfoundland & Labrador at 60th (7.58). The next-lowest are Nova Scotia (7.62) at 59th, Prince Edward Island (7.63) at 58th, and New Brunswick (7.64) at 57th. These four Canadian provinces rank below all 50 US states in all-government economic freedom (last year, seven of the 10 provinces ranked below all 50 US states). The lowest-ranked US state, Delaware, is 56th with 7.65. The next lowest-ranked states in the United States are New York (55th, 7.68), Hawaii (52nd, 7.73), and Alaska (50th, 7.76).

Thanks to the efforts of Ángel Carrión-Tavárez of the *Instituto de Libertad Económica*, two years ago we made a preliminary attempt to include the US territory of Puerto Rico in the US subnational index. Last year we built on that by making a preliminary effort to include it in the all-government index as well. Several improvements have been made in that effort and both data sets have been expanded back to 2000. Puerto Rico comes in at 61st in the all-government index with 6.57. This is 1.01 points below the lowest-ranked Canadian province and only 0.03 above the highest-ranked Mexican state.

The highest-rated Mexican states are again Baja California at 62nd (6.54) and Chihuahua at 63rd with 6.46, behind all 50 US states and 10 Canadian provinces, and below the lowest-ranked Canadian province by 1.04. Jalisco (6.44) and Puebla (6.43) are next highest at 64th and 65th, respectively. The lowest rated jurisdiction in North America is Ciudad de México (93rd with 5.62). The next lowest are Colima at 5.78 and Campeche at 5.98. For a more detailed discussion of the Mexican results, see Chapter 2: Economic Freedom of the Mexican States in 2022.

Figure 1.1: Summary of 2022 Ratings at the All-Government Level

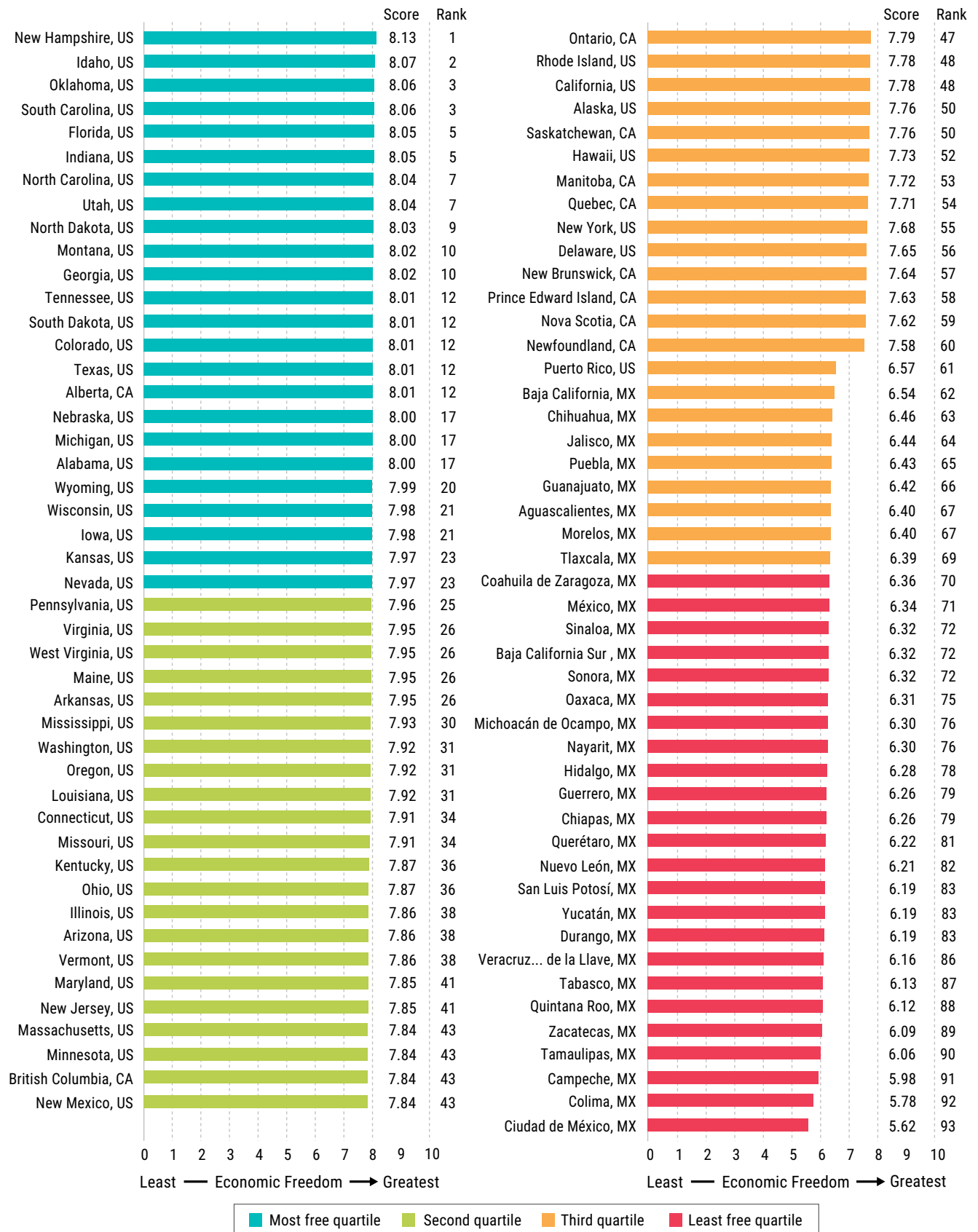


Table 1.1: Average Economic Freedom Scores at the All-Government Level, Selected Years, 2009–2022

	2009	2011	2013	2015	2017	2018	2019	2020	2021	2022
Canada	7.92	7.80	7.90	8.00	7.92	7.84	7.84	7.64	7.68	7.73
United States	7.89	8.03	8.09	8.17	8.20	8.18	8.15	8.06	8.00	7.93
Mexico	6.21	6.12	6.07	6.29	6.29	6.31	6.34	6.27	6.35	6.24
Overall average	7.30	7.33	7.36	7.49	7.50	7.49	7.48	7.39	7.38	7.32
US minus CAN	-0.03	0.23	0.20	0.17	0.28	0.34	0.32	0.42	0.32	0.21
CAN minus MX	1.70	1.68	1.82	1.72	1.63	1.53	1.49	1.37	1.33	1.49

As table 1.1 indicates, the average US state has a higher level of economic freedom on the all-government index than the average Canadian province (7.93 out of 10 compared to 7.73). For the third year in a row, that margin shrank. Averaging across all 93 jurisdictions, all-government economic freedom has fallen every year since 2017.

Historically, economic freedom had generally been declining in all three countries, though Canada has bucked the trend in the last three years. From 2004 to 2011, the average score across all 93 jurisdictions declined from 7.76 to 7.33, and then increased steadily to 7.50 in 2017. That rise was generally maintained through 2019.

In 2020, the trend reversed as governmental response to the COVID-19 pandemic led to a 0.09 decline in the overall average for all jurisdictions. That was the largest single year decline since the 0.17 decline in 2009 during the Great Recession. Since then, the all-jurisdiction average has fallen even further to 7.32 in 2022 (from 7.48 in 2019). Now, all-government economic freedom in North America is lower than it has been since 2009. We concur with our colleagues who wrote in *Economic Freedom of the World: 2024 Annual Report*:

We take no position on the efficacy of the various public-health policies designed to deal with the coronavirus pandemic; they very well may have saved millions of lives, or they may have been completely ineffectual. That is a question for epidemiologists and health economists to work out. Our concern is economic freedom, and on that margin, there is no question that government policies responding to the coronavirus pandemic have reduced economic freedom. (Gwartney, Lawson, and Murphy, 2024: 25)

Table 5.1 (pp. 74–76) shows the individual scores for all six areas included in the all-government index. The calculations for the index and the data sources for the scores are found in appendices A and B. The longer time series back to 1985 is available in the full dataset published on the Fraser Institute’s website <www.fraserinstitute.org/studies/economic-freedom>. The EFW data for countries (used in the all-governments index) is currently only available at five-year intervals prior to 2000, so our index has that same limitation. Since these data are at the national level, they do not affect calculations of the subnational indices. The subnational indices for Canada and the United States extend back to 1981.

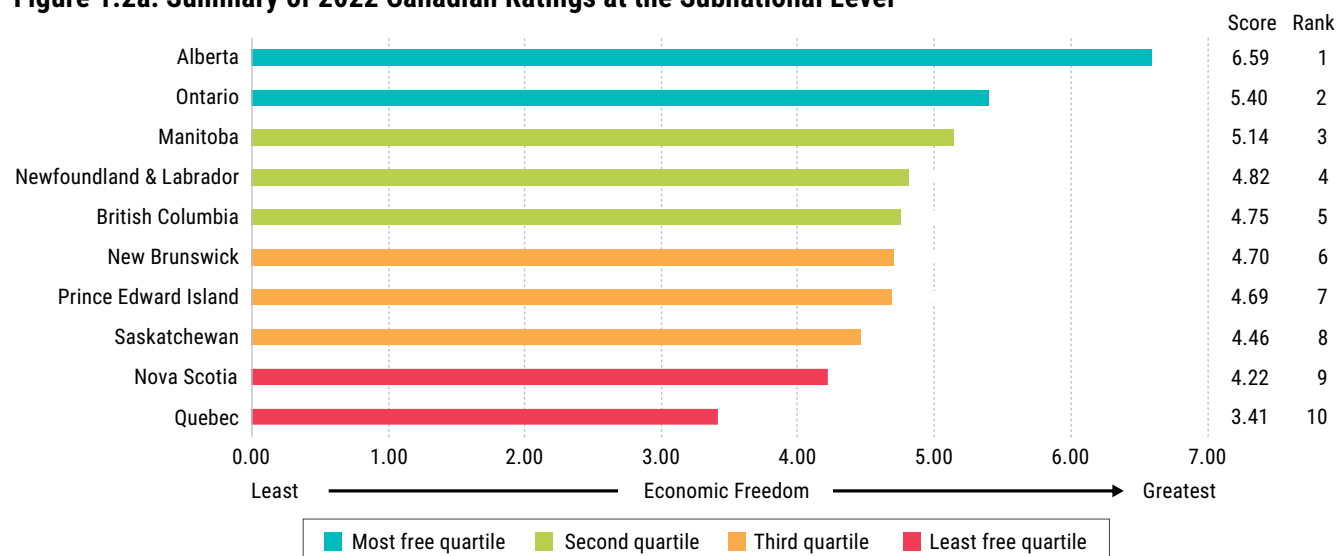
Subnational economic freedom

For comparisons of jurisdictions within the same country, the subnational indices are most appropriate. Figures 1.2a, 1.2b, and 1.2c show the subnational indices for Canada, the United States, and Mexico.

Canada

Alberta, with a score of 6.59, was the most economically free province in Canada in 2022 (figure 1.2a), as it has been for many years. However, since 2014 that lead has shrunk substantially, falling from 2.29 points in 2014 to 1.19 in 2022 (after bottoming out at 0.78 in 2020). The next highest provinces in the subnational index were Ontario at 5.40 and Manitoba at 5.14, followed by Newfoundland & Labrador at 4.82. British Columbia at 4.75 and New Brunswick at 4.70, followed by Prince Edward Island at 4.69, Saskatchewan at 4.46, Nova Scotia at 4.22, and Quebec at 3.41.

Figure 1.2a: Summary of 2022 Canadian Ratings at the Subnational Level

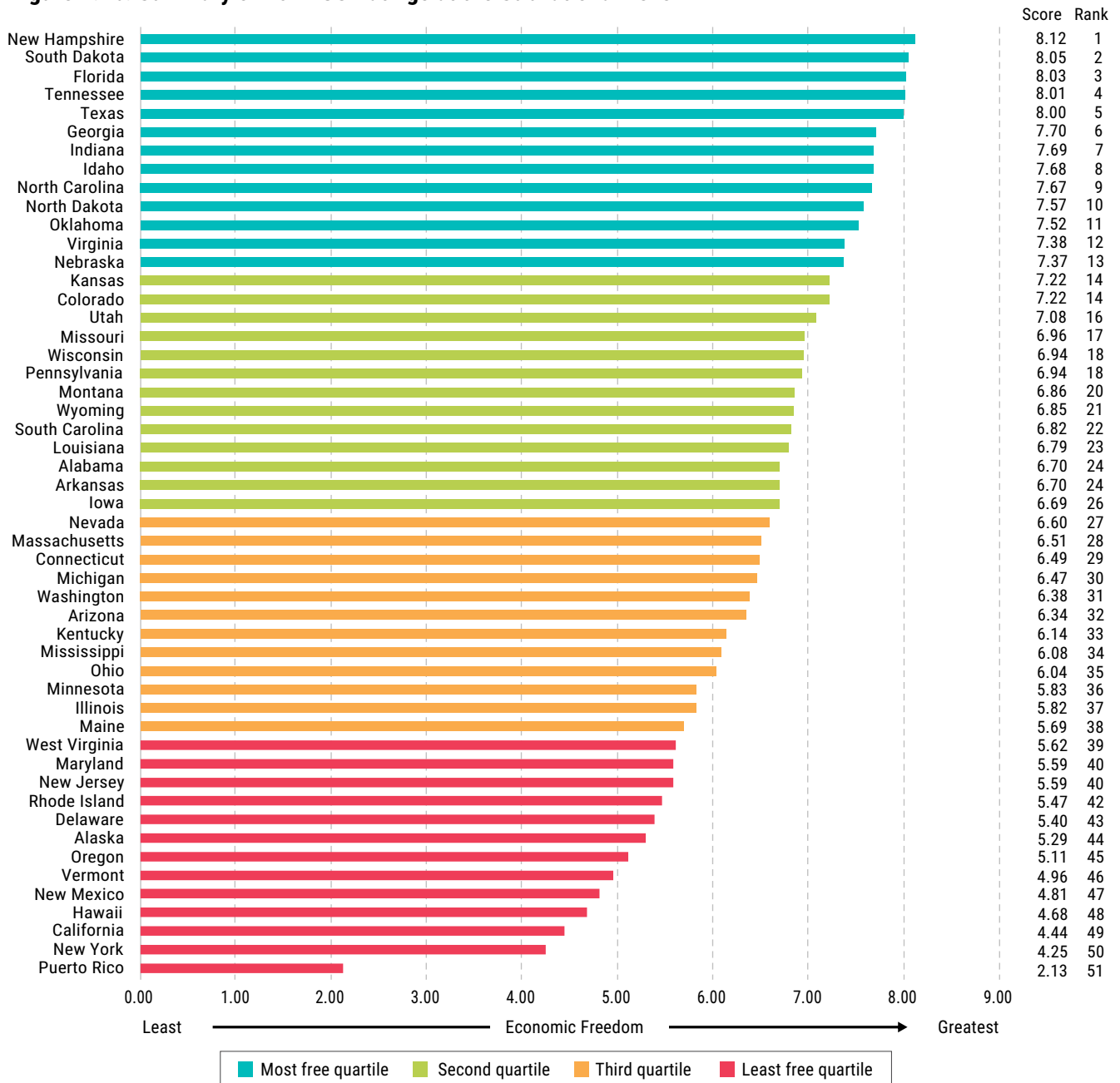


Columbia has now fallen to fifth at 4.75 from second in 2018 when it scored 5.73. Quebec was at the bottom of the subnational economic freedom index with 3.41, well below Nova Scotia at 4.22, Saskatchewan at 4.46, and Prince Edward Island at 4.69.

United States

Figure 1.2b shows the subnational scores for the US states. New Hampshire (8.12) again earned the top spot. South Dakota (8.05) rose to second, and Florida fell to

Figure 1.2b: Summary of 2022 US Ratings at the Subnational Level



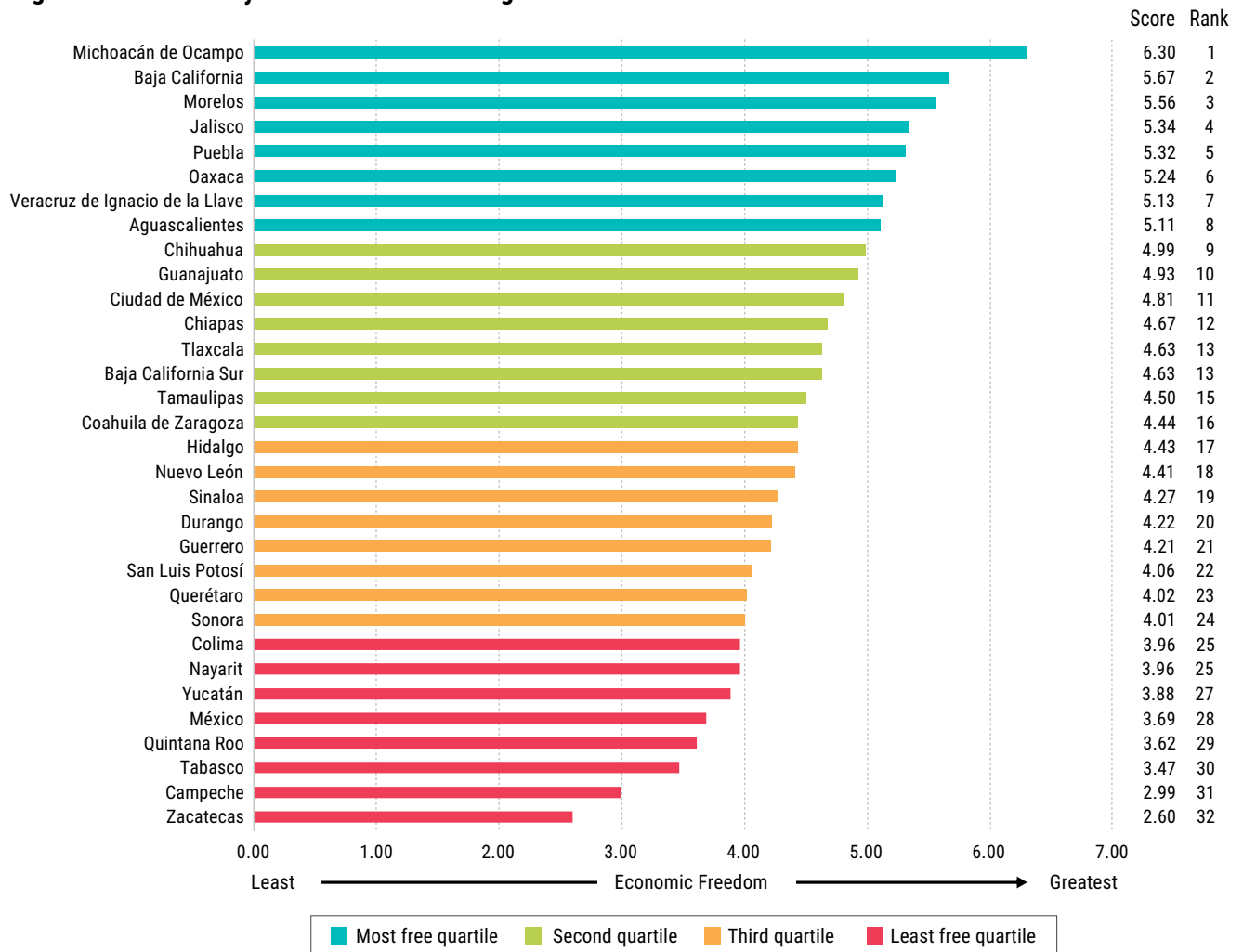
third with 8.03, followed by Tennessee (8.01) and Texas (8.00).³ The least-free state was again New York with 4.25, well behind California (4.44), Hawaii (4.68), New Mexico (4.81), Vermont (4.96), and Oregon (5.11).

The US territory of Puerto Rico again had by far the lowest score, 2.13. The next lowest score was nearly twice as high. See chapter 3 for a more detailed discussion of economic freedom in Puerto Rico.

Mexico

The subnational scores for the Mexican states can be found in figure 1.2c. Chapter 2 contains a more detailed discussion of the Mexican index. The most economically free state by this measure was Michoacán de Ocampo at 6.30, followed by Baja

Figure 1.2c: Summary of 2022 Mexico Ratings at the Subnational Level



3 Note that since the indices were calculated separately for each country the numeric scores on the subnational indices are not directly comparable across countries.

California at 5.67, and Morelos at 5.56.⁴ This year, Zacatecas was the least-free Mexican state at 2.60, followed by Campeche (2.99) and Tabasco (3.47).

Additional resources

In addition to the tables in Chapter 5, all the 2022 scores and rankings for each of the components of the index as well as historical data on the overall and area scores can be found on our interactive website at www.freetheworld.org, where the full dataset is also available for download. It can also be accessed with the following QR code:



⁴ 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.

Overview of the results

Following are some graphs that demonstrate the important link between prosperity and economic freedom. Figure 1.3 breaks the states and provinces into quartiles (or fourths) by economic freedom at the all-government level (measured as the average over the most recent 10 years of our dataset, 2013–2022). 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

Figure 1.3: All-Government Economic Freedom and Income Per Person in Canada, the United States, and Mexico in 2022

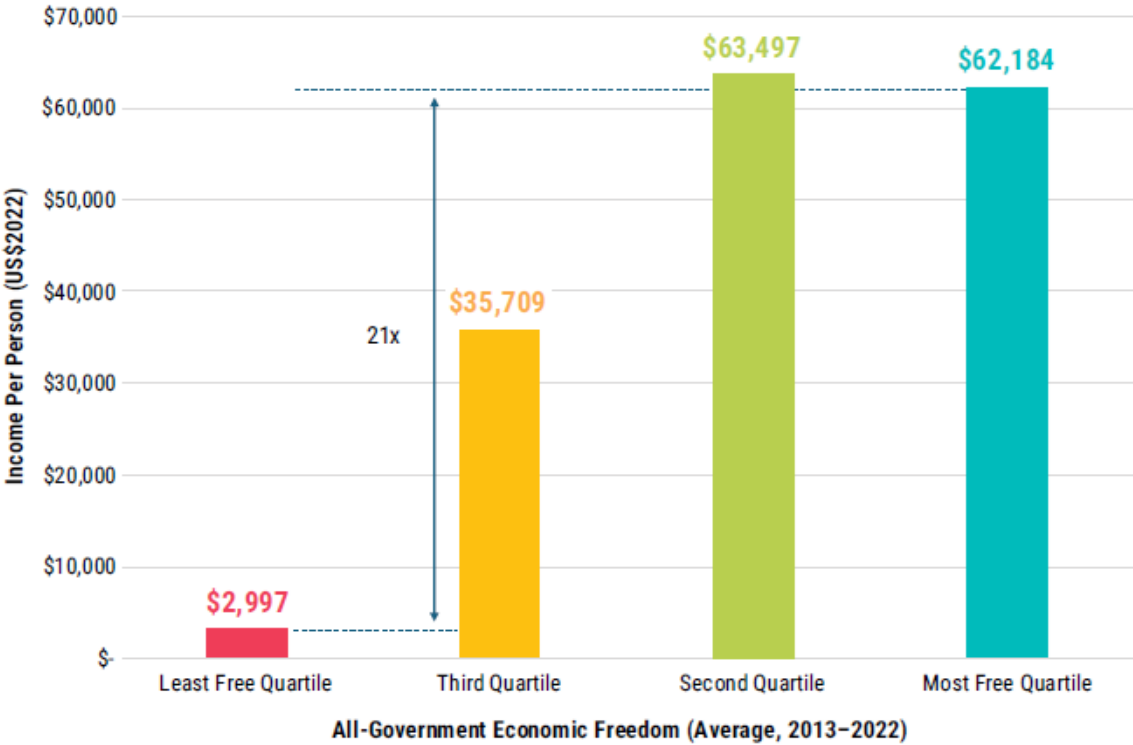
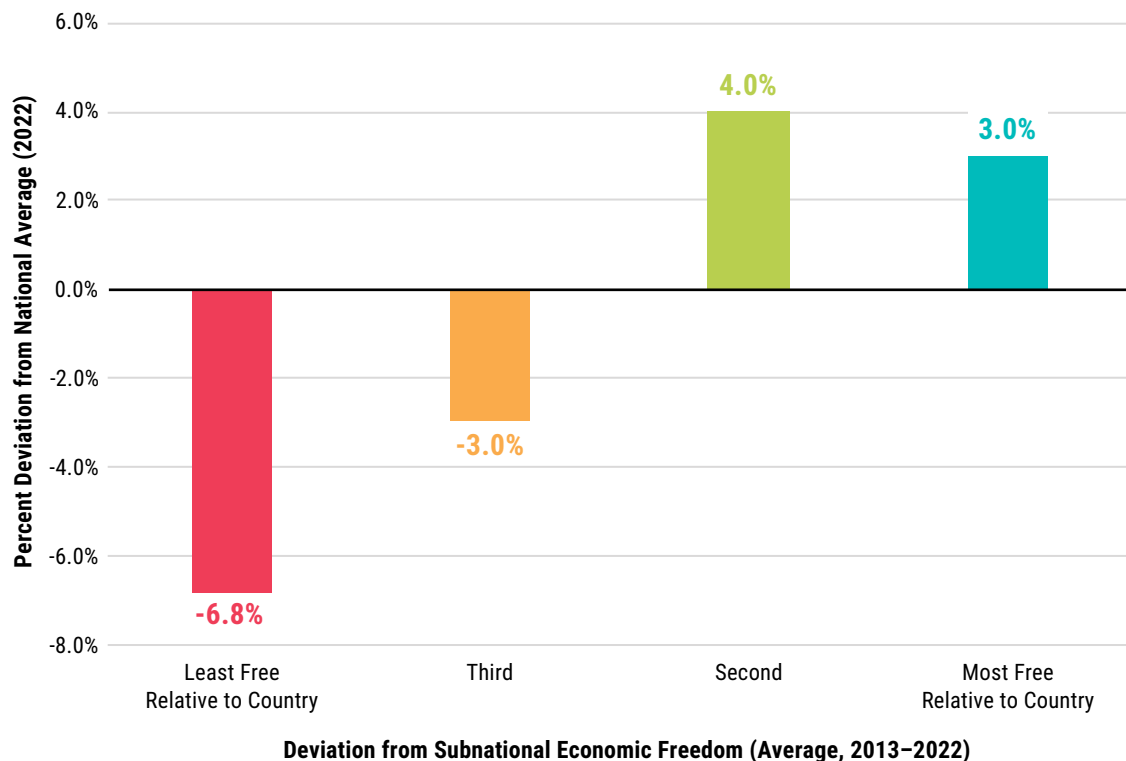


Figure 1.4: Subnational Economic Freedom and Relative Income Per Person in Canada, the United States, and Mexico 2022



quartile have an average per-capita income of just US\$2,997. This compares to an average per-capita income of US\$62,184 for the most-free quartile.

Figure 1.4 is similar to figure 1.3 but it shows economic freedom at the subnational level and measures it as deviations from the national average, since the three subnational indices are not directly comparable.⁹ Jurisdictions in the two most-free quartiles relative to their countries had average per-capita incomes that were at least 3.0% above the national average in their country. In contrast, those that were the least free relative to their countries were 6.8% 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.

Next, we look at the relationship between economic freedom and the growth of a jurisdiction's economy. The states and provinces are again divided into quartiles based on average economic freedom scores over the most recent 10 years. The most-free

⁹ 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 1.5: All Government Economic Freedom and Growth in Total Income in Canada, the United States, and Mexico from 2013 to 2022

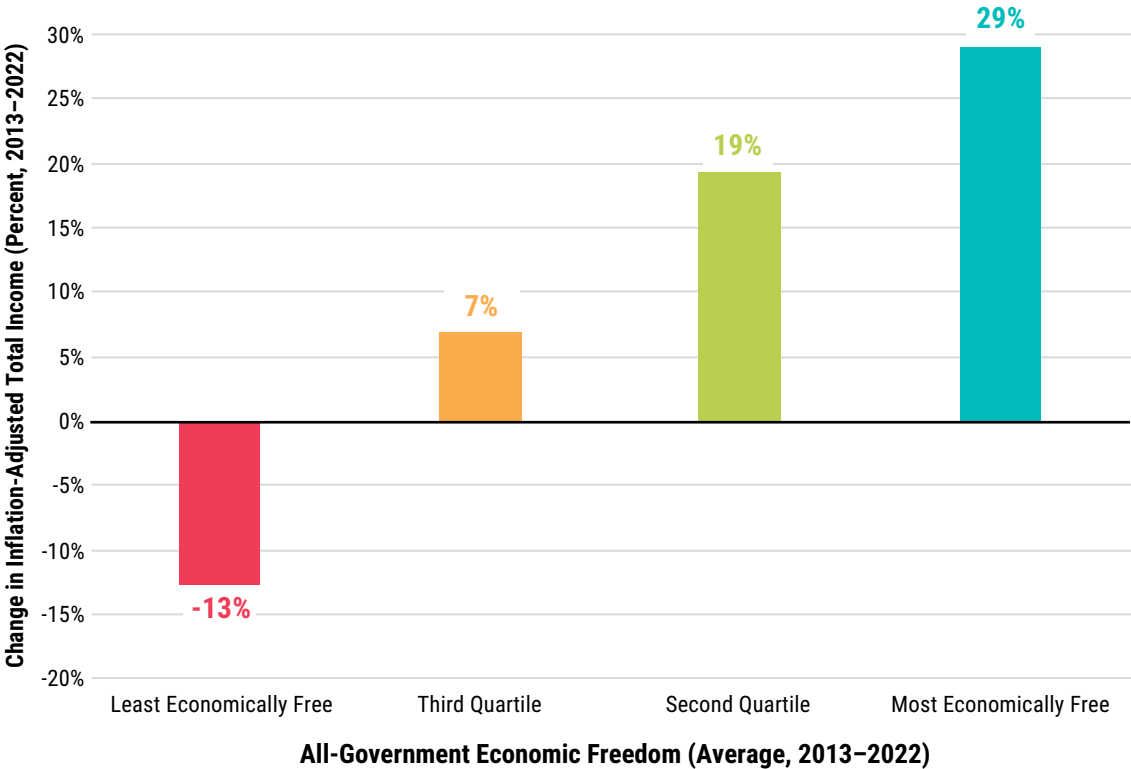


Figure 1.6: US Subnational Economic Freedom and Change in Total Employment from 2013 to 2022

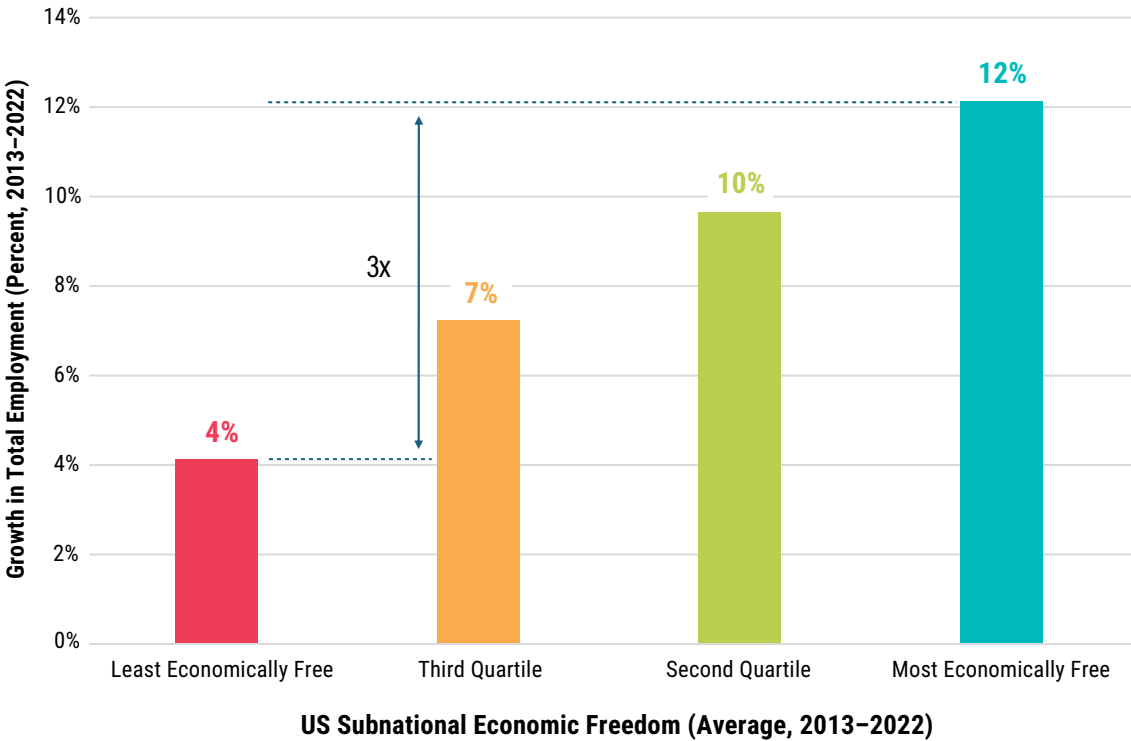


Figure 1.7: US Subnational Economic Freedom and Change in Population from 2013 to 2022

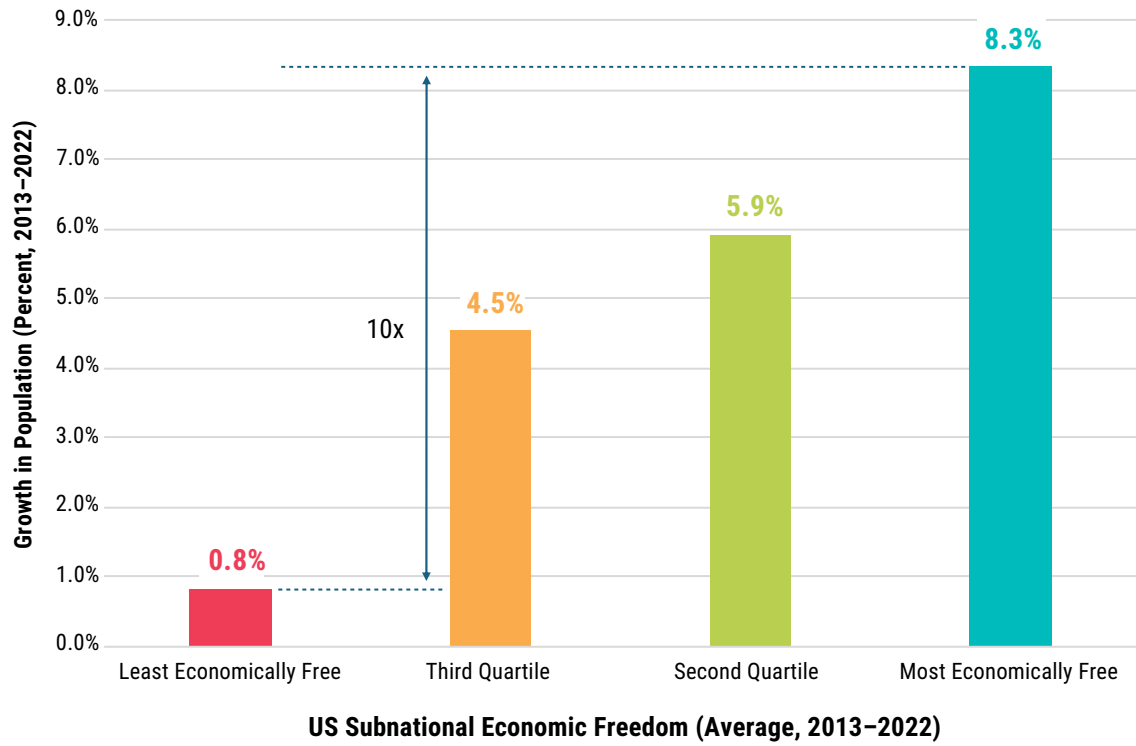
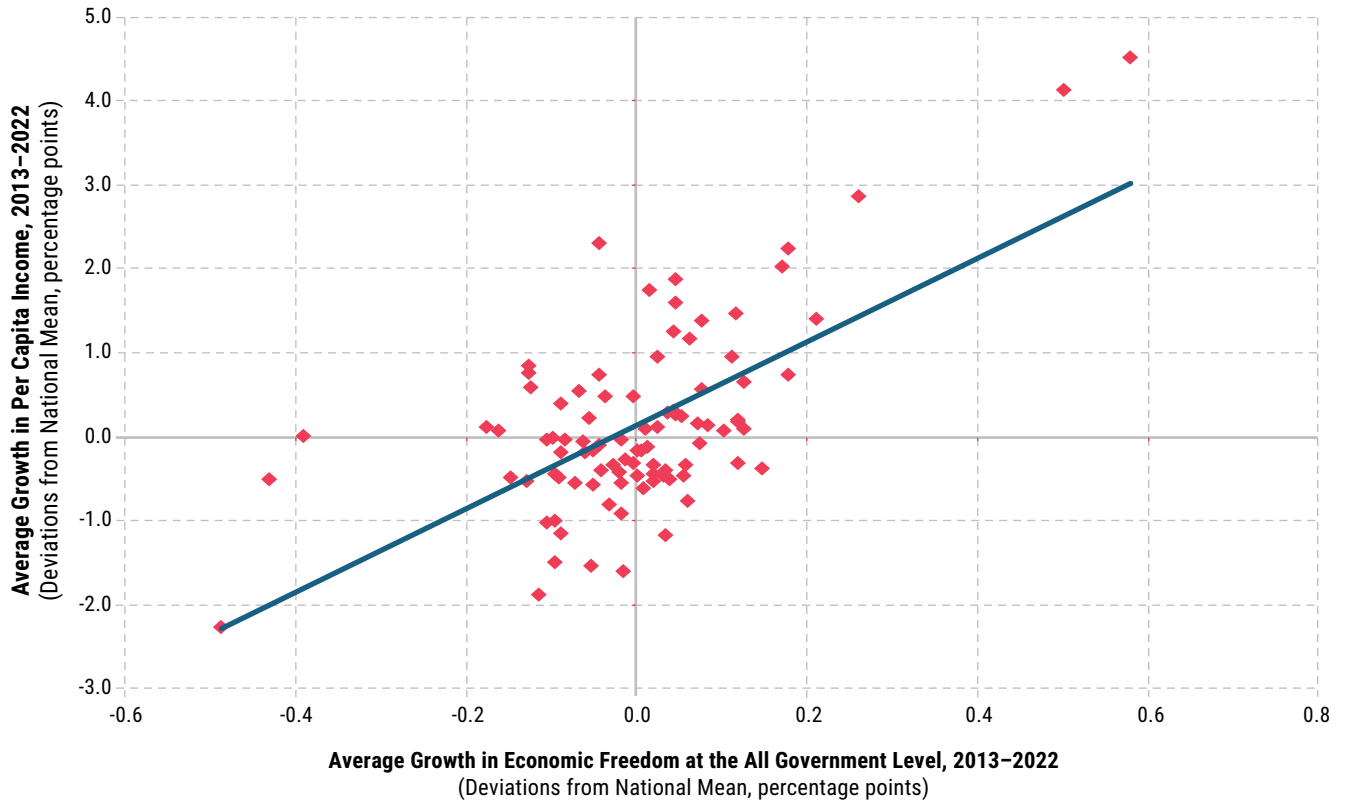


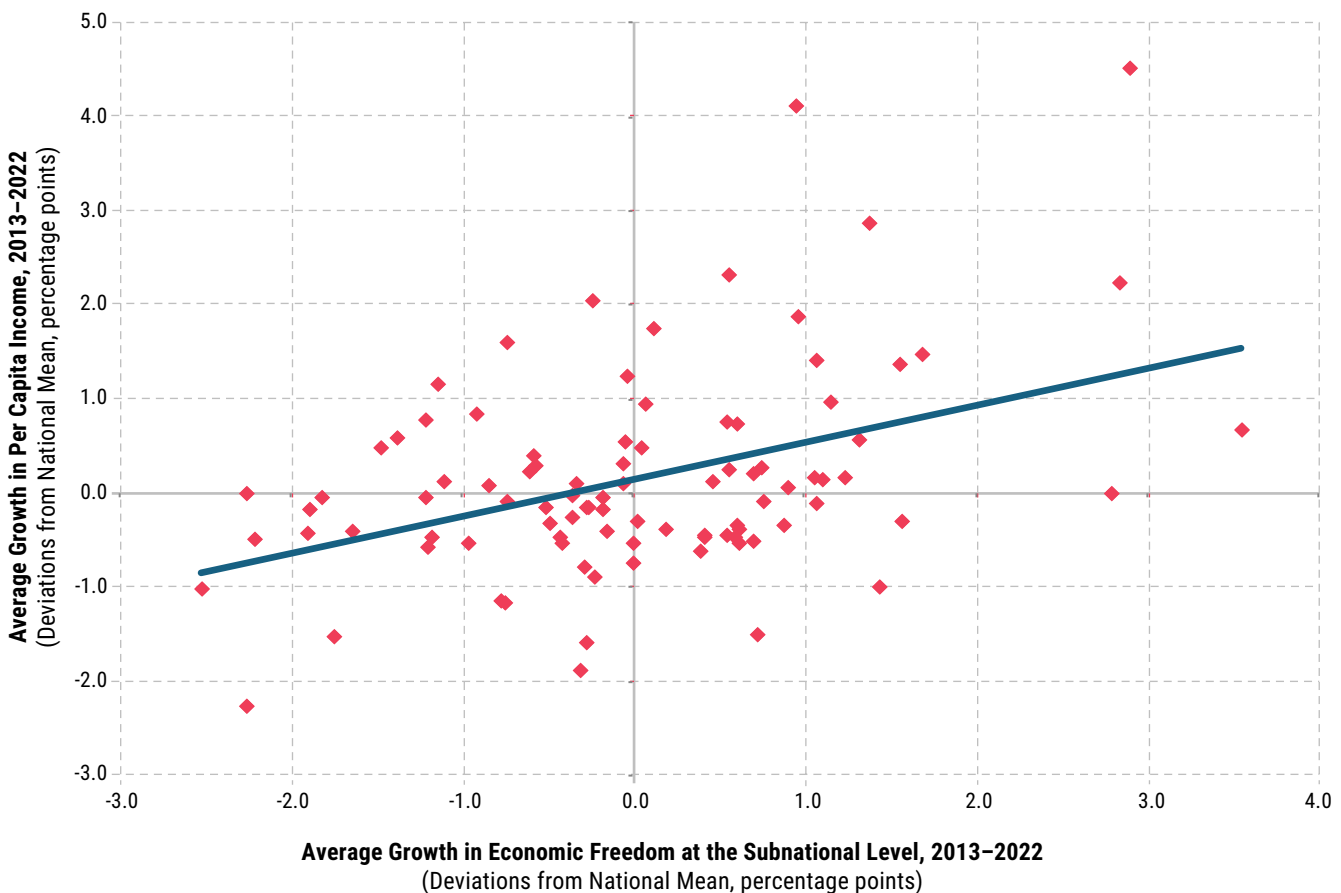
Figure 1.8: Average Growth in Per Capita Income and Average Growth in Economic Freedom at the All-Government Level, 2013-2022



areas, based on the all-government index, saw total income grow by 29% in inflation-adjusted dollars, while the least-free areas saw a 13% decline in real income (figure 1.5). Focusing on the subnational index, on which each country is scored separately, the most-free US states saw employment grow by 12%, compared to only 4% in the least-free (figure 1.6). The most-free states saw an even bigger advantage in population growth—growing 8.3% over the 10-year period vs. only 0.8% among the least-free US states (figure 1.7).

Finally, we look at the relationship between the *growth* of economic freedom and the growth of a jurisdiction's economy. In figures 1.8 and 1.9, growth in economic freedom is plotted along the horizontal axis while growth in income per capita is plotted along the vertical axis. Again, the expected relationships are found, with economic growth positively correlated with growth in economic freedom whether the latter is measured at the all-government level or the subnational level.

Figure 1.9: Average Growth in Per Capita Income and Average Growth in Economic Freedom at the Subnational Level, 2013–2022



Comparing the all-government level and the subnational level

The distribution of government responsibilities between the federal government and subnational governments varies widely across the three nations. For example, in 2021, provinces and local governments accounted for about 63% of total government revenue in Canada. In the United States, state and local governments were responsible for 36%, and in Mexico, for only 5.4%. Thus, subnational government spending and taxation patterns cannot be directly compared across countries. This is why we produce separate subnational indices for each country.

Economic freedom and economic well-being

The economic freedom indices published by the Fraser Institute have spawned a large and ever-growing body of research. According to Google Scholar, *Economic Freedom of the World* has now been cited about 14,000 times. And according to the Social Science Citation Index, it has been used in nearly one thousand peer-reviewed studies to assess the relationship between economic freedom and human well-being. Most of this research finds that economic freedom positively correlates with well-being. One recent review of the literature, for example, looked at 721 peer-reviewed studies and found that a majority associate economic freedom with good outcomes (Lawson, 2022). Among other things, economic freedom is positively correlated with higher incomes, faster growth, increased immigration, more entrepreneurship, better labor outcomes, more investment, cleaner environments, greater trust, more tolerance, less conflict, less corruption, and better protection of human rights (Lawson, 2022; Mitchell, 2024). Moreover, despite what one might think, economic freedom does not seem to be correlated with higher income inequality (Lawson, Miozzi, and Tuszynski, 2024).

Our measure of economic freedom in North America adds to this sizeable literature. Since the publication of the first edition of *Economic Freedom of North America* in 2002, there have been nearly 400 academic and policy articles exploring the relationship between our measure of economic freedom and other indicators such as economic growth and entrepreneurial activity.¹⁰ Findings have been similar to those using the national index. Among 155 papers using the EFNA, two-thirds

¹⁰ For a selected list of the most recent works, see appendix C (p. 85).

associate it with good outcomes such as faster growth and only one associates it with a bad outcome, with the rest finding mixed results (Stansel and Tuszynski, 2018). 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, Lacombe, and Shaughnessy, 2019).

This evidence matches intuition: it makes sense that when individuals are allowed to make their own economic choices—guided by the market signals and incentives of prices, profits, and loss—they will tend to pursue opportunities that improve their lives.

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Chapter Three

Economic Freedom in Puerto Rico

Ángel Carrión-Tavárez

Puerto Rico was included preliminarily in *Economic Freedom of North America* for the first time in 2022. This chapter provides an overview of the process involved in fully incorporating Puerto Rico into the report, along with a concise analysis of the results obtained in the 2024 edition. It also presents several laws and regulations that restrict economic freedom on the Island, identifying areas where regulatory burdens impact individuals and businesses alike. By addressing these issues, this chapter highlights both the challenges and potential pathways for enhancing economic freedom in Puerto Rico.

The integration of Puerto Rico in this report was a gradual process. In 2022, we began by collecting the relevant statistical information for the subnational index variables. The following year, a decision was made to gather comparable data from Puerto Rico for one reporting year to estimate the Island's score across all components and subcomponents used in the all-government index.¹ To increase the accuracy of the Island's data in the 2024 edition, the co-authors agreed to conduct a survey to obtain the necessary information for scoring Puerto Rico on the qualitative variables of the all-government index.

Economic Freedom of North America assigns each subnational jurisdiction their nation's federal government score in the areas Legal System and Property Rights, Sound Money, and Freedom to Trade Internationally of the all-government index. For instance, all US states receive the United States' national score in the *Economic Freedom of the World* report, based on an assumed equivalence across the country. Since available data indicated that this assumption might not be accurate for Puerto Rico, a decision was made to conduct the survey to gather comparable data for those areas in the all-government index.

The first part of the questionnaire consisted of sociodemographic data on participants, including age, education, stakeholder type, economic sector, and the region of

¹ In addition, data collection for the 10 subnational variables was expanded to cover the 11 most recent years of the index (2011–2021). The process of Puerto Rico's inclusion in the report is explained in detail in *Economic Freedom of North America 2022* and *2023*.

Puerto Rico in which they operate. The second part included 14 questions addressing the following variables: 3Av. Hiring and Firing Regulations, 3Avi. Flexible Wage Determination, 3Ax. Foreign Labor, 3Cii. Bureaucracy Costs, 3Ciii. Impartial Public Administration, 4A. Judicial Independence, 4B. Impartial Courts, 4C. Property Rights, 4E. Integrity of the Legal System, 4H. Police and Crime, 6Bi. Non-tariff Trade Barriers, and 6Div. Protection of Foreign Assets.

The questions were modeled verbatim in most cases or, in a few others, as closely as possible to those in the *Economic Freedom of the World: 2023 Annual Report* used for scoring Canada, the United States, and Mexico. This approach ensured the comparability of question sources for the all-government index. The sources of these questions were the World Economic Forum's *Global Competitiveness Report*, the World Bank's *Doing Business*, IHS Markit's *Regulatory Burden Risk Ratings*, the V-Dem Institute's *Varieties of Democracy*, and the PRS Group's *International Country Risk Guide*.

The data collection method was an online survey, chosen for its ability to reach a large number of potential respondents; the accuracy it provides in data collection (Fleming and Bowden, 2009);² the accessibility and convenience it offers to participants (Callegaro et al., 2015); and the opportunity to gather and verify information until the last moment. The survey was disseminated, and participation was promoted through professional organizations.³ The target of 200 responses was reached within two months.

The calculation of Puerto Rico's scores was based on the methodology of the *Economic Freedom of the World: 2023 Annual Report* (specifically, the descriptions and formulas published in its "Appendix Explanatory Notes and Data Sources"). Using the data obtained through the survey and the scores for both Puerto Rico and the United States, we calculated a series of variable-specific ratios in the all-government index to (a) review and adjust the estimated scores for Puerto Rico in the 2023 edition and (b) complete the historical series from 1985 to 2022.

2 Fleming and Bowden (2009) refer to the fact that online surveys can be automatically inserted into spreadsheets, databases, or statistical software packages, which not only saves time and resources but also reduces human error in data entry and coding. Additionally, data can be collected continuously, regardless of the day of the week or time of day, and without geographical limitations (Callegaro et al., 2015).

3 These professional organizations included the Puerto Rico Chamber of Commerce, the Food Marketing, Industry and Distribution Chamber, the Puerto Rico Retailers Association, the Asociación Hecho en Puerto Rico (Made in Puerto Rico Association), the Puerto Rico Manufacturers Association, and the Restaurants Association of Puerto Rico.

Puerto Rico in *Economic Freedom of North America 2024*

Puerto Rico's data in the United States subnational index was backdated to 2000, though the situation remains largely unchanged from last year. In this new edition, the Island ranks 51st overall for the third consecutive year, with a score of 2.13. For comparison, the next lowest jurisdictions are New York, at 50th with 4.25 (nearly double Puerto Rico's score); California, at 49th with 4.44; and Hawaii, at 48th with 4.68 (figure 3.1). At the top of the subnational index, New Hampshire held the highest score among the states with 8.13.

As shown in table 3.1 (page 46) the Island ranks 51st across all three areas of the subnational index. Puerto Rico is also last in four of the ten variables, ties for last in three others, and ranks 47th and 40th in two of the remaining three. It is significant to highlight that the Island's overall score is about one-third of the US average, and Puerto Rico's per-capita income is 60% lower than the US national mean in 2022. Despite these results, no public policy changes have been implemented in Puerto Rico to improve its economic freedom situation.

Figure 3.1: Summary of the Ratings of the Bottom 10 US States and Puerto Rico for Economic Freedom at the Subnational Level, 2022

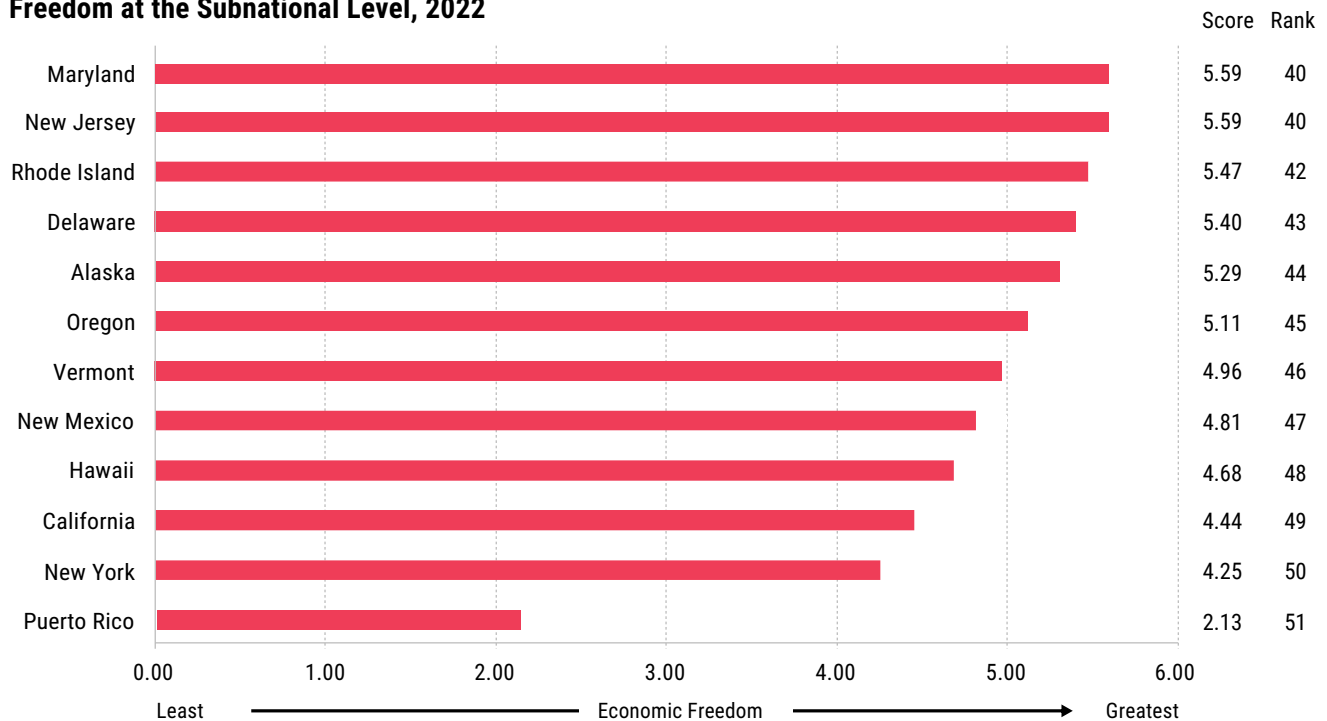


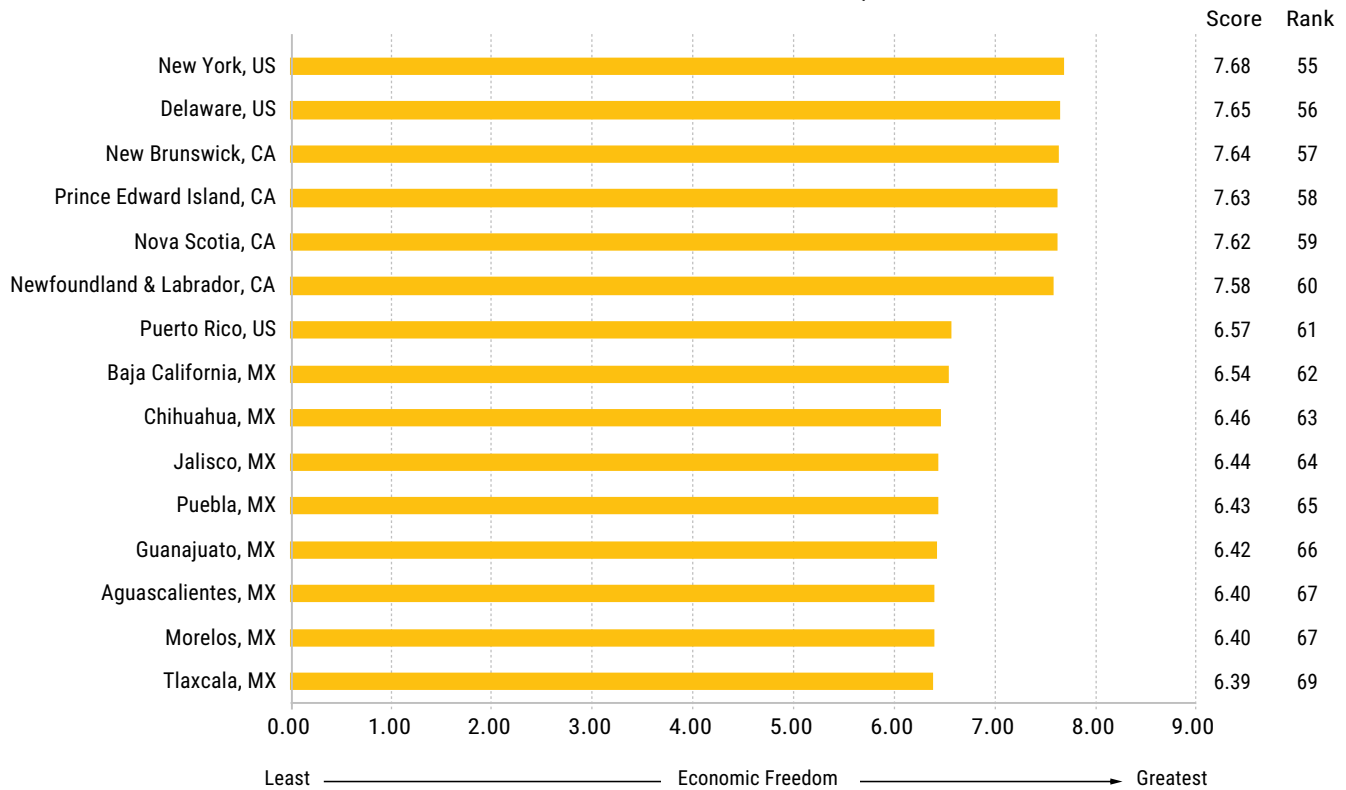
Table 3.1: Economic Freedom at the Subnational Level in Puerto Rico, 2022

	Data	Score	Rank
Overall Score		2.13	51
Area 1: Government Spending		1.56	51
1A: Consumption spending, % of personal income	19.6%	4.69	47
1B: Transfers & subsidies, % of personal income	49.6%	0.00	49*
1C: Insurance & retirement payments, % of personal income	6.3%	0.00	51
Area 2: Taxes		0.91	51
2A: Income & payroll tax revenue, % of personal income	11.1%	0.00	49*
2B: Top income tax rate	30.4%	0.00	51
Top income tax threshold	\$61,500		
2C: Property tax & other tax revenue, % of personal income	4.4%	3.63	40
2D: Sales tax revenue, % of personal income	7.5%	0.00	49*
Area 3: Labor Market Freedom		3.91	51
3Ai: Minimum wage income, % of per capita personal income	68.8%	0.00	51
3Aii: Government employees, % of total employees	15.8%	1.72	51
3Aiii: Union density, % of total employees	4.2%	10.00	1

In the all-government index, which includes the 10 provinces of Canada, the 50 US states (and now Puerto Rico), and the 31 states and capital of Mexico, for a total of 93 jurisdictions, the Island ranks 61st again this year, with a score of 6.57. The lowest-ranked jurisdictions in the United States and Canada are Delaware at 56th, with 7.65 and Newfoundland & Labrador at 60th, with 7.58. The highest-ranked Mexican state, Baja California, ranks 62nd with a score of 6.54 (figure 3.2, page 47); thus, Puerto Rico aligns more closely with Mexico than with the United States and Canada.

Among all the jurisdictions of Canada, the United States, and Mexico in the all-government index, Puerto Rico ranks second to last in Government Spending (including last place on Insurance and Retirement Payments), 28th on Taxes, and 61st on Labor Market Freedom. Additionally, the Island is last on two of the economic freedom indicators used exclusively in this index; it ranks 61st on three of

Figure 3.2: Summary of the Ratings of Selected North American Jurisdictions and Puerto Rico for Economic Freedom in the Third Quartile at the Subnational Level, 2022



them, and 33rd, 11th, and 1st on the remaining three (table 3.2, page 48). Puerto Rico's scores and ranks in the all-government index this year reflect the results of the conducted survey.

During the 10-year period from 2013 to 2022,⁴ the Government of Puerto Rico declared itself unable to pay its debt; the US Government established an oversight board to manage the Island's fiscal crisis; the Government of Puerto Rico filed for bankruptcy; and the Island was struck by two hurricanes, a series of earthquakes, and the COVID-19 pandemic. Yet, Puerto Rico's overall score was 2.13 at both the beginning and the end of this decade. This suggests that the Island's low score is tied more closely to the public policies of the Government of Puerto Rico and the regulatory framework they have established than to the net effect of these economic events.

⁴ This is the most recent 10-year period for which the *Economic Freedom of North America* report has complete data.

Table 3.2: Economic Freedom at the All-Government Level in Puerto Rico, 2022

	Data	Score	Rank
Overall Score		6.57	61
Area 1: Government Spending		4.54	92
1A: Consumption spending, % of personal income	44.7%	6.08	66
1B: Transfers & subsidies, % of personal income	64.5%	0.00	86
1C: Insurance & retirement payments, % of personal income	14.0%	2.07	93
1D: Government Enterprises and Investment (component 1C in EFW)*			1**
Area 2: Taxes		6.99	28
2A: Income & payroll tax revenue, % of personal income	19.0%	7.27	10
2Bi: Top income tax rate	30.4%	8.00	1**
Top income tax threshold	\$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	4.5%	7.56	67
2D: Sales tax revenue, % of personal income	7.5%	6.62	52
Area 3: Labor Market Freedom		6.42	61
3Ai: Minimum wage income, % of per capita personal income	68.8%	2.32	66
3Aii: Government employees, % of total employees	17.5%	4.99	83
3Aiii: Union density, % of total employees	4.2%	10.00	1
3Aiv: Labor market regulations (component 5B in EFW)*		4.98	93
3B: Regulation of credit markets (component 5A in EFW)*		8.79	61
3C: Business regulations (component 5C in EFW)*		5.18	61
Area 4: Legal System and Property Rights (Area 2 in EFW)*		5.04	61
Area 5: Sound Money (Area 3 in EFW)*		8.53	11***
Area 6: Freedom to Trade Internationally (Area 4 in EFW)*		7.91	93

*All-government index only

**Tied with the 32 Mexican states.

***Tied with the 50 U.S. states.

The regulatory environment of Puerto Rico

Puerto Rico has been subject to state control over productive assets, strong government intervention in the market, and significant income redistribution for decades.⁵ These conditions have created economic distortions that have discouraged private investment, reduced entrepreneurship, and limited individuals' and businesses' appropriability, among other effects. Consequently, the Island has experienced a historically slack labor market, low labor force participation, low wages, high poverty levels, high levels of dependence on federal transfers, and substantial outward migration.

A report published by the Institute for Economic Liberty in October 2024 presented a sample of over 50 laws and regulations exemplifying the regulatory excesses of the Puerto Rican government.⁶ The laws and regulations included in the report stem from centrally planned, paternalistic, and protectionist public policies that failed to achieve their intended purposes, ultimately harming those they aimed to help or benefiting some at the expense of others. The following paragraphs provide examples of the topics and regulatory burdens outlined in the document.

Occupational licensing. Puerto Rico regulates over 140 occupations, of which at least 131 are currently subject to active occupational regulations.⁷ Among these, 34 licenses are required in fewer than five states, including 13 that exist solely on the Island.⁸ This raises questions about the necessity of requiring licenses in Puerto Rico for occupations that, in most US states, are unregulated—that is, which are practiced in all or nearly all US jurisdictions without the need for an occupational license, thus allowing broader access to employment and entrepreneurial opportunities.

5 It is relevant to mention that Hayek did not question the good intentions of those advocating for a better distribution of resources. What he opposed was resorting to coercion and discrimination when what was appropriate was to gradually modify the general rules of law, and to the idea that the state should have direct control over the means of production, instead of sensibly inducing individuals to act spontaneously (González Taboada, 2006, as cited in Carrión-Tavárez, 2024).

6 The report titled *Acciones de libertad económica para un Puerto Rico justo y próspero* (Economic freedom actions for a fair and prosperous Puerto Rico) is available at <https://doi.org/10.53095/13584013>.

7 These 140 licenses do not include licenses for sports-related occupations, such as boxer, hunter, jockey, referee, judge, and official, as they are considered atypical occupations; if these licenses were included, the number of regulated occupations on the Island would be significantly higher. For more information on occupational licensing in Puerto Rico, see Carrión-Tavárez et al. (2024).

8 Across the United States, there are seven occupations licensed exclusively in a single jurisdiction. Puerto Rico's 13 unique occupational licenses exceed the total number of exclusive licenses held by all 50 states and Washington, D.C. combined (Trudeau et al., 2024).

Property registration. Puerto Rico uses the Spanish registration system, which is complex and costly; for example, the cost of processing the deed for a commercial property with similar characteristics in Charlotte, Durham, Greensboro, and Raleigh is \$26.00, while in San Juan it is \$1,940.85.⁹ This difference highlights the lack of competitiveness of the Island's property registration system compared to other markets and the need for a more robust and efficient mechanism that safeguards private property and facilitate secure, quick, and cost-effective transactions.

Ease of doing business. The lack of a public policy supportive of entrepreneurship, along with bureaucracy and government hurdles, has made Puerto Rico an inhospitable place to start and run businesses. In fact, San Juan ranked last among 83 US jurisdictions in the *Doing Business North America 2022 Report*. Most variables relevant to entrepreneurship, such as obtaining permits, getting electricity, employing workers, using land and space, and paying taxes are controlled at the state level on the Island; therefore, San Juan's results in the study reflect Puerto Rico as a whole.

Taxes. The income tax system and the intricate fiscal structure of the Island restrict economic freedom, discourage productive effort, and lead to tax evasion and informality, thereby reducing the tax base. Puerto Rico has the second highest corporate tax rate in the world at 37.5%, while the combined federal and state corporate tax rate in the United States is 25.77%. This tax climate is a deterrent for local investors and represents a competitive disadvantage in attracting private investment from the United States and other countries.

Inventory tax. Municipalities in Puerto Rico impose an inventory tax that affects both businesses and consumers. This tax applies to the value of inventories in the form of finished products (ready for sale), partially assembled products, and raw materials. Due to this tax, businesses maintain inventory levels below optimal, resulting in product shortages, higher prices, and reduced competitiveness. The inventory tax has been eliminated in 36 US states, and the remaining 14 states have inventory taxes that are significantly lower than those on the Island.

Labor laws. US federal labor and civil rights laws, such as the *Fair Labor Standards Act* of 1938, the *Equal Pay Act* of 1963, Title VII of the *Civil Rights Act* of 1964, the *Age Discrimination in Employment Act* of 1967, the *Americans with Disabilities Act* of 1990,

⁹ The excerpt of the *Doing Business North America 2022 Report* (Carrión-Tavárez, 2023) provides more information on this topic.

and the *Family and Medical Leave Act* of 1993 are in effect in Puerto Rico; however, over 25 additional labor and civil rights laws—many of them redundant and tautological—have been passed on the Island, creating an overloaded regulatory environment that hinders the creation of jobs and the hiring of workers.

Private parking lots. The Government of Puerto Rico considers the private parking business to be of public interest and controls the rates that owners and operators can charge.¹⁰ This government intervention discourages economic activity, reduces private investment, limits market competition, generates operational inefficiencies, and restricts the sector’s growth potential. As private property, parking facilities should operate without undue government intervention, in accordance with their operational costs and market conditions.

Freight transportation. Freight transportation prices are also controlled by the Government of Puerto Rico, resulting in rates that are 2.5 times higher than in most US jurisdictions and increasing the cost of goods, especially groceries.¹¹ The fixed-rate system on the Island creates market rigidity, with bureaucratic processes that prevent economic agents from responding effectively to emergencies and unforeseen situations, such as a hurricane or a pandemic; as well as from adapting to changing market conditions, improving efficiency, and providing greater stability.

Distribution contracts. The *Distribution Contracts Act* regulates relationships between principals or grantors and their distributors in Puerto Rico, with the aim of protecting local distributors.¹² The government’s duty under the Rule of Law is neither to favor nor to disfavor either party but to uphold contracts entered into

10 The role of the State is to “create conditions in which competition will be as effective as possible, to supplement it where it cannot be made effective” (Hayek, 1944/2006: 40). State intervention through price controls imposes restrictions that contravene this principle. In a competitive market, prices naturally adjust to the conditions of supply and demand.

11 Moore (n.d.) states that in US jurisdictions where freight transportation prices are regulated, “studies showed that regulation increased costs and rates significantly. Not only were rates lower without regulation, but service quality, as judged by shippers, also was better. Products exempt from regulation moved at rates 20% to 40% below those for the same products subject to ICC [Interstate Commerce Commission] controls. For example, regulated rates for carrying cooked poultry, compared to unregulated charges for fresh dressed poultry (a similar product), were nearly 50% higher.”

12 This is stated in Article 2 of the law: “Notwithstanding the existence of a clause in a distribution contract reserving to the parties the unilateral right to terminate the existing relationship, no principal or grantor may terminate the relationship, or directly or indirectly take any action to undermine it or refuse to renew the contract upon its normal expiration, except for just cause” (Ley Núm. 75, 1964). The requirement to establish “just cause” compels the principal or grantor to demonstrate, in court, that there has been a breach of the essential obligations of the contract, or some action or omission by the distributor that adversely and substantially affected their interests.

freely and voluntarily within a free market, both efficiently and swiftly. Under no circumstance should the state act as both judge and party, using the law to benefit nor harm any party in a contract.

Inspection of containers. In Puerto Rico, the Government requires that 100% of the containers arriving on the Island be inspected. Since its implementation in 2009, universal container inspection has cost over \$20 million annually, which has a significant impact on Puerto Rican consumers within the value chain. This practice has become an additional tax for consumers, without providing a practical benefit to society, as there have been no reported findings of weapons, illegal drugs, or other restricted materials in the 15 years of inspecting 100% of containers.

Certificates of need. The Secretary of Health of Puerto Rico has complete authority over the “orderly planning” of health facilities and the “costs of healthcare services” (Ley Núm. 2, 1975: 1). It is, thus, mandatory to obtain a certificate of need granted by this official before constructing or acquiring a pharmacy, a blood bank, a clinical laboratory, or a health facility; offering or developing a new health service; making capital investments of \$500,000 or more in an existing health facility; or acquiring highly specialized medical equipment valued at \$250,000 or more.¹³

Municipal businesses. Municipalities in Puerto Rico have the authority to acquire, create, operate, and sell businesses and commercial franchises. Municipalities can manage all types of for-profit businesses or corporate entities using public funds. Additionally, corporate entities owned or operated by municipalities are exempt from paying duties, licenses, tariffs, and taxes. This constitutes unfair competition from the Government against private businesses—which are a substantial source of public funds—in offering goods and services that the private sector can provide.

Government size. Puerto Rico has the highest number of government employees as a percentage of total employment among all US jurisdictions. As of May 2024, the Island had 166,122 positions occupied in state and local government, which represents approximately 510 public employees per 10,000 residents. Additionally, Puerto Rico has 132 state agencies and entities, while states with similar populations

13 In the United States, 17 states do not have a certificate of need law. Between 2022 and January 2024, 23 jurisdictions modified their certificate of need laws, mostly to make them more flexible or to exclude specific facilities. These adjustments in the certificate of need laws reflect a shift towards deregulation and market liberalization in response to the demand for a more efficient and competitive healthcare system.

operate with fewer than 38 agencies. This raises the question of why Puerto Rico requires nearly 100 more agencies.

The cited report not only highlights the laws and regulations that limit economic freedom in Puerto Rico but also offers recommendations for establishing and implementing a new public policy. The included proposals aim to promote (a) the cessation of undue interference in economic freedom, (b) the elimination of government control over productive assets, (c) the decentralization of economic planning, and (d) the reduction of tax burdens that discourage wealth creation, in order to reduce poverty and dependence.

Conclusion

The inclusion of Puerto Rico in the *Economic Freedom of North America* represents an effort to measure and evaluate the Island's economic freedom within the broader United States and North American context. Puerto Rico's poor performance in the US subnational index reveals significant challenges within its public policies, particularly in areas affecting individual liberty, market competitiveness, efficiency, and innovation. These results underscore critical issues in the Island's regulatory framework, suggesting that current policies may be hindering, rather than fostering, economic dynamism.

In reviewing Puerto Rico's regulatory landscape, it is evident that a variety of policies and laws have created significant barriers to economic freedom on the Island. From occupational licensing to price controls on freight transportation and the extensive reach of government, this regulatory regime often inhibits competition, limits access to essential goods and services, and places a unique strain on local businesses and consumers. Together, these restrictions result in an environment where economic growth is stifled, leaving Puerto Rico at a disadvantage compared to other jurisdictions.

Economic freedom is one of the most fundamental rights of free people. Where economic freedom is protected, there are greater opportunities, more entrepreneurship, more employment, more prosperity, and less poverty. It is not surprising, then, that Puerto Rico's long-standing social and economic challenges reflect a lack of freedom. Addressing these policy constraints could be crucial to enhancing Puerto Rico's economic freedom and giving each person the opportunity to prosper and contribute to the sustainable development of Puerto Rican society.

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