

# U.S. Economic Freedom Index: 2004 Report

**Why do some states have less economic freedom than others? And what cost does the loss of economic freedom impose on residents?**

The Pacific Research Institute's *U.S. Economic Freedom Index: 2004 Report* measures the regulatory and fiscal obstacles imposed by each state on its residents. It explains how a state's level of economic freedom has a tangible effect on the daily lives of individuals and families—by impacting their financial bottom line.

## Where Are the Best Places to Start a Business or to Find a Job in the Coming Years?

The best places to look are in states with the fewest regulatory and fiscal roadblocks. The *Index* measures, compares, and ranks states based on more than 100 variables using the most recent data from government and industry sources. The variables include tax rates, state spending, occupational licensing, environmental regulations, income redistribution, right-to-work and prevailing-wage laws, tort laws, and the number of government agencies.

Those states that are the most economically competitive are also experiencing population growth. There is a direct correlation between

economic freedom and migration. Americans are moving to the states that are most hospitable in terms of business climate, tax policy, and a host of other factors.

There is another reason to flock to the freest states—higher per capita income. The *Index* calculates how much economic freedom is worth in dollar terms. Rhode Island, which ranks 47th, imposes the greatest burden on its residents, with a reduction in annual per capita income of \$3,607. The national average was \$1,161.

The *Index* reveals which states are soaring and which

are sliding. And it shows where to watch for future business growth. States that encourage free enterprise and consumer choice will have a brighter economic future than those that create obstacles.

## History of the *Index*

PRI's 2004 *Index* updates and refines the seminal report, *Economic Freedom in America's 50 States*, published by the State Policy Network in 1999. John D. Byars, Robert E. McCormick, and T. Bruce Yandle, all of Clemson University, authored the 1999 report.

## The Methodology

The methodology consists of four parts: (1) the authors compiled a set of indicator variables for economic freedom across five sectors and from that created five data sets; (2) these data sets were converted into 48 unique indexes using different weighting techniques; (3) the authors compared each index to the others in terms of its ability to explain, other things equal, human migration across the U.S. states; and (4) the index with the greatest statistical link to migration was chosen as the best and used to rank the U.S. states in terms of economic freedom.

The index score can range from 1 (most free) to 50 (least free), and state rankings were derived from the index scores.



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## The Results

Table 1 presents the economic freedom scores and rankings for the U.S. states, 2004.

Kansas, which was tenth in 1999, has assumed the lofty spot as the nation's most economically free state. It is followed closely by Colorado and Virginia. Idaho, at the top of the 1999 list, remains high at fourth. Rhode Island, Connecticut, California, and New York bring up the rear.

The Great Plains and Rocky Mountain states are the most economically free. The Northeast, Midwest, and California are the least free.

In terms of the impact of economic freedom on annual income per capita, the data show that a 10-percent improvement in a state's economic freedom score yields, on average, about a half-percent increase in annual income per capita.

If all states were as free as Kansas, the annual income of an average working American would rise 4.42 percent, or \$1,161, putting an additional \$87,541 into his or her pocket over a 40-year working life.

## Policy Reforms

The *U.S. Economic Freedom Index* is a tool for measuring economic freedom. Measurement is the first step to understanding, and understanding is required for reasoned discussion and sound reform. It is hoped that the *U.S. Economic Freedom Index* will contribute to sound policy reforms that preserve and strengthen economic freedom for all Americans.

**"Here in Middle America we believe in balance in all things. So we work hard to create a strong business climate while also devoting sufficient resources to those things that make a state a great place to live, work, and raise a family—good schools, safe streets, and a safe and efficient highway system."**

**Kathleen Sebelius, Governor, State of Kansas**  
excerpt from her foreword

**"Traders on Wall Street and teachers on Main Street can learn from the *U.S. Economic Freedom Index*. We can only hope that lawmakers will also read it and enact policies that advance economic liberty in America."**

**Lawrence Kudlow, co-host, CNBC's "Kudlow & Cramer"**

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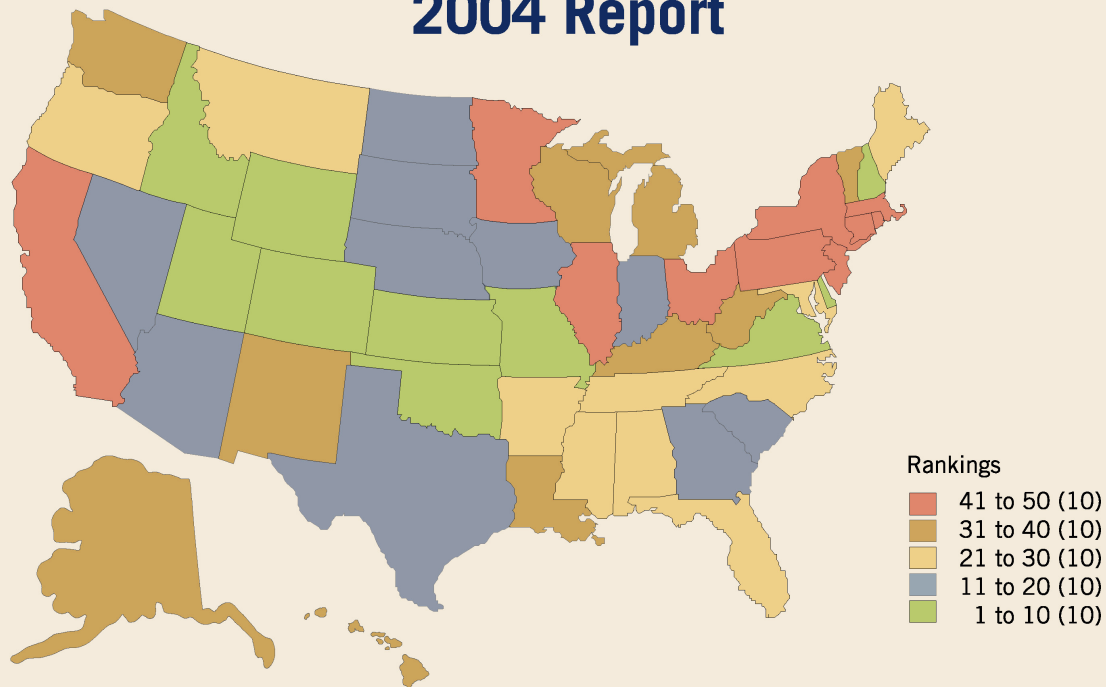
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## U.S. Economic Freedom Index, 2004

Rank	State	Score	1999 Rank	Rank	State	Score	1999 Rank
1	Kansas	18.18	10	26	Tennessee	26.16	19
2	Colorado	18.81	14	27	Maryland	26.54	35
3	Virginia	18.86	2	28	Mississippi	26.54	9
4	Idaho	19.02	1	29	Oregon	26.86	41
5	Utah	19.35	3	30	Maine	26.93	42
6	Oklahoma	19.56	18	31	Washington	27.28	40
7	New Hampshire	20.19	6	32	West Virginia	27.73	32
8	Delaware	20.90	7	33	Alaska	27.82	38
9	Wyoming	21.24	4	34	Michigan	27.90	27
10	Missouri	21.82	13	35	Hawaii	27.95	39
11	Arizona	21.89	25	36	Vermont	28.04	34
12	Nevada	22.10	20	37	New Mexico	28.37	28
13	South Carolina	22.41	16	38	Wisconsin	28.75	37
14	Indiana	22.69	22	39	Kentucky	29.13	29
15	South Dakota	23.34	5	40	Louisiana	29.16	31
16	Iowa	23.43	24	41	Massachusetts	29.41	47
17	Texas	23.52	8	42	New Jersey	30.19	48
18	North Dakota	24.00	21	43	Ohio	30.91	33
19	Georgia	24.06	12	44	Minnesota	31.13	43
20	Nebraska	24.23	23	45	Pennsylvania	31.58	45
21	Montana	24.63	26	46	Illinois	32.77	36
22	Florida	25.12	30	47	Rhode Island	33.21	49
23	Arkansas	25.14	15	48	Connecticut	35.21	46
24	North Carolina	25.58	17	49	California	38.79	44
25	Alabama	25.87	11	50	New York	39.50	50

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