

U.S. Economic Freedom Index

2004 Report

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Forewords by

Rich Karlgaard, *Forbes*

Governor Kathleen Sebelius



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IN ASSOCIATION WITH

Forbes

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November 2004

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When you can measure what you are speaking about, and express it in numbers, you know something about it. But when you cannot measure it, when you cannot express it in numbers, your knowledge is of a meager and unsatisfactory kind: it may be the beginning of knowledge, but you have scarcely, in your thoughts, advanced to the stage of science, whatever the matter may be.

—Lord Kelvin, 19th-century British physicist

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FOREWORD

What Makes a Great Place for Business?

By Rich Karlgaard

Gay people are the magic key to economic vitality, writes a Carnegie Mellon professor in a recent provocative book. Why, look at Manhattan, San Francisco, and Miami's South Beach, says the professor. A lively civic gay life is a marker for creativity and proof of a willingness to flout convention. Both qualities are needed to grow a thriving entrepreneurial environment.

Well, not exactly, says another expert in regional economic development. It is capital that counts. Intellectual capital, which you can measure by toting up the number of Ph.D.s and patents held in the community, and good old-fashioned money capital, particularly R&D money and venture capital. Put these two forms of capital together and you will soon get the next Google or eBay. Both approaches are unrealistic, according to another well-known economic development expert.

This one earns his keep counseling cities such as Peoria and Indianapolis—"blue collar" places trying to shake off gritty manufacturing pasts. Forget the fancy pants stuff, he says. What is needed is hard realism and civic leadership.

The war of economic development theories begins to sound comical after hearing all sides speak with fervor. The stakes, however, are not trivial.

There are 531 cities in the United States with a population greater than 50,000 people, and more than 2,000 others with populations between 25,000 and 50,000. All of the former and most of the latter employ full-time economic development administrators. Their job is to bring business to town.

Add to these city efforts the heftier 50 state development agencies (some of which, like California's, employ thousands) and scores of ad-hoc regional groups, such as the one promoting the "Quad Cities." These are cities that join into a single economic player: Moline and Rock Island (twin cities in Illinois) and Bettendorf and Davenport (twin cities across the Mississippi River in Iowa). Some of these alliances would form new U.S. states, if so permitted, were the boundaries to be drawn to accurately reflect natural regional interests.

Eastern Washington has more in common with the panhandle of northern Idaho than it does with its coastal cousins in Seattle. The Greater Spokane Chamber of Commerce, in fact, sometimes includes Moscow, Idaho, in its promotions—a city more than 70 miles away.

Toss in such 21st-century players linked around university research parks (there is an Association for American University Parks, as a matter of fact) and the enviro-friendly, high-value industries they hope to attract, such as software and biotech. Thus, you will find acting in concert an archipelago of high-IQ cities such as Davis, California; Madison, Wisconsin; and Raleigh-Durham, North Carolina.

Put it all together and you have a multi-billion dollar U.S. industry of regional economic development. City competing against city. State against state. Region against region. Is this wasteful? Not at all.

One of the great strengths of the United States is its allowance for, even countenance of, such competition. If one U.S. state wants to launch a low-tax war against its neighbor, as South Dakota did against Iowa in the 1980s, capturing the flag of computer maker Gateway 2000 in the skirmish, that's fine.

Normandy and Provence do not claw at each other's throats in this way. Neither do Saxony and Westphalia. Were I Alexis de Tocqueville traveling across the United States today with my quill pen and a leather bag full of academic journals warning about the homogenization of American culture, I might (being the clear thinker de Tocqueville was) scratch my head.

I would see that the United States is still marked by fierce regional pride that carries itself into the arena of economic competition by way of regional economic development. Spokane, Washington, runs ads for itself in Los Angeles comparing crime statistics. Michigan enjoys a good laugh about Silicon Valley's absurd cost of living. South Dakota pokes fun at Iowa's social democratic ambitions. And our Lone State neighbor stands arms akimbo and boasts: Don't Mess with Texas.

What Works in America

What do these cities have in common: Albuquerque, Austin, Bentonville, Dayton, Denver, Omaha, Racine, and Tacoma? They are the birthplaces of firms that created 17 of the top 25 personal fortunes in the 2004 Forbes 400 annual "Richest Americans" list.

Microsoft started life as Micro-Soft in Albuquerque, New Mexico, in 1975. Michael Dell's side business overran his dorm room at the University of Texas, but he stayed in Austin. The world knows about tiny Bentonville, Arkansas, and mighty Wal-Mart. Everybody also knows Warren Buffett's hometown, Omaha, Nebraska, as the place he returned to in the 1950s from New York to start his first investment fund out of a spare bedroom.

You probably didn't know that Cox Communications began life in Dayton, Ohio, in 1922. Or that Charlie Ergen started EchoStar in a Denver, Colorado, suburb. Or that Racine, Wisconsin, boasts SC Johnson and that Tacoma, Washington, lays claim to where, in 1911, Frank and Ethel Mars began making butter cream candy and later chocolate out of their kitchen.

There is a funny American myth that you have to go to big places such as New York or California to make your fame and fortune. Maybe fame. But fortune, as almost any year's Forbes 400 show, is more often found off the beaten track. The next big fortune might be created in a town in Kansas, the most economically free state according to this edition of the *U.S. Economic Freedom Index*. What is tomorrow's magic formula for civic success?

Start with this proposition: The most valuable natural resource in the 21st century is brains. Smart people tend to be mobile. Watch where they go! Because where they go, robust economic activity will follow.

Cities and regions that attract smart people will have a leg up. But cities also will need to be competitive on costs, taxes, and regulations, and not be seen as havens for frivolous litigation. Entrepreneurs risk big as it is. They must be given the chance to grow their enterprises without excessive hurdles, worries, and uncertainties.

Cities and regions with universities, especially those with strong science and engineering departments, are in a good position. The presence of local venture capital is crucial for expensive regions, less so for cheaper areas where businesses can more easily bootstrap. It helps to have local bankers willing to look beyond the balance sheet in assessing credit-worthiness.

Doug Burgum, who grew Great Plains Software of Fargo, North Dakota, into a \$300 million-a-year business before selling it to Microsoft for \$1.1 billion in 2001, likes to tell a story. Great Plains always struggled with local banks to get loans and credit lines. The Fargo print shop whose sole client was Great Plains had no such struggle. The bankers figured they could always repossess the press if the print shop defaulted. But what do you repossess in a software company?

Civic leadership matters, but it can blow it as easily as it can succeed. Every two years I give a speech in a large midwestern city. The local business leaders are the nicest people you'd ever want to meet, but they always seem a bit too eager to catapult their city from the mid-20th century straight into the 21st. During the late 1990s they were all hot to scrap their manufacturing past and morph into the Silicon Valley of the Midwest. This was back when every city in America wanted a piece of the Internet boom. More recently, the kindly civic leaders were hot to tell me that they were going to become the next biotech capital.

I am wary of these grand civic plans. They tend to squander money and energy. You cannot will these kinds of moon shot successes to happen.

What states and cities can do is create the conditions for success. As this volume shows, economic freedom is an important ingredient for prosperity. I always advise cities to forget million-dollar bets on a single industry, and instead make a thousand \$1,000 bets on bright entrepreneurs who need cheap rent.

Why not Wi-Fi the downtown so that entrepreneurs can sit in coffee shops and surf the Net? Why not lighten the regulatory load for startups? Why not run business-plan contests, open to everyone in town, regardless of age or pedigree, with \$5,000 prizes?

Finally, thriving areas will pass the entrepreneurial Cocktail Party Test. Here is how it works. You gather 200 friends and acquaintances in a room—the sort of people who attended your wedding or might attend your funeral—and you clink a glass. The room goes silent. You announce: “I’ve just quit my job! I’m starting a company!” Watch the immediate reaction.

In some communities, people will burst into applause. In others, people will stare at their shoelaces, check their watch, and go home. Thriving communities applaud the bold risk taker.

Rich Karlgaard is publisher of Forbes magazine and author of Life 2.0: How People Across America Are Transforming Their Lives by Finding the Where of Their Happiness (Crown Business).

FOREWORD

By Governor Kathleen Sebelius

Recently we were pleased, but not surprised, to learn that Kansas had earned the top ranking in this year's report.

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.

Understanding that we can't stand still and remain at the top, legislative leaders and I worked together in the recently concluded legislative session to pass this state's most far-reaching economic development legislation in decades. The Kansas Economic Growth Act makes working capital more readily available to entrepreneurs in rural areas. It fuels growth in the state's promising biosciences industry through an innovative funding mechanism that uses industry profits to generate additional growth. And it modernizes our arsenal of business recruitment tools, including tax incentives.

In addition to all that, we transformed the Department of Commerce by transferring to it the workforce development programs formerly housed in the Department of Labor. The Kansas 1st program will allow us to be much more responsive to the needs of both employers and workers.

Finally, by cutting back on spending and implementing better business practices, we balanced our budget in tough economic times without a tax increase and implemented almost \$1 billion in savings and efficiencies.

In Kansas, we are committed to sustaining a strong business climate. And we invite anyone looking for a place to do business to come take advantage of our highly skilled workforce, our low costs, and our rich quality of life.

Kathleen Sebelius is governor of the State of Kansas.

PREFACE

The Pacific Research Institute (PRI) develops and promotes public-policy solutions that empower individuals to solve problems through voluntary association and exchange in free markets. Through its research, commentary, and outreach activities, PRI also educates the public. This volume represents a synthesis of PRI's objectives to research and to educate.

The *U.S. Economic Freedom Index: 2004 Report* is an important tool, grounded in rigorous statistical analysis, for measuring how friendly (or unfriendly) each state government is toward free enterprise and consumer choice. By providing a metric of economic freedom, the *Index* also encourages a discussion in public forums and in state legislatures about each state's level of economic freedom, areas for policy reform, and the consequences of inaction. As the report shows, two effects of limiting economic freedom are that people flee economically oppressive states and residents are made poorer—both outcomes merit further reflection.

I would like to thank several people who made this report possible, beginning with the authors. Dr. Lawrence J. McQuillan, director of Business and Economic Studies at PRI and the project director, first proposed that PRI undertake this project. He guided every step of the project's research, writing, and editing. Dr. Robert E. McCormick, the research director, provided continuity and academic rigor to the project. Dr. McCormick is professor of economics at Clemson University and was a co-author of the first edition of this *Index*, published by the State Policy Network in 1999. Ying Huang, the research associate, also with Clemson University, provided invaluable econometric analysis.

I would also like to thank Dr. Edwin J. Feulner, president of the Heritage Foundation, and Tracie Sharp, president of State Policy Network, who encouraged and supported PRI's *Index*. The Aequus Institute, Altria Corporation, Patti and Jerry Hume, John Templeton Foundation, Thomas Roe Foundation, and Wolf Family Fund made the project possible through generous donations.

Special thanks also go to Steve Forbes, Tom Post, and Kurt Badenhausen for making the association between *Forbes* magazine and PRI on this project a reality, and for the article on the *Index* in the May 24, 2004, issue of *Forbes*. Finally, I would like to thank Kansas Governor Kathleen Sebelius and Mr. Rich Karlgaard, publisher of *Forbes*, for writing insightful forewords.

As the Pacific Research Institute celebrates its 25th anniversary this year, it is more committed than ever to promoting a wider discussion of important policy issues. Greater knowledge, more analytic thinking, and a national dialogue will contribute to reasoned and

informed policy decisions. PRI is playing a prominent role in this process, and the *U.S. Economic Freedom Index* makes an important contribution. It is one that we will continue for many years to come.

Sally C. Pipes
President and Chief Executive Officer
Pacific Research Institute

ACKNOWLEDGMENTS

A project of this magnitude is never completely the work of the listed authors, and so it is with this effort. Many others have made substantial conceptual and concrete suggestions and improvements. Some of those who helped include Bruce Yandle, John Byars, Ty Reagan, Bob Tollison, and Emily Wood. This project would have never begun without the passion and dedication of many at the Pacific Research Institute, especially Lawrence McQuillan.

While it would be nice if we could blame all the sins of commission and omission on others, good parenting will not allow this abridgement of responsibility. The project is ours, and nothing of this kind is ever perfect. We invite comment and criticism. Our goal is enlightenment, which we think comes from dedication and hard work based on sound principles. No one is likely to agree (or disagree) with all we have done. We have struggled with issues, some of which remain less than crystal clear, but in the end, we trust the market and its accumulation of knowledge. So we pause here to let others digest our work.

In the end, humans have their endowed genetic code, luck, nature's bounty, and varying degrees of freedom to employ these assets. There isn't much else. There is ample evidence that endowments matter, and few would argue that luck affects outcomes, but just how important is freedom? We believe that the United States is what it is, in great part, because of freedom. At the margin, how much does it matter? Answering that question is our ultimate goal, our quest.

Ying Huang, Research Associate

Robert E. McCormick, Research Director

Clemson University

I would like to thank Dr. W. Mark Crain, professor of economics and director of the Center for Study of Public Choice at George Mason University; Dr. Benjamin Powell, assistant professor of economics at San Jose State University; Tom Post, assistant managing editor of *Forbes* magazine; Kurt Badenhausen, senior editor in the statistics department of *Forbes*; William J. (Jerry) Hume, chairman of Basic American; participants of the State Policy Network and Heritage Foundation Resource Bank meetings in Chicago, 2004, especially Bridgett Wagner and Tracie Sharp; Susan Martin and Jane Markell, marketing associates for Pacific Research Institute (PRI); Mary Anne

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Lawrence J. McQuillan, Project Director
Pacific Research Institute

EXECUTIVE SUMMARY

By Lawrence J. McQuillan

Thomas Jefferson and Alexander Hamilton, though bitter political rivals, appreciated the importance of economic freedom, a founding principle of our country. Thomas Jefferson wrote: “A wise and frugal government shall restrain men from injuring one another, shall leave them otherwise free to regulate their own pursuits of industry and improvement, and shall not take from the mouth of labor the bread it has earned.” In defense of economic freedom, Alexander Hamilton warned: “Power over a man’s subsistence is power over his will.” In our times, President Ronald Reagan advanced this message.

In his famous Berlin Wall speech, President Reagan observed: “Prosperity can come about only when the farmer and businessman enjoy economic freedom.” In a separate address, he called for “fundamental reform that sees to it that our economic freedom is every bit as protected as our political freedom.” Only recently, however, have members of the academy caught up with these champions of liberty by focusing empirical research on this important founding principle.

A search of EconLit, the definitive database of scholarly economics literature, finds 162 publications on economic freedom since 1995; two thirds of these were produced in the past five years. There has been an explosion of academic research on this theme but the bulk of it has examined economic freedom across countries due to data availability.

The Heritage Foundation in Washington, D.C., and the *Wall Street Journal* have co-published since 1995 an annual report titled *Index of Economic Freedom*. The Fraser Institute in Vancouver and the Cato Institute in Washington, D.C., have co-published another cross-country annual report since 1996 titled *Economic Freedom of the World*. Both indexes have received worldwide media attention and spawned many studies, but neither looks at economic freedom across the U.S. states.

The first excursion into U.S. economic freedom was made by John D. Byars, Robert E. McCormick, and T. Bruce Yandle, all of Clemson University, in *Economic Freedom in America’s 50*

By measuring economic freedom and studying its effects, people will gain a fuller appreciation of the important imprint it makes on the economic and political fabric of America.

States: A 1999 Analysis, published by the State Policy Network. The present study, *U.S. Economic Freedom Index: 2004 Report*, is an effort to update, refine, and improve on this seminal work. It is hoped that by measuring economic freedom and studying its effects, people will gain a fuller appreciation of the important imprint it makes on the economic and political fabric of America and encourage new legislation in the states that advances economic liberty.

Chapter 1. What Is Economic Freedom?

Economic freedom is the right of individuals to pursue their interests through voluntary exchange of private property under a rule of law. This freedom forms the foundation of market economies. Subject to a minimal level of government to provide safety and a stable legal foundation, legislative or judicial acts that inhibit this right reduce economic freedom.

Government acts that advance this right increase economic freedom. This report focuses on state and local government actions as they relate to economic freedom; we do not judge the

wisdom, merit, or purpose of specific programs.

Economic freedom is the right of individuals to pursue their interests through voluntary exchange of private property under a rule of law.

In a nutshell, economic freedom is the right of an individual to keep what he earns, produce what he wants, and compete in product and labor markets of his choosing, subject to the restriction that he cannot use force or fraud to further his interests. Clearly, this definition is in the tradition of our Founding Fathers' conception of a free and just society and in line with the writings of classical liberals going back to Adam Smith who argued that humans' natural propensity to "truck,

barter, and exchange" will maximize social welfare. This definition, along with the economics literature, guided our judgment as to which variables to include and how to score each variable's freedom effect.

Chapter 2. Methodology and Variables

The methodology consists of four parts: (1) we compiled a set of indicator variables for economic freedom and from that we created various data sets; (2) these data sets were converted into 48 unique indexes using different weighting techniques; (3) we compared each

index to the others in terms of its ability to explain, other things equal, human migration; and (4) the index with the greatest statistical link to migration was chosen as the best and we used it to rank the U.S. states in terms of economic freedom.

Variables

We gathered data on 143 variables per state from 1995 to 2003 (data set 1, listed in appendix A). This snapshot included tax rates, state spending, occupational licensing, environmental regulations, income redistribution, right-to-work and prevailing-wage laws, tort reform, and the number of government agencies, to name a few. Next, we cut some redundant variables and averaged similar variables for compactness (appendix B explains this process). This data parsing resulted in five different data sets (data sets 1-5).

Construction of Competing Indexes

For each of the five data sets, we calculated sector scores for each state. For example, data set 1 had 143 variables. We put each variable into one of five sectors: fiscal (51 variables), regulatory (53), welfare spending (10), government size (7), and judicial (22). Each state's sector scores were calculated by ranking each variable within a sector from 1 (most free) to 50 (least free). Then we averaged the variable rankings within each sector to arrive at a sector score for each state. For example, data set 1 had 51 fiscal-sector variables. A state's fiscal-sector score for data set 1 was calculated by ranking each fiscal variable from 1 to 50 and then calculating an average ranking from these 51-variable rankings. The same process was used to calculate scores for the other four sectors. This process was repeated for each of the five data sets.

After sector scores were calculated for each state over all five data sets, various sector-score weighting techniques were applied ranging from assigning arbitrary weights to using statistical procedures such as principal components analysis to determine weights. Finally, weighted sector scores were added together to arrive at overall index scores for each state. The various combinations of data sets and weighting techniques yielded 48 unique indexes.

The Selection Criterion

These 48 indexes competed with each other to explain net population migration rates across states using regression analysis. In the jargon of econometrics, the index we chose as best yielded the highest R-squared among those equations having an index coefficient t-value

significant at the five-percent level or greater. This procedure selects the best, or final, index empirically, and it conforms to the proper statistical methodology for choosing among two or more equally plausible specifications.

Our criterion for selecting the best index among 48 applies a market-based definition of freedom. We believe people want to be free: they strive and work to be free, and search out locations, governments, and situations where freedom reigns. Migration is the purest expression of individuals responding to differences in freedom, including economic freedom. We adopt a migration metric for economic freedom. If people are moving from one state to another, other things equal, we assert that this is a market-based response to differences in freedom. Ordinary people, voting with their feet, define freedom. In the end, our index offers the clear advantage that it is evaluated in the marketplace by where people decide to live.

Migration is the purest expression of individuals responding to differences in freedom, including economic freedom. We adopt a migration metric for economic freedom.

The Best Index

The index having the greatest statistical link to migration was Index40, constructed by weighting data set 3 using first principal components weights. Data set 3 consisted of 47 variables, roughly the same number of variables as in the Heritage Foundation’s international index: 13 fiscal, 15 regulatory, eight welfare spending, three government size, and eight judicial variables. Principal components weighting has been used for years in political science. The technique weights each sector based on the degree of useful information (variation) in the sector, which enables finer distinctions among states to be clearly drawn. The sector-score weights used to compute the final economic freedom score for each state were:

$$\text{Index} = (.3486 \times \text{Fiscal Score}) + (.3422 \times \text{Regulatory Score}) - (.1260 \times \text{Judicial Score}) + (.0627 \times \text{Government-Size Score}) + (.3730 \times \text{Welfare-Spending Score})$$

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

Chapter 3. The Results

Table 1 (page 16) presents the economic freedom scores and rankings for the U.S. states, 2004. Tenth in 1999, Kansas has assumed the lofty spot as the nation's most economically free state, 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.

Turning to the states that made the biggest progress from 1999 to 2004, we found that Arizona advanced 14 places, and Colorado, Maine, Oklahoma, and Oregon each jumped 12 places. In contrast, Mississippi fell 19 places, Alabama 14, and Illinois, Kentucky, Ohio, and South Dakota each sank 10 spots. Note that three of the biggest decliners were in the South.

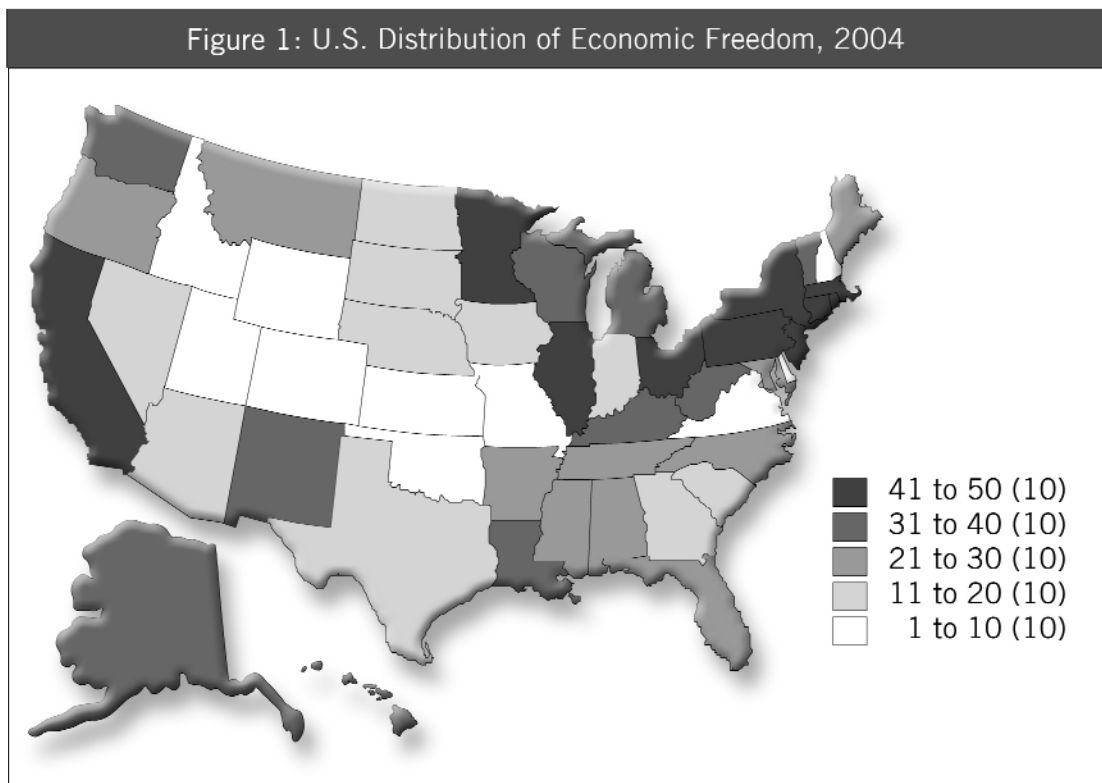
Figure 1 (page 17) plots economic freedom from coast to coast, and a distinct pattern emerges. The Great Plains and Rocky Mountain states, shaded the lightest, have the most economic freedom. New Hampshire persists in defying the pattern in the Northeast. Maybe there is something to their motto "Live Free or Die." Virginia stands as a citadel of economic freedom in the South. The darkest regions, reflecting the least amount of economic freedom, are the Northeast and Midwest, excluding Indiana, and California. Many of the nation's most densely populated states are also some of the least economically free. This is consistent with leading economic theories of the determinants of regulation.

**Kansas has assumed the
lofty spot as the nation's most
economically free state . . .
Rhode Island, Connecticut,
California, and New York
bring up the rear.**

Table 1 U.S. Economic Freedom Index, 2004			
Rank	State	Score	1999 Rank
1	Kansas	18.18	10
2	Colorado	18.81	14
3	Virginia	18.86	2
4	Idaho	19.02	1
5	Utah	19.35	3
6	Oklahoma	19.56	18
7	New Hampshire	20.19	6
8	Delaware	20.90	7
9	Wyoming	21.24	4
10	Missouri	21.82	13
11	Arizona	21.89	25
12	Nevada	22.10	20
13	South Carolina	22.41	16
14	Indiana	22.69	22
15	South Dakota	23.34	5
16	Iowa	23.43	24
17	Texas	23.52	8
18	North Dakota	24.00	21
19	Georgia	24.06	12
20	Nebraska	24.23	23
21	Montana	24.63	26
22	Florida	25.12	30
23	Arkansas	25.14	15
24	North Carolina	25.58	17
25	Alabama	25.87	11
26	Tennessee	26.16	19
27	Maryland	26.54	35
28	Mississippi	26.54	9
29	Oregon	26.86	41
30	Maine	26.93	42
31	Washington	27.28	40
32	West Virginia	27.73	32
33	Alaska	27.82	38
34	Michigan	27.90	27
35	Hawaii	27.95	39

Table 1 U.S. Economic Freedom Index, 2004			
Rank	State	Score	1999 Rank
36	Vermont	28.04	34
37	New Mexico	28.37	28
38	Wisconsin	28.75	37
39	Kentucky	29.13	29
40	Louisiana	29.16	31
41	Massachusetts	29.41	47
42	New Jersey	30.19	48
43	Ohio	30.91	33
44	Minnesota	31.13	43
45	Pennsylvania	31.58	45
46	Illinois	32.77	36
47	Rhode Island	33.21	49
48	Connecticut	35.21	46
49	California	38.79	44
50	New York	39.50	50

Note: This is Index40, the principal components index using data set 3.



Chapter 4. The Relation Between Economic Freedom and Income

An important test of any index is showing relevance and usefulness. An index is valid, in a statistical sense, if it helps to explain the past or predict the future. To this end, we present statistical evidence of the impact of economic freedom on annual income per capita across the U.S. states.

We expect economic freedom to be positively linked, on average, to state annual income per capita. Economic freedom expands the opportunities for individuals to use their knowledge and resources to their best advantage and to keep the fruits of their labor for personal consumption and future productive investment.

We constructed an economic model that explains the level of state annual income per capita in 2000 as a function of the following state-level variables: education level (a proxy for human

An important test of any index is showing relevance and usefulness. An index is valid, in a statistical sense, if it helps to explain the past or predict the future.

capital as measured by the proportion of the population with a high-school education or more); average temperature (a proxy for the work/leisure tradeoff); population density (a proxy for the size of the market and level of transaction costs as measured by the number of residents per square mile); stock of wealth (endowments as measured by annual income per capita in 1990); average age of the population (a proxy for the earnings life-cycle); church membership rate (a proxy for the work

ethic); and the institutional environment as measured by the state's economic freedom score.

The regression results (see table 6), robust across specifications, show that more economic freedom is associated with higher income per capita across the U.S. states. The results are virtually identical if economic freedom rankings are substituted for economic freedom scores. The statistical analysis shows 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.

Finally, we asked: how much is economic freedom worth in dollar terms? Through simulations, we artificially moved each state up to the top of the list. Then we computed the impact on annual income per capita and compared it to the actual value in 2000. The difference is an estimate of the economic harm caused to individuals in each state from limiting economic freedom relative to the freest state, or, conversely, the value of more economic freedom. We

then divided each difference by the actual income level to calculate a state “oppression tax,” which measures the percentage decrease in income per capita due to the deterioration in the state’s overall incentive system caused by its institutions—as measured by its economic freedom ranking.

Relative to the freest state, Rhode Island residents suffered the largest reduction in annual income per capita due to their loss of economic freedom, \$3,607, followed by Hawaii at \$2,963, and New York and New Jersey at around \$2,400 each (see table 7). The national average was \$1,161. This might not sound like much, but over a 40-year working life at a conservative 3-percent interest rate, this translates into \$87,541 that would have otherwise gone into the pocket of an average working American.

Rhode Island also had the highest effective “oppression tax,” 13.17 percent, followed by Hawaii at 11.36 percent, Maine at 7.61 percent, and New York at 7.45 percent. The national average was 4.42 percent of income. State institutions have a substantial impact on income levels across the U.S. states. Economic freedom matters significantly.

A 10-percent improvement in a state’s economic freedom score yields, on average, about a half-percent increase in annual income per capita.

Chapter 5. State Profiles

Chapter 5 presents, in almanac style, a number of important features of each state’s economy including personal income per capita, gross state product, and the unemployment rate. It also summarizes the index results for each state, showing the overall 2004 score and rank, and the 1999 rank. For the sector scores, we devised a star system that divided the states into groups of 10. The freest 10 states in each sector received five stars for that sector. The second-freest 10 states received four stars and so on until the least-free 10 states received one star for that sector. This star system provides a quick method of comparing states within each sector.

Conclusion

It has been said that liberty is a whole, and to deny economic liberty is finally to destroy all liberty. In the end, irrespective of our love for freedom, our work was empirical, not romantic. Our goal was to measure economic freedom across the U.S. states and also to measure some of its effects.

The overseers of the Consumer Price Index, one of the oldest indexes in economics, write: “An index is a tool that simplifies the measurement of movements in a numerical series.” 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 policy reform. It is hoped that the *U.S. Economic Freedom Index* will ultimately contribute to policy reforms that preserve and strengthen economic freedom for all Americans.

1. WHAT IS ECONOMIC FREEDOM?

“My country, ‘tis of thee, sweet land of liberty, of thee I sing. Land where my fathers died, land of the pilgrim’s pride, from every mountainside, let freedom ring.” And if America is to be a great nation, this must become true. So let freedom ring from the prodigious hilltops of New Hampshire. Let freedom ring from the mighty mountains of New York. Let freedom ring from the heightening Alleghenies of Pennsylvania! Let freedom ring from the snowcapped Rockies of Colorado! Let freedom ring from the curvaceous peaks of California! But not only that; let freedom ring from Stone Mountain of Georgia! Let freedom ring from Lookout Mountain of Tennessee! Let freedom ring from every hill and every molehill of Mississippi. From every mountainside, let freedom ring.¹

Freedom. Liberty. “Free at last!” Just words, or the essence of humanity? We hold this truth to be self-evident; freedom is a fundamental piece of being. We strive for it, we nurture it, we yearn for it, we die in quest of it, and we ache to our bones when it is denied. No chronology or treatise could ever hope to discuss all aspects of liberty. The force of freedom, whatever exactly it is, is too powerful for simple recitation. Here we do not hope to expand the domain of thoughts about freedom. Our goal here is more direct: to measure economic freedom and study how people react to it.

About five years ago several scholars at Clemson University decided to investigate the link, if any, between economic freedom and economic activity in the United States.² There was a tried-and-true technique of creating indexes of freedom across countries and across time, but the effort then was the first attempt to examine the impact of economic freedom on life inside the United States.³

Our purpose here is to update and refine the original 1999 Clemson University study on economic freedom. We undertake the analysis with up-to-date data, and we add several new measures of economic freedom across the states. As in the earlier study, our method attempts

Our purpose here is to update and refine the original 1999 Clemson University study on economic freedom.

to remove a level of subjectivity common in most discussions of freedom, namely, what exactly is freedom?

There are basically two ways to assess or assign levels of freedom across time or space. One is a subjective determination of the factors that wisdom suggests constitute liberty. For example, the Bill of Rights is a proud and prominent declaration of certain freedoms. One could start from these and then build a framework or matrix of freedom based on sound principles and accumulated wisdom. This is a fine way to measure freedom, and it makes for powerful analysis. There is only one problem: this technique is the result of one person's thinking or a group's conclusion.

Individuals do not have to agree on every aspect of freedom. Consider the simple problem of marriage. A man and a woman enter into a contract "to have and to hold from this day forward,

Our index offers the clear advantage that it is evaluated in the marketplace, by the actual decisions people make about where to live. Our technique works and measures what we want it to: economic freedom as seen through the eyes of ordinary people.

to love and to cherish." Are they more or less free? Do land covenants make people less free? Yes and no. Therein lies the issue. Freedom is best viewed through the eyes of the beholder. People might agree to a point, but there is no single universally accepted definition. There is, however, an alternative approach.

The one taken here appears agnostic on the surface, but is actually a market-based definition. This technique creates measures of freedom, indexes, and then searches across them, finding the one that best maps into actual human behavior that is arguably driven by freedom.

If we see people climbing the Berlin Wall, swimming the Florida Straights, or applying for visas to live in the United States, we can, to some extent, claim that these people are "in search of freedom."⁴ Therefore, we adopt a migration metric for economic freedom. If people are moving from one state to another, other things equal, we assert and believe that this is a market-based response to differences in freedom.

As President Reagan said, and we believe it is the essence of the correct way to measure freedom using market tests, "Mr. Gorbachev, open this gate! Mr. Gorbachev, tear down this wall!" What else could Reagan have meant except freedom is the right to live where one wishes. People define freedom by voting with their feet.

In summary, our method uses the classical approach of using our judgment to compile a list of relevant indicator variables for economic freedom. These indicators are then converted into a number of indexes using various techniques. We then compare each index to the others in terms of its ability to explain human migration, other things the same. The best index is then used to rank the U.S. states in terms of economic freedom.

Our index is our best estimate of the state rankings. We have employed our judgment, and we do not claim it is perfect. We have at every junction made what we think is the right decision about what is free and what is not. Our index offers the clear advantage that it is evaluated in the marketplace, by the actual decisions people make about where to live. Our technique works and measures what we want it to: economic freedom as seen through the eyes of ordinary people.

We can note that this approach is Rawlsian in nature.⁵ If a system is just and fair, and people value these things, as we believe they do, then migration is a proper measure of one social implication of differences in economic freedom.

Our Approach, Our Judgment, Our Biases

Economic freedom is the right of individuals to pursue their interests through voluntary exchange of private property under a rule of law, and this freedom forms the foundation of all market economies. We start from the position that freedom requires that people be safe and secure in body, home, and property. We assume the necessity of a “minimal state” that provides a rule of law in order to have any freedom.

State security and a rule of law, however, require some form of organized violence. And since many collectives of people, be they family, neighborhood, county, state, or country, have a difficult, nearly impossible, time collecting sufficient levels of money voluntarily to enforce the rule of law, some taxes are good in the sense that they create the framework or superstructure for the freedom to truck and barter.

If the individual is to be sacrosanct, the position taken here, then there is an inevitable loss of freedom in order to have any at all. The philosophers will argue that this is semantics, and we don't disagree. We are neither qualified nor inclined to engage this debate. Our task is measurement.

Economic freedom is the right of individuals to pursue their interests through voluntary exchange of private property under a rule of law, and this freedom forms the foundation of all market economies.

For the purpose of the index, we assume that all relevant economic-freedom indicators are greater than the levels needed for a “minimal state” in every state; so, for example, jurisdictions that tax more are less economically free. Given the minimal state, we take the following bias in our assessment of indicators that impact economic freedom: if the indicator leads an individual to have more rights to contract, then the person is more free. If a person loses rights to contract by an indicator, then the indicator reduces freedom.

In the end, we made a decision rule: if an indicator variable limited the right to contract, it reduced economic freedom. If an indicator variable enhanced the right to contract, it increased economic freedom. This rule obviously avoids some conflicts while it introduces others—moral imperatives.⁶ This approach is controversial in only a handful of cases. Ponder the current movement to limit damage awards to plaintiffs in tort cases.

Tort law has its roots in English common law and there is substantial literature showing the efficacy and efficiency of common law in handling a host of problems arising from commerce and social interaction.⁷ If one believes, as many do, that the common law is efficient and effective, then the current tort-reform movement is a limitation on economic freedom.⁸

The objective of tort law, however, is to, within the context of civil courts, make someone whole after experiencing a loss. The loss is measured and estimated in courts by compensatory damages, and the objective is to allow individuals to recoup their damages to bring them back to where they started, that is, to make them whole. Increasingly, however, civil courts have moved beyond this original objective and now routinely award additional or punitive damages.

These damages amount to civil punishment that, it can be argued, should be the exclusive domain of criminal courts where the standard of proof is higher—beyond a reasonable doubt. Punitive awards also violate the British maxim that no one should gain as a result of a wrong being committed against them.

The current tort-reform movement can then be seen as an attempt, perhaps imperfect, to return to the original conception of civil justice that underpins an efficient free-enterprise system of market capitalism. Using the freedom-to-contract standard, current civil litigation is often extra-contractual, meaning it allows parties to sue outside the four corners of the original “agreement” or “contract.” Tort reform, therefore, has the potential to focus litigation back to the four corners of the “contract,” permitting people to be made whole again, but not to gain. On this count, tort reform enhances freedom.

It is reasonable to argue that most reform legislation centers around limiting the amount of punitive damages that can be awarded in civil cases, which according to our argument above, brings us closer to the original English conception of the proper role of civil courts and tort law

in society, and therefore, increases economic freedom. In contrast, tort reform that denies access to civil courts to sue for compensatory damages goes too far and reduces economic freedom. As we said, the issue is complex. We have chosen for better or worse to measure tort reform as increasing economic freedom. Others might take a different view.⁹

What Others Have Said About Economic Freedom

Economic freedom is the ability of an individual to allocate his resources according to his preferences without outside interference. Freedom is the essence of market economies in the sense that the summation of voluntary trades between sellers and buyers constitutes what we call “the market.” A key word here is “voluntary,” which makes markets distinct from other resource-allocating mechanisms.

To paraphrase Milton Friedman: markets provide a system of effectively proportional representation without conformity. Economic freedom measures the extent to which people can own, control, and exchange their property in the marketplace.

Adam Smith (1776) is widely regarded as one of the earliest proponents of free markets and free trade. The core of his thought is that coordination can be achieved without coercion. He based his economic argument in *Wealth of Nations* on a system of “natural liberty,” a system whose principles, if observed, would bring wealth and prosperity to all.

Smith argued that to “truck, barter, and exchange one thing for another” is the natural propensity of human beings to maximize their own welfare. Reflecting Smith’s awareness of human nature and the nature of the civilizing process, the natural-liberty system presupposed that individuals were free to pursue their own interests.

Ultimately, this was the driving force behind commercial development. By pursuing their own interests, individuals were “led by an invisible hand to promote an end which was no part of his intention,” and this process is more effective than when individuals intend to promote the “common good.”

Smith asserted that the system of natural liberty leaves the sovereign only three duties: the defense of the country from foreign invasion; the administration of justice; and establishing and maintaining certain public works. Any government function beyond this scope is a violation of natural liberty.

Economic freedom is the ability of an individual to allocate his resources according to his preferences without outside interference.

In Book IV of *Wealth of Nations*, Smith strongly opposed state intervention in free trade.¹⁰ He recognized that the principal benefit of foreign trade is the adjustment of domestic supply and demand. It was his view that the continuous growth of the British economy rested heavily on British eminence in world trade.

Henry Hazlitt wrote eloquently in 1956 about the importance of economic freedom for individual liberty:

Smith asserted that the system of natural liberty leaves the sovereign only three duties: the defense of the country from foreign invasion; the administration of justice; and establishing and maintaining certain public works. Any government function beyond this scope is a violation of natural liberty.

Many of today's ["progressives" who] are most eloquent in their arguments for liberty, in fact preach philosophies that would destroy it. It seems to be typical of the books of our intelligentsia to praise one kind of liberty incessantly while disparaging or ridiculing another kind. The liberty that they so rightly praise is the liberty of thought and expression. But the liberty that they so foolishly denounce is economic liberty. . . [W]hen economic liberties are abridged or destroyed, all other liberties are abridged or destroyed with them. "Power over a man's subsistence," as Alexander Hamilton reminded us, "is power over his will." ¹¹

Friedrich von Hayek (1944) and Milton Friedman (1962) explained the relation between economic freedom and political freedom. Friedman wrote: "On the one hand, freedom in economic arrangements is itself a component of a freedom broadly understood, so economic freedom is an end in itself. In the second place, economic freedom is also an indispensable means toward the achievement of political freedom." He believed that "competitive capitalism—the organization of the bulk of economic activity through private enterprise operating in a free market" is "a system of economic freedom and a necessary condition for political freedom."

In his classic book *Free to Choose*, Friedman (1980) described economic freedom and gave examples of restrictions in American economic life. He suggested that there are at least three essential parts of economic freedom. The first is the freedom to choose how to use our income.

Government expenditure is a violation of economic freedom since it is the part of our income spent by the government, supposedly on our behalf. In the political process of deciding the size of government spending, majority rule is used as an expedient, which produces “conformity without unanimity,” while the marketplace provides “unanimity without conformity,” which is freedom enhancing.

The second essential part of economic freedom is the freedom to use our resources in accordance with our values—the freedom to enter any occupation, engage in any enterprise, and so on. The third part is the freedom to own property. Referring to the 46-percent federal corporate income tax, Friedman pointed out that “in terms of ownership of corporate enterprise, we are about 46 percent socialist.”

Economic freedom is closely associated with economic efficiency and wealth, but they are not equivalent concepts, although the distinction is not easily drawn. In most cases, economic freedom is positively correlated with efficiency.

When sellers and buyers trade freely without outside intervention, the outcome is usually efficient marginal-cost pricing. Markets are usually efficient and welfare enhancing, with exceptions owing to improperly or costly-to-define property rights.

For instance, when there are poorly defined rights in private activities, as in air resources, the voluntary trading of private parties might result in economic inefficiency.¹² In some cases, where rights are expensive to define, a tax by the government might be appropriate as a response to the cost of defining rights. The tax here is efficiency enhancing, but still freedom reducing.

Public goods serve as another example. When they are provided voluntarily, the usual consequence is undersupply of the good and a potential social welfare loss. Government (forced) provision is sometimes a solution, but it is an infringement on economic freedom in the sense that it is financed by the confiscation of private assets.

The point is that freedom is one thing and efficiency another. They can be the same, but do not always have to be. A similar argument is made about the relation between freedom and wealth. They generally reinforce each other, but not always.

George Stigler (1978) argued that if an individual’s range of options in how to employ his resources and how to consume his earnings is widened, his potential earnings and welfare are improved. The increase in wealth raises an individual’s purchasing power and enlarges the

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domain of choices. This is true even in highly regulated societies. He emphasized, however, that, citing Hayek, the enlargement of choices is not to be confused with a growth of liberty, which is defined to be freedom from the coercion of other men, and has no direct relevance to the physical possibilities from which one can choose.

Stigler pointed out that the task of differentiating between wealth and liberty has not been undertaken convincingly, and even the purpose of this distinction is elusive. So we can conclude that wealth brings about more choices, but not necessarily more liberty.

Ron Jones, Walter Block, and Alan Stockman (1992) gave a tentative definition of restrictions on economic freedom. According to their definition, the loss of economic freedom consists of two parts, the first is “the sum of the losses in consumer and producer surplus in those constrained transactions;” the second part is the “cost to the person of the constrained action.” With this definition in mind, they drew a distinction between economic freedom and efficiency.

Take the excise tax as an example: the loss in economic freedom contains not only the deadweight loss in consumer and producer surplus represented by the triangle, but also the rectangle of tax revenue, which is not counted as loss in efficiency since it is transferred from one group to another group. See Gordon Tullock (1967) for an explanation of why the rectangle can also be a deadweight loss to society from rent-seeking expenditures.

Loss in economic freedom differs from inefficiency in the sense that economic freedom does not net out gainers and losers. The loss of A’s economic freedom does not add to B’s economic freedom when A’s money is forcibly transferred to B by a government excise tax. The distinction between economic freedom and wealth (or utility) rests on a similar argument.

Reduction in economic freedom could occur when the overall social wealth has not changed or has even increased, as evidenced by government transfers where individual economic freedom is violated by the forceful seizure of private assets, but total social wealth remains unchanged—only the distribution has changed.

Robert Barro (1996) explored the relation between political freedom and economic growth. He found that with respect to the determination of growth, there are positive “effects from maintenance of the rule of law, free markets, and small government consumption and high human capital. Once these kinds of variables and the initial level of GDP are held constant, the overall effect of democracy on growth is weakly negative.” His conclusion suggests that democracy might hinder economic growth at certain points in the development process. He also argued that political freedom emerges as a luxury good consumed by richer societies: prosperity stimulates the development of democratic institutions. Economic freedom extends political freedom that, in turn, can dampen economic growth. A dynamic process is at work.

Endnotes

¹ Dr. Martin Luther King Jr. speech delivered on the steps of the Lincoln Memorial in Washington, D.C., on August 28, 1963. Located on the web at <http://www.mecca.org/~crights/dream.html>.

² See John D. Byars, Robert E. McCormick, and T. Bruce Yandle, *Economic Freedom in America's 50 States: A 1999 Analysis* (State Policy Network, 1999). Available at <http://freedom.clemson.edu>.

³ For a review of the international studies, see chapter 2.

⁴ Of course, people migrate for reasons other than economic freedom, for example, to be near friends, to get a better income, or for the weather. In our statistical analysis, we control for the influence on migration of these other factors.

⁵ John Rawls, *A Theory of Justice* (Boston: Belknap Press, 1971, revised 1999). A condensed version of the principle is available online at http://en.wikipedia.org/wiki/A_Theory_of_Justice.

⁶ For instance, laws disallowing same-sex marriages are a limitation on the right to contract. Laws preventing prostitution or the sale of marijuana are also restrictions on the right to contract. For the sake of convenience and to avoid controversy about the main objective of this research, we have ignored indicator variables in this realm. In other work underway and incomplete at this time, we are investigating whether, other things the same, there is net migration of people (our numeraire for freedom) into or out of jurisdictions with limitations on the right to contract for sex, drugs, and similar moral strictures.

⁷ The works of Ronald Coase and Richard Posner are often cited as the foundation of the argument that the common law is efficient. For a concise statement about the history of the common law visit www.friendsoffreedom.com/Writings/CommonLaw.html. On the efficiency of the common law and related issues, see the discussion in David Friedman's book, *Law's Order: What Economics Has To Do with Law and Why It Matters* at www.daviddfriedman.com/Laws_Order_draft/laws_order_ch_19.htm. For a capsule summary of the inherent conflicts in trying to *ex ante* assign a judgment about the freedom features of common law, see the opening statement by Michael Krauss in "Tort Law, Moral Accountability, and Efficiency: Reflections on the Current Crisis" at www.acton.org/publicat/m_and_m/1999_spr/krauss.html.

⁸ As we noted earlier, our empirical approach of using migration to assess freedom can be applied to this problem to venture whether damage-award limitations lead to in- or out-migration across states. This project is underway, but incomplete, at this time.

⁹ It turns out, as we discuss below, that this distinction or characterization of tort reform as more or less freedom, while important in its own right, is not very important in the construction of our index. We use a weighting process to construct the final index, and the judicial sector receives little weight. This owes primarily to the fact that the judicial sector does not vary much across states, at least not as much relative to the other sectors. Accordingly, our judgment here on whether tort reform enhances or reduces economic freedom has almost no impact on the empirical results. As far as the basic empirical work of this project goes, it matters hardly at all.

¹⁰ For an interesting aside on Smith as a regulator, see Gary M. Anderson, William F. Shughart II, and Robert D. Tollison, "Adam Smith in the Customhouse," *Journal of Political Economy*, 93/4 (August, 1985): 740-59.

¹¹ *The Wisdom of Henry Hazlitt*, originally published by the Foundation for Economic Education, 1993, Irvington-on-Hudson, New York. Chapter 35 appeared originally in the June 1956 issue of *The Freeman*.

¹² As Friedman might say, "inefficiency compared to what?" Externalities only arise when rights are poorly defined. Sometimes it is cheaper to bear the inefficient outcome of poorly defined rights than it is to define and enforce the rights. Hence, in some cases, what appears inefficient might be "net efficient."

2. METHODOLOGY AND VARIABLES

Our goal was to measure economic freedom across the U.S. states. We collected and ranked nearly 150 indicators from five sectors for each state. Indicator data are the actual observations on specific laws or freedoms. These data are generally of two types.

First, we might have a continuous indicator that is either ordinal or cardinal. Minimum-wage laws are an example of a continuous cardinal variable. The higher the minimum wage, the greater the infringement on the right to contract and the less economic freedom. Second, we might have a discrete indicator. The existence of a law requiring individuals to attend public school would be a zero-one indicator, where states with a law requiring public education would be coded with a one—less freedom.

Some states might have licensing restrictions on some trades or services, say barbers. Here the indicator variable is either off or on, 0 or 1. In this example, the indicator 1 would denote regulation of barbers and imply a restriction on the right to contract and less economic freedom for individuals in that state. There is unavoidable redundancy in some indicators, but this is only an issue to a limited extent.

Multiple indicators, just like mean, variance, skewness, and kurtosis in statistics, pick out minor nuances of data and act to stress the little things that are different. In the end, we do not think that redundancy creates a problem for our measurement. Indeed, since we are using these indicators to ordinally rank the states, it is not an issue at all. Appendix A lists the indicators by sector.

Once the indicator data were collected and put into sectors, they were ranked and assigned a score. The state with the freest indicator was assigned the rank of 1 (the most freedom). The state with the least-free indicator was ranked 50. When there were ties, we took the average ranking. Some indicators are either on or off, such as regulation of barbers. When there was a clean yes or no, we assigned a score of 50 for regulated and a score of 1 for unregulated. In some cases, in some states, a geographic portion of the state might be regulated and the rest unregulated. Here we assigned partial scores of 25 when there was a difference within a state.

Once the indicator data were collected and put into sectors, they were ranked and assigned a score. The state with the freest indicator was assigned the rank of 1 (the most freedom). The state with the least-free indicator was ranked 50.

In other cases, there might be a license required in one state, a certificate in another, and no regulations in a third case. Here we assigned a score of 50 for the licensed states, 25 for the certificate states, and a 1 for the unregulated states. There are a few cases where we used rankings created by others. An example would be “strictness of gun laws.” Here we took a ranking of the relevant index.

Once all the indicators were grouped into sectors, ranked, and averaged for each state, subjective and objective sector-weighting methods were applied to build 48 unique indexes with a separate score for each state. These 48 indexes competed with each other to explain net population migration rates across states. The explanatory capacity of each index was tested using regression analysis. New data up to 2003, when available, were used.

These 48 indexes competed with each other to explain net population migration rates across states.

Several new indicators were added, such as tax exemptions, regulations on gun control, and legislation about environmental health. In addition, we compared both the raw data and constructed scores over time to see the changes that have taken place.

This report also includes theoretical explanations for the choice of certain indicators. Relevant literature on the fiscal, regulatory, judicial, government-size, and welfare-spending sectors are revisited to

provide multiple perspectives for investigating economic freedom. A new regression model was also used to analyze the effect of economic freedom on the economy.

Other Indexes Measuring Economic Freedom

The Heritage Foundation in Washington, D.C., and the *Wall Street Journal* have co-published an annual report since 1995 titled *Index of Economic Freedom*. The index measures how well 155 countries score on a list of 50 variables divided into 10 categories: trade policy; fiscal burden of government; government intervention in the economy; monetary policy; capital flows and foreign investment; banking and finance; wages and prices; property rights; regulation; and black-market activity. The evidence shows that economically free countries tend to have higher per-capita income.

The Fraser Institute in Vancouver and the Cato Institute in Washington, D.C., have co-published an annual report since 1996 titled *Economic Freedom of the World*. It is an effort to objectively measure economic freedom around the world. This report looks at 123 nations, and

examines 38 variables designed to identify the compatibility of institutional arrangements and policies with economic freedom in five areas: size of government; legal structure and protection of property rights; access to sound money; international exchange; and regulation. The index correlates positively with income, economic growth, the United Nations Human Development Index, and longevity. It correlates negatively with corruption and poverty.

The main factor that both indexes take into account is the institutional environment of a country regarding market openness and government intervention in economic activities. Of course, the variation across nations is much greater than the variation across U.S. states. The U.S. Constitution provides the fundamental framework for social and economic activities in this country, but it also leaves room for states to decide many issues, which constitutes the basis of our comparison.

The Fraser Institute and the National Center for Policy Analysis (NCPA) in Dallas have co-published an annual report since 2002 titled *Economic Freedom of North America*.¹ It measures economic freedom in the Canadian provinces and the U.S. states. There are two primary differences between the Fraser/NCPA report and our work.

First, the Fraser/NCPA index is based on only 10 variables in three areas: size of government; takings and discriminatory taxation; and labor-market freedom. The smaller number of variables might not fully capture the subtlety of government interventions.

Second, the Fraser/NCPA index is constructed such that each area is weighted equally, and each variable within each area is weighted equally. In contrast, we chose to give greater weight to sectors that had more useful information. By giving greater weight to sectors with more variability across states, finer distinctions in economic freedom can be clearly drawn since states differ most in those sectors.

The main factor that both indexes take into account is the institutional environment of a country regarding market openness and government intervention in economic activities.

Indicator Variables and Literature Review

This report selects variables from five sectors to measure economic freedom: fiscal, regulatory, judicial, government size, and welfare spending. This section discusses theories about these sectors, which provide interesting implications for our analysis and justify our choice of certain indicators and their interpretations.

Fiscal Sector

Taxation is a government infringement on free markets. Generally, taxes are confiscated by governments to finance public goods, redistribute income, and correct inefficient prices owing to poorly defined property rights. Whatever the purpose of taxation, it distorts markets by changing the relative prices of goods and services and creates deadweight losses to social welfare. Taxes distort not only people's current choices, but also their future choices.

Additionally, legal and illegal tax avoidance activities consume resources.

Taxes, therefore, have tremendous direct and indirect effects on the free use of individual wealth. We collected data on the most recent revenues and rates of taxation on individual income, sales, excise, property, corporate income, and licenses at the state and local level.

Taxes, therefore, have tremendous direct and indirect effects on the free use of individual wealth.

We maintain that the higher the tax rates and revenues, the more the government is violating economic freedom.

Charles Tiebout (1956) built an economic theory of local government expenditure by arguing that people vote with their feet and move to places with the right combination of taxes, freedom, and public-versus-private choices. The key assumption underpinning this conclusion is the mobility of people, which

reveals their underlying preference for public goods and private decisionmaking.

This conclusion implies that local government revenues and expenditures might not create as much market distortion as those at the federal or state level. A larger share of local government revenue and expenditure relative to the state levels implies a smaller market distortion and higher degree of economic freedom in the sense that consumer preference can prevail through migration.

Based on this logic, we chose the ratio of local expenditure (revenue) to state expenditure (revenue) as an indicator. We assume that the higher this ratio, the higher the degree of economic freedom. Appendix A lists the indicator variables chosen to represent economic freedom in each sector.

Regulatory Sector

Regulation represents a government restriction on people's behavior. Governments enact regulations to maintain social order or achieve certain stated purposes, which are usually

touted as promoting the general welfare. This report is not concerned with the purpose of regulations, but the reality that they affect the free allocation of private resources, thus reducing economic freedom. Examples include mandatory regulations on labor, education, and the environment, to name a few. There are also regulations that preserve and extend economic freedom such as right-to-work laws.

George Stigler (1971) made a breakthrough in the economic theory of regulation by providing a framework of supply and demand of regulations. He assumed that “political systems are rationally devised and rationally employed, which is to say that they are appropriate instruments for the fulfillment of desires of members of the society.”

Under this approach, the transactions between self-interested suppliers and demanders determine the regulatory outcome. The political equilibrium in this model is one in which cohesive minorities tax diffuse majorities because such minorities hold decisive information and organizational cost advantages.

Sam Peltzman (1976) extended Stigler’s contribution by modeling the optimum size of effective political coalitions. In this approach, interest groups seek the right to tax the rest of the community, while regulators try to maximize their probability of election. Stigler, Peltzman, and Mancur Olson (1965) have told us that poorly organized majorities are usually weak politically when facing interest groups and regulators. Dispersed majorities bear the tax burdens and welfare losses. No matter how the political equilibrium is optimized in a Stigler/Peltzman/Olson context, the outcome is the depredation of the majorities’ private wealth to satisfy the minorities’ interest. Economic freedom is dampened in a broad sense.

Casey Mulligan and Andrei Shleifer (2003) built a model of the creation of regulations in the presence of fixed organization and enforcement costs. A special case of the model shows that the quantity of regulations grows with the square root of population. This hypothesis is strongly supported by empirical studies of relations between the quantity of regulations and population across the 50 states.

For example, they showed that populous states are early adopters of many regulations such as workers’ compensation, working hours of women, and laws about employment discrimination. The general implication of this study is that regulations have scale economies.

**Regulation represents a
government restriction on
people’s behavior.**

Judicial Sector

Difficulties arise when including judicial indicators in any economic freedom analysis. The judiciary is supposed to maintain freedom by correcting wrongs and torts committed on citizens. But in reality, the judiciary is not always effective and rarely perfect. An inappropriately designed system might encourage frivolous lawsuits and expose individual assets to a higher risk of unreasonable confiscation. The so-called medical-liability crisis is an example.

According to the American Medical Association, the nation's medical-liability system is broken. Escalating jury awards and the high cost of defending lawsuits are driving liability premiums through the roof. In response, physicians are choosing to limit services, retire early, or move to states with reforms. As they see it, this is a crisis and it threatens patient care in states without liability reform.

We urge the reader to review our earlier remarks about tort reform. Access to the court

system is a basic economic freedom. Unbridled economic punishment is not. This is a complex issue.

An inappropriately designed system might encourage frivolous lawsuits and expose individual assets to a higher risk of unreasonable confiscation.

At the same time, access to the courts to redress contract grievances would seem to be a basic economic freedom. Is a courthouse with a wide open door, however, a free place? Clearly, more theoretical guidance is needed here. We include as an indicator variable whether the state is in a health-care crisis to show how adversely the judicial system can affect freedom.

Common provisions of state laws on medical-liability reform such as mandatory minimum liability insurance and damage caps are included. Minimum insurance requirements are a restriction imposed by governments on physicians, which is freedom reducing in our definition, but as one of the liability-reform measures, it benefits physicians and injured parties.

In states with mandatory insurance, physicians who are found negligent generally have less risk that their assets will be depleted, and injured parties are assured payment of damages. Damage caps can be an effective way of stabilizing liability premiums by prohibiting excessive damage awards. It is assumed, therefore, that states with these statutes are freer than those without.

We also include indicators such as tort reform, number of lawyers, compensation for judges and attorneys general, judges' terms, and whether judges are elected or appointed. It is not

easy to interpret these indicators, in part because the judiciary is structured to divorce judicial action from economic incentives. We assume states with tort reform are freer than states without tort reform; and states with fewer lawyers, elected judges, shorter terms, and higher compensation enjoy more economic freedom.

One assumption is confirmed by an economic theory of the behavior of appellate judges developed by Richard Posner (1994). He constructed a model in which the utility of judges is primarily a function of income, leisure, and judicial voting. His model presents judges as ordinary people responding rationally to incentives. He suggested that a higher judicial salary yields more experienced, higher-quality judges.

Robert Barro (1973) modeled politicians under the assumption that public officials act to advance their own interests, and their interests do not coincide automatically with those of constituents. The model demonstrates that politicians tend to provide more public goods than desired by the public. Elections are only partially effective as mechanisms for inducing officeholders to advance the public interest. The extent to which this control is effective depends on political income and some elements of political structure, such as political salary and the frequency of elections. Barro went a step farther to analyze the optimal choice of political salary and frequency of elections.

He showed that the optimal political salary is above the market-clearing level, which corresponds to a lower social deadweight loss. For frequency of elections, he showed that an increase in electoral frequency reduces the deadweight loss from office-seeking activities.

Barro's study provides another perspective to view the connection between the judicial indicators and economic freedom. If a higher salary and shorter term for an elected judge produce less welfare loss, then more private resources could be released and economic freedom enhanced.

Damage caps can be an effective way of stabilizing liability premiums by prohibiting excessive damage awards.

Government-Size Sector

The proper role of government is to define rights and enforce the rule of law. From a broader perspective, government exists because "absolute freedom is not possible," as Friedman put it. As mentioned in chapter 1, we assume that every state has instituted more government than is

required to provide a minimal state to enforce the rule of law. A larger government size, therefore, implies less economic freedom. We include variables such as the number of government units and the number of government employees as indicators of government size.

Alan Meltzer and Scott Richard (1981) used the share of income redistributed by government as their measure of the relative size of government, and they developed a theory in which the size of government is set by rational choices of utility-maximizing individuals who are fully informed about the economy and the consequence of taxation and income redistribution. This model implies that the size of government depends on the relation of mean income to the income of the decisive voter. With universal suffrage and majority rule, the extension of the

The proper role of government is to define rights and enforce the rule of law. From a broader perspective, government exists because “absolute freedom is not possible.”

franchise to the population below the mean income is the primary reason for government expansion. This conclusion has an interesting implication for this report.

In a sense, the extension of franchise to poor people is a symbol of the expansion of political freedom. According to the above hypothesis, the outcome of the extension of franchise is an increase in income redistribution and government size. A larger government implies less economic freedom.

In brief, more political freedom might create larger government and less economic freedom,

leading to less economic growth as Barro found earlier. Political freedom and economic freedom exhibit a complex dynamic.

Welfare-Spending Sector

Welfare programs are intended to improve the living standards of some people by transferring money from one group to another. We include indicators measuring expenditures or payments for Food Stamps, Social Security, Medicare, and other programs.

Note that we are not concerned about the purpose, merit, or wisdom of these programs. Our concern is that they are financed by the involuntary transfer of private assets; therefore, they reduce economic freedom. There is some redundancy here as in other places. Taxation lowers economic freedom, but welfare spending is a metric of the way that taxes are spent, not to produce public goods that everyone can enjoy, but simply to redistribute.

Friedman created a simple classification of spending to explain the main defect of welfare spending. Despite its simplicity, the implication of the reasoning is profound and could be applied to many other policies or programs when we evaluate the welfare effects.

Friedman said when people spend their own money on themselves, they do an excellent job; when they spend their own money on other people, they do a fairly good job; but when they spend other people's money either on themselves or on other people, they do a bad job. Friedman said all welfare programs fall into the last category, and he believes this is the reason they fail. The indicators we chose measure how much money is redistributed through direct transfers, and reflect the degree of lost economic freedom.

Welfare spending is a metric of the way that taxes are spent, not to produce public goods that everyone can enjoy, but simply to redistribute.

About the Data

We collected indicator data for each of the five sectors. From these, sector scores were calculated. These were then used to compute various indexes, which were evaluated and one chosen as best. Details of this process are reported in this section. For the sake of continuity, the indexes are constructed using a similar methodology as the 1999 analysis. Indicator data were collected for each state across 143 variables.

Appendix A lists the indicators by sector. The data is available on a CD-ROM available from Global Economic Software, <http://www.globaleconomicsoftware.com> (see appendix C).

Categorizing and Weighting

As noted above, data were collected and put into five sectors: fiscal, regulatory, judicial, government size, and welfare spending. We chose to use sectors rather than treating every single indicator separately since this method allows us to investigate the influence of different policy areas on economic freedom. Sector scores were created by averaging the indicator ranks (1-50) in each sector for each state.

The final index was built by weighting the five sector scores and adding them together. Regulatory and fiscal sectors included 53 and 51 indicators, respectively, while the remaining three sectors consisted of fewer indicators.

Next, five data sets were created. They differ from each other in that some redundant indicators were dropped and some indicators were grouped into subcategories to create cleaner, more refined data sets. A detailed description of these data sets is in appendix B.

The judgment involved in this process is subjective, but the purpose is to weight sectors and construct indexes in many different ways since there is no absolutely correct method. Sector scores are calculated using each of the five data sets, and weighted using various subjective and objective techniques.

A total of 48 unique indexes were created. The best index was selected based on objective criterion: ability to explain net population migration rates across states.

Summary Details of Redundancy Parsing

We chose to eliminate some nearly duplicate indicators. For example, there is a strong redundancy in tax rates and total taxes. We parsed some obvious duplicate indicators across sectors into a more concise and less duplicative representation of state economic freedom.

We chose to eliminate some nearly duplicate indicators.

Our procedure for eliminating redundancy was empirical and involved a step function. First, we eliminated some redundancy by averaging similar indicators within a group, usually two or three, but sometimes more. Starting from what we call the full

house, data set 1 with 143 indicators, we constructed data set 2 by cutting and averaging some indicators, reducing the number from 143 to 127. The details are reported in appendix B.

Next, we created what turns out to be the best and most appropriate set of indicators, called data set 3, consisting of 47 variables (nearly the same number as in the Heritage Foundation's international index), by engaging in the following steps:

- Occupational-licensing and education-requirement indicators for each profession were averaged into three indicators instead of considered separately.
- Several indicators dealing with sales, excise, license, and corporate and personal income taxes were created that are averages of redundant tax indicators, respectively.
- State debt indicators were averaged.

- The number of indicators in the fiscal sector was thus collapsed from 51 to 13.
- In the regulatory sector, similar averaging approaches were used for purchasing regulations, labor legislation, and public school regulation. Also averaged were indicators concerning environmental laws, seatbelt laws, and other drivers'-license requirements.
- The regulatory sector was compressed from 53 to 15 indicators.
- In the judicial sector, multiple indicators on each of judges' salaries, term lengths, and selection methods were averaged and reduced.
- Tort reform was reduced from 10 to one indicator. Similarly, medical-liability reform was reduced from three to one.
- In total, the judicial sector was compressed to eight indicators.
- In the government-size sector, citizen representation was reduced to one indicator by averaging, and, similarly, with the size of the government workforce. For this sector, three indicators were used.
- No new indicators were constructed for the welfare-spending sector. It was constructed the same as in data set 2, with eight indicators.

Final Index Construction and Selection

Using each data set, we constructed each index using the following process: first, sector scores were computed for each state by adding together the ranks it earned on each indicator variable (1-50) and calculating an average sector score.² Second, the overall index score was created by adding together the weighted sector scores. We used both subjective and objective methods to weight the sector scores. Besides giving arbitrary weights, two statistical methods were used.

The first regressed the net population migration rate on the five sector scores to see their relative significance in explaining population movement. The weight for each sector is the ratio of its coefficient to the sum of all five coefficients. The coefficients for the five sectors were negative, suggesting less freedom (higher scores) in any of the five policy areas is connected with less immigration.

The second statistical method for weighting the sector scores was principal components analysis, a weighting technique used for years in political science. A principal component is a linear combination of the explanatory variables (in our case the sector scores) that captures as much of the variation across states in the scores as possible, subject to a “normalization condition.”

The weights (equal to each variable’s coefficient squared) must add up to one. The weights are chosen to maximize the variance of each respective principal component, capturing as much of the total variation in the explanatory variables (sector scores) as possible. There are as many principal components as there are explanatory variables (a first principal component, a second principal component, etc.).

Each principal component is uncorrelated with the others (mutually orthogonal), and each succeeding principal component accounts for as much of the variation in the explanatory

variables as possible that was unaccounted for by preceding principal components. The variance of the first principal component usually captures the major portion of the total variation of the explanatory variables.³

Principal components analysis extracted from our data the true sources of variation by more heavily weighting those sectors that varied most, that is, those sectors where the states differed most. The analysis gave greater weight to sectors that had more useful information relative to sectors with less useful information. By giving greater weight to sectors with more variability, finer distinctions were clearly drawn since states differ most in those sectors.

The analysis gave greater weight to sectors that had more useful information relative to sectors with less useful information. By giving greater weight to sectors with more variability, finer distinctions were clearly drawn since states differ most in those sectors.

The complete list of state rankings across all 48 indexes is available on a CD-ROM from Global Economic Software, <http://www.globaleconomicsoftware.com> (see appendix C). Armed with these many differently weighted indexes using different data sets, we chose as the best metric of economic freedom the index with the greatest statistical link to net population migration rates. This index was Index40, constructed by weighting data set 3 using first principal components weights.⁴

Not surprisingly, the net migration rate (people per 1,000) for the 20 freest states was +19, while it was -16 for the 20 least-free states. The sector-score weights used to compute the final index of economic freedom were:

$$\text{Index} = (.3486 \times \text{Fiscal Score}) + (.3422 \times \text{Regulatory Score}) - (.1260 \times \text{Judicial Score}) + (.0627 \times \text{Government-Size Score}) + (.3730 \times \text{Welfare-Spending Score})$$

These weights are themselves revealing and reflect our earlier remarks about problems associated with defining and measuring economic freedom. Note that the fiscal, regulatory, and welfare sectors are all nearly equally weighted. The government-size sector carries less weight and the judicial sector is negative.

These weights, in the context of principal components analysis, suggest that the judicial sector does not have much independent cross-state variation that is meaningful or useful relative to the other sectors. This could reflect the difficulties of defining economic freedom in a judicial framework.

Not surprisingly, the net migration rate (people per 1,000) for the 20 freest states was +19, while it was -16 for the 20 least-free states.

Endnotes

¹ The report was authored by Amela Karabegovic, Fred McMahon, and Dexter Samida, with Glenn Mitchell (<http://www.freetheworld.com/efna.html>).

² As another exercise, we ranked each state by sector. This technique paints a picture, within each sector, of the relative economic freedom in each state. These rankings are discussed in chapter 3.

³ For a more technical explanation, see G. S. Maddala, *Econometrics* (New York: McGraw-Hill, 1977): pp. 193-94.

⁴ Interestingly, this is the same weighting method that was best in the 1999 analysis. The regression results are available from the authors.

3. THE RESULTS

Table 2 (below) reports each state's unweighted sector scores and rankings.

State	Fiscal		Regulatory		Judicial		Government Size		Welfare Spending	
	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank
Alabama	17.11	1	28.13	30	17.96	6	34.17	46	27.63	31
Alaska	21.21	9	26.15	17	33.42	42	34.83	47	36.25	47
Arizona	20.80	5	28.09	28	28.07	26	17.00	6	20.13	13
Arkansas	21.90	10	26.81	19	29.23	29	26.83	26	27.75	32
California	34.56	48	35.76	50	15.70	3	24.50	21	40.13	48
Colorado	22.24	12	19.62	2	23.80	19	19.83	10	16.38	7
Connecticut	37.46	50	35.65	49	34.86	47	15.67	3	35.88	46
Delaware	26.26	34	20.07	3	34.83	46	17.17	7	22.00	17
Florida	22.94	20	30.89	41	21.60	12	22.33	15	21.13	15
Georgia	20.82	6	30.11	39	13.92	2	18.00	8	19.13	9
Hawaii	25.46	31	29.48	35	31.77	36	27.50	30	30.25	37
Idaho	23.17	22	25.39	14	22.54	16	24.67	23	9.25	1
Illinois	29.16	39	34.49	48	15.94	4	20.00	11	31.00	39
Indiana	22.07	11	29.70	36	31.80	37	21.50	13	20.13	14
Iowa	24.70	29	26.48	18	27.96	25	31.50	41	19.63	11
Kansas	22.29	13	21.28	4	21.75	13	24.50	22	11.63	2
Kentucky	24.33	27	31.91	44	30.61	33	26.67	25	32.00	44
Louisiana	23.56	23	30.51	40	25.78	20	28.50	35	32.13	45
Maine	29.97	41	27.87	27	32.64	39	27.83	31	25.00	22
Maryland	28.37	37	27.83	26	26.68	22	16.50	4	25.38	25
Massachusetts	30.53	43	27.80	25	29.45	30	16.67	5	32.00	43
Michigan	28.55	38	25.02	10	12.00	1	27.50	29	24.63	21
Minnesota	33.80	46	27.72	24	19.90	10	27.17	27	28.63	33
Mississippi	22.40	15	25.32	13	22.46	15	33.33	43	29.00	34
Missouri	18.18	2	26.95	21	30.15	32	23.17	20	23.13	19
Montana	24.27	26	25.18	12	30.85	34	34.00	45	25.00	24
Nebraska	24.47	28	23.97	6	30.96	35	33.33	44	25.00	23
Nevada	22.76	18	25.05	11	18.97	7	10.67	2	19.63	10
New Hampshire	23.70	24	26.85	20	40.21	50	7.33	1	19.75	12
New Jersey	35.04	49	28.80	33	27.61	23	22.33	16	27.38	29
New Mexico	25.01	30	34.20	47	33.33	41	35.50	48	26.63	28
New York	33.91	47	30.99	42	19.50	8	37.33	50	46.13	50
North Carolina	23.15	21	27.43	22	23.73	18	22.83	18	26.00	26
North Dakota	22.70	17	19.14	1	28.93	28	37.17	49	29.13	35
Ohio	25.79	33	31.93	45	19.61	9	25.33	24	31.88	42

Table 2: Sector Scores and Rankings, 2004

State	Fiscal		Regulatory		Judicial		Government Size		Welfare Spending	
	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank
Oklahoma	22.83	19	24.30	8	30.08	31	28.17	34	14.25	5
Oregon	25.71	32	33.40	46	27.68	24	29.50	36	21.75	16
Pennsylvania	30.18	42	31.68	43	21.24	11	27.33	28	30.00	36
Rhode Island	31.56	44	28.63	31	34.22	45	22.33	17	41.13	49
South Carolina	19.46	4	22.64	5	34.10	43	31.50	42	27.38	30
South Dakota	21.11	7	28.11	29	32.44	38	21.17	12	24.50	20
Tennessee	18.56	3	29.84	37	25.78	21	21.83	14	30.50	38
Texas	22.32	14	29.96	38	22.28	14	23.17	19	18.38	8
Utah	22.56	16	24.73	9	35.13	48	29.83	38	15.00	6
Vermont	29.87	40	24.22	7	34.16	44	29.67	37	31.63	41
Virginia	21.12	8	25.47	15	28.13	27	18.50	9	13.88	4
Washington	27.66	36	25.70	16	22.90	17	31.00	40	26.25	27
West Virginia	24.02	25	28.97	34	33.13	40	30.83	39	31.38	40
Wisconsin	32.23	45	27.50	23	16.28	5	28.17	33	22.50	18
Wyoming	27.36	35	28.72	32	39.30	49	28.00	32	13.63	3

Note: The sector scores use data set 3.

The table reveals that states are not homogeneous within their own borders with respect to economic freedom. For example, Alabama ranks first in terms of fiscal-sector freedom, but near the bottom on government size, 46. Californians do not have much fiscal-sector freedom, 48, but they do better in government size, 21.

States are not homogeneous within their own borders with respect to economic freedom.

Keeping in mind the weights used for the overall index, these results suggest that Alabama is better positioned than California in terms of economic freedom. This will probably not come as a shock to most readers. Sector scores warrant

additional scrutiny later. First, we turn to the overall U.S. economic freedom scores and rankings as detailed in table 3 (below).

Idaho, which was at the top of the 1999 list, remains high at 4. Kansas has now assumed the lofty spot as the nation's most economically free state—it was 10 in 1999—followed closely by Colorado and Virginia. Rhode Island, Connecticut, California, and New York bring up the rear.

Turning to the states that made the biggest advances in relative economic freedom from 1999 to 2004, we found that Arizona advanced 14 places, and Colorado, Maine, Oklahoma, and

Table 3: U.S. Economic Freedom Index, 2004

Rank	State	Score	1999 Rank
1	Kansas	18.18	10
2	Colorado	18.81	14
3	Virginia	18.86	2
4	Idaho	19.02	1
5	Utah	19.35	3
6	Oklahoma	19.56	18
7	New Hampshire	20.19	6
8	Delaware	20.90	7
9	Wyoming	21.24	4
10	Missouri	21.82	13
11	Arizona	21.89	25
12	Nevada	22.10	20
13	South Carolina	22.41	16
14	Indiana	22.69	22
15	South Dakota	23.34	5
16	Iowa	23.43	24
17	Texas	23.52	8
18	North Dakota	24.00	21
19	Georgia	24.06	12
20	Nebraska	24.23	23
21	Montana	24.63	26
22	Florida	25.12	30
23	Arkansas	25.14	15
24	North Carolina	25.58	17
25	Alabama	25.87	11
26	Tennessee	26.16	19
27	Maryland	26.54	35
28	Mississippi	26.54	9
29	Oregon	26.86	41
30	Maine	26.93	42
31	Washington	27.28	40
32	West Virginia	27.73	32
33	Alaska	27.82	38
34	Michigan	27.90	27
35	Hawaii	27.95	39

Rank	State	Score	1999 Rank
36	Vermont	28.04	34
37	New Mexico	28.37	28
38	Wisconsin	28.75	37
39	Kentucky	29.13	29
40	Louisiana	29.16	31
41	Massachusetts	29.41	47
42	New Jersey	30.19	48
43	Ohio	30.91	33
44	Minnesota	31.13	43
45	Pennsylvania	31.58	45
46	Illinois	32.77	36
47	Rhode Island	33.21	49
48	Connecticut	35.21	46
49	California	38.79	44
50	New York	39.50	50

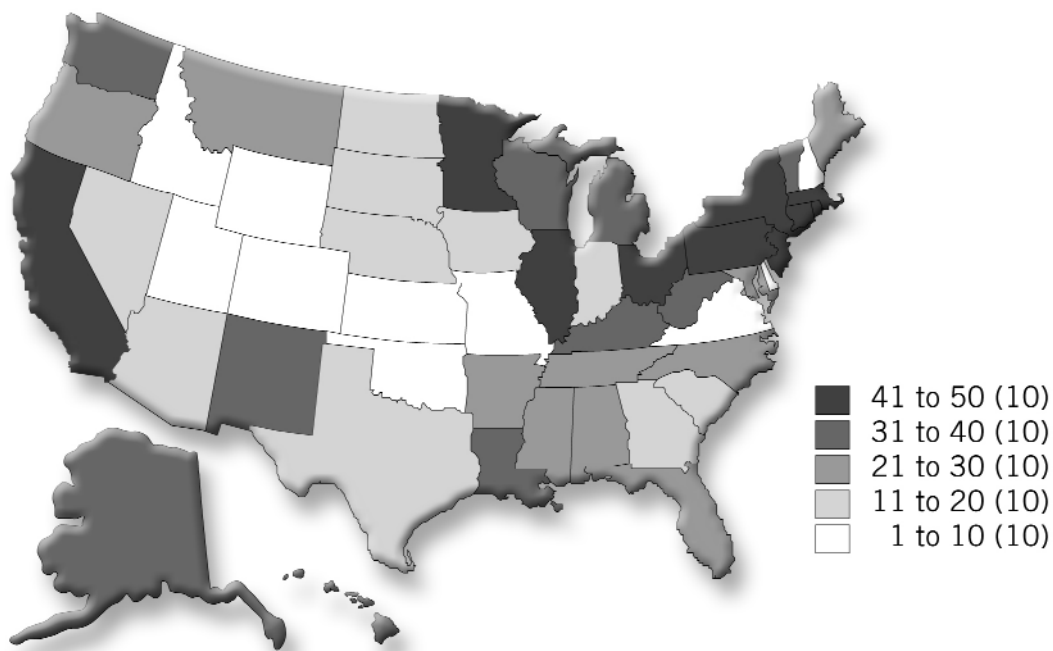
Note: This is Index40, the principal components index using data set 3.

Oregon each jumped 12 places. In contrast, Mississippi fell 19 spots, Alabama 14, and Illinois, Kentucky, Ohio, and South Dakota each sank 10 spots. Note that three of the biggest decliners were in the South.

Three of the biggest decliners were in the South.

Figure 2 (below) plots economic freedom from coast to coast, and a distinct pattern emerges. The Great Plains and Rocky Mountain states, shaded the lightest, have the most economic freedom. New Hampshire persists in defying the pattern in the Northeast. Maybe there is something to their motto “Live Free or Die.” Virginia stands as a citadel of economic freedom in the South. The darkest regions, reflecting the least amount of economic freedom, are the Northeast and Midwest, excluding Indiana, and California.

Figure 2: U.S. Distribution of Economic Freedom, 2004



Policy Changes from Late-1990s to 2004

To help explain some state rankings over time, this section looks at some policy changes enacted from the late-1990s to 2004. As the economy expanded during the late 1990s, tax revenues flooded state coffers, and government spending skyrocketed.

According to the *Wall Street Journal* (3 June 2002), state spending grew at more than twice the rate of inflation on an annual basis over the past decade. In 2003, personal income tax rates and capital gains tax rates were reduced at the federal level, but changes in the states have been generally in the opposite direction. The National Conference of State Legislatures (NCSL) recently reported that states hiked taxes in 2003 by at least \$6.9 billion. Examples of recent tax-policy changes reflected in our data (in constant dollars) include the following:¹

As the economy expanded during the late 1990s, tax revenues flooded state coffers, and government spending skyrocketed.

- New York increased an assortment of taxes in 2003 including personal income, capital gains, and sales tax rates. New York stayed at the bottom of the barrel, ranked 50 in 1999 and in 2004.
- NCSL reported that 15 states increased tobacco excise taxes in 2003. The excise tax rate per pack of cigarettes in Pennsylvania and Wyoming soared by three and five times, respectively, from 1998 to 2003. Pennsylvania was ranked 45 in both years; Wyoming fell five places. Wyoming's per-capita general sales and gross receipts tax revenue grew from \$641 in 1996 to \$907 in 2002.
- NCSL reported that six states hiked motor-fuel levies in 2003. In 2002, Pennsylvania experienced the largest increase in fuel taxes. Its per capita state government motor fuel sales tax revenue rose from \$70 in 1996 to \$144 in 2002; the excise gasoline tax rate rose from 13 cents per gallon in 1996 to 25.9 cents in 2002; and excise diesel taxes rose from 12 cents to 30.8 cents per gallon.
- Idaho increased its license taxes. The per capita Idaho government motor vehicle and operator license tax revenue soared from \$5.97 in 1996 to \$88.30 in 2002. Total per-capita license taxes increased from \$90 in 1996 to \$167 in 2002. Idaho went from first place in 1999 to fourth place in 2004.

Changes in Economic Freedom, 1999-2004

To discern changes in the rankings of individual indicators, we calculated the square of the difference between a state's previous ranking and its current ranking for each indicator, and summed over all 50 states. This sum is an approximate measure of overall variation in ranking pattern for an indicator. We then repeated this procedure for each quantitative indicator, and then compared the sums to find which indicator had the most variation in rankings across the states from 1999 to 2004.²

Motor-fuel sales tax revenue, diesel and cigarette excise tax rates, death and gift tax revenue, severance tax revenue, and most of the welfare indicators had the most variation in rankings from 1999 to 2004.

Next, we looked at the variation in sector-score rankings of states to see which states experienced the most changes in each policy area over time:

- In the fiscal sector, the rankings of 23 states went up, and 22 states went down. The most remarkable examples are Arizona, up from 35 to 5, and Wyoming, down from 12 to 35.
- In the regulatory sector, the rankings of 21 states went up, and 25 states went down. Washington rises from 46 to 16, and South Dakota goes down from 2 to 29.
- In the judicial sector, 24 states raised their rankings, and 23 states lowered their rankings. Wisconsin goes up from 48 to 5, and New Mexico goes down from 9 to 41.
- In the government-size sector, 24 states increased their rankings, and 17 states lowered their rankings. Generally, the ranking variation is mild in this sector. The most notable change is Wyoming, descending from 12 to 32.
- In the welfare-spending sector, 25 states went up, and 20 states went down. Florida is up from 38 to 15, and Nebraska is down from 3 to 23.

Motor-fuel sales tax revenue, diesel and cigarette excise tax rates, death and gift tax revenue, severance tax revenue, and most of the welfare indicators had the most variation in rankings from 1999 to 2004.

Table 4 summarizes the changes in sector-score rankings over time.

Table 4: Sector-Score Changes, 1999-2004			
	States Up	States Down	Salient Examples
Fiscal Sector	23	22	Arizona (35 to 5), Wyoming (12 to 35)
Regulatory Sector	21	25	Washington (46 to 16), South Dakota (2 to 29)
Judicial Sector	24	23	Wisconsin (48 to 5), New Mexico (9 to 41)
Government-Size Sector	24	17	California (35 to 21), Wyoming (12 to 32)
Welfare-Spending Sector	25	20	Florida (38 to 15), Nebraska (3 to 23)

	Fiscal	Regulatory	Welfare
New York	47	42	50
Massachusetts	43	25	43
Rhode Island	44	31	49
Connecticut	50	49	46
New Jersey	49	33	29
Pennsylvania	42	43	36

Finally, we compared the sector scores in table 2 vertically to discern regional patterns within sectors. Generally, the Northeast suffers the most infringement of economic freedom. This pattern is especially evident in the fiscal, regulatory, and welfare-spending sectors. Table 5 (above) shows sector rankings for six states in the Northeast.

Another notable state is California, which ranks 48 in the fiscal sector, 50 in the regulatory sector, and 48 in the welfare sector. These rankings definitely make California stand out next to its neighbors. What is a common characteristic of all seven states? The most striking feature shared by them is that they are the most densely populated areas in the country. Although this is a rough comparison, the general pattern is clear: the most populated areas have the most restrictions on economic freedom. This meshes with the theory of Mulligan and Shleifer (2003) about the positive relation between population and regulation, and Stigler/Peltzman/Olson on the costs of interest-group formation, as discussed earlier in chapter 2.

Endnotes

¹ The data come from Raymond J. Keating, *Small Business Survival Index 2003: Ranking the Policy Environment for Entrepreneurship across the Nation* (Washington, D.C.: Small Business Survival Committee, 2003).

² It is worth noting that a direct comparison of index scores between 1999 and 2004 is inappropriate on at least two grounds. First, slightly different indicator data were used in the two periods. Second, somewhat different weights were applied to the sector scores when deriving the final index. Accordingly, it is most useful to think of our index as an ordinal ranking, rather than a cardinal score. In other words, our index does not easily and directly allow one to speak on the overall level of economic freedom across time, only the relative level of freedom at a point in time. We believe, and economic studies on taxation support our view, that the important feature is the relative ranking of the states and the way people react to these varying degrees of relative economic freedom. More will be said on this point in chapter 4.

4. THE RELATION BETWEEN ECONOMIC FREEDOM AND INCOME

An important test of any index is showing relevance and usefulness. An index is valid, in a statistical sense, if it helps to explain the past or predict the future. We encourage social scientists to incorporate the *U.S. Economic Freedom Index* into future research. The potential applications of the index are limitless. Only through rigorous analysis over many years will economists, political scientists, and others discover how, and to what extent, economic freedom affects economic and political activities in the United States.

In this chapter, we present statistical evidence of the impact of economic freedom on annual income per capita across the U.S. states. We encourage future work on this and other topics.

An index is valid, in a statistical sense, if it helps to explain the past or predict the future.

State Annual Income Per Capita

Regression analysis provides a theoretical, statistical framework to explore the relation between economic freedom and state annual income per capita. Intuitively, we expect economic freedom to be positively linked, on average, to annual income per capita. Economic freedom expands the opportunities for individuals to use their knowledge and resources to their best advantage and to keep the fruits of their labor for personal consumption and future productive investment.

We constructed an economic model that explains the level of state annual income per capita in 2000 as a function of the following state-level variables: education level (a proxy for human capital as measured by the proportion of the population with a high school education or more); average temperature (a proxy for the work/leisure tradeoff); population density (a proxy for the size of the market and level of transaction costs as measured by the number of residents per square mile); stock of wealth (endowments as measured by annual income per capita in 1990, see North 1990); average age of the population (a proxy for the earnings life-cycle); church membership rate (a proxy for the work ethic); and the institutional environment as measured by the state's economic freedom score. Table 6 reports the results.

Table 6: Regression of State Annual Income Per Capita on Economic Freedom	
Variable (expected sign)	Coefficient/(t-ratio)
Intercept	3.93 ** (4.78)
Education Level (+)	0.049 (0.32)
Average Temperature (-)	-0.186 ** (-4.31)
Population Density (+)	0.019 ** (3.78)
Wealth (+)	0.83 ** (19.09)
Average Age (?)	-0.35 ** (-3.70)
Church Membership Rate (+)	0.043 ** (3.27)
Economic Freedom (-)	-0.062 * (-2.01)
Observations	50
F Statistic	142.06 **
Adjusted R-Squared	0.953

Notes: All variables are in their natural logarithms.

*Statistically significant at the 5-percent level or greater.

**Statistically significant at the 1-percent level or greater.

We expect economic freedom to be positively linked, on average, to annual income per capita.

The regression results in table 6 are robust across specifications: using logs or levels, using various measures of wealth and educational achievement, deleting church membership rate, and the like. We report the log specification, as it seems to fit the data best.

The statistically significant coefficient on economic freedom shows that a lower economic freedom score

(more freedom) is associated with higher income per capita across the U.S. states. The results are virtually identical if economic freedom ranks are substituted for economic freedom scores. The statistical analysis shows 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.

In addition, income is positively linked with cooler climates, higher population densities, younger populations, and higher church membership.

Endowments matter, too. Income in 1990, a proxy for wealth, is strongly associated with income in 2000.

**A 10-percent improvement
in a state's economic
freedom score yields, on
average, about a half-
percent increase in
annual income per capita.**

The Value of Economic Freedom

How much is economic freedom worth in dollar terms? To answer this question, we reestimated the income model using the rank of each state, rather than its economic freedom score. Through simulations, we moved each state up to the top of the list—we artificially made each state the freest. Then we computed the impact on annual income per capita and compared it to the actual value in 2000. The difference is an estimate of the economic harm caused to individuals in each state from limiting economic freedom relative to the freest state, or, conversely, the value of more economic freedom.

We then divided each difference by the actual income level to calculate a state "oppression tax," which measures the percentage decrease in income per capita due to the deterioration in the state's overall incentive system caused by its institutions—as measured by its economic freedom ranking. Table 7 reports the results of this simulation.

Table 7: The Effect on Annual Income Per Capita of Becoming the Freest State and the Oppression Tax

Rank	State	Annual Income Hike (\$)	Oppression Tax (%)
1	Kansas	—	—
2	Colorado	245	0.81
3	Virginia	75	0.25
4	Idaho	1,185	5.35
5	Utah	556	2.52
6	Oklahoma	1,062	4.69
7	New Hampshire	35	0.11
8	Delaware	1,150	3.92
9	Wyoming	706	2.68
10	Missouri	1,433	5.60
11	Arizona	633	2.72
12	Nevada	2,001	7.34
13	South Carolina	1,292	5.75
14	Indiana	1,482	5.90
15	South Dakota	896	3.73
16	Iowa	1,285	5.16
17	Texas	261	1.00
18	North Dakota	1,432	6.14
19	Georgia	942	3.63
20	Nebraska	920	3.53
21	Montana	1,172	5.45
22	Florida	1,226	4.71
23	Arkansas	702	3.36
24	North Carolina	376	1.50
25	Alabama	798	3.58
26	Tennessee	276	1.13
27	Maryland	1,823	5.71
28	Mississippi	787	3.98
29	Oregon	1,080	4.22
30	Maine	1,833	7.61
31	Washington	62	0.22
32	West Virginia	697	3.36
33	Alaska	2,025	7.15
34	Michigan	1,899	7.04
35	Hawaii	2,963	11.36

Table 7: The Effect on Annual Income Per Capita of Becoming the Freest State and the Oppression Tax

Rank	State	Annual Income Hike (\$)	Oppression Tax (%)
36	Vermont	1,538	6.02
37	New Mexico	1,095	5.18
38	Wisconsin	1,601	6.06
39	Kentucky	618	2.70
40	Louisiana	750	3.41
41	Massachusetts	1,637	4.62
42	New Jersey	2,392	6.87
43	Ohio	1,457	5.58
44	Minnesota	915	3.06
45	Pennsylvania	988	3.53
46	Illinois	2,188	7.32
47	Rhode Island	3,607	13.17
48	Connecticut	336	0.88
49	California	1,180	3.95
50	New York	2,441	7.45

Note: This simulation model yields a coefficient on the economic freedom rank of -0.01307 with a t-ratio of -2.23, statistically significant at the 5-percent level. The other coefficients perform in much the same way as in table 6.

The results show that economic freedom impacts income levels, but not in a uniform or linear fashion. Relative to the freest state, Rhode Island residents suffered the largest reduction in annual income per capita due to their loss of economic freedom, \$3,607, followed by Hawaii at \$2,963, and New York and New Jersey at around \$2,400 each. The national average was \$1,161. This might not sound like much, but over a 40-year working life at a conservative 3-percent interest rate, this translates into \$87,541 that would have otherwise gone into the pocket of an average working American.

Rhode Island also had the highest effective “oppression tax,” 13.17 percent, followed by Hawaii at 11.36 percent, Maine at 7.61 percent, and New York at 7.45 percent. The national average was 4.42 percent of income. State institutions have a substantial impact on income levels across the U.S. states. Economic freedom matters significantly.

State institutions have a substantial impact on income levels across the U.S. states. Economic freedom matters significantly.

5. STATE PROFILES

Chapter 5 presents, in almanac style, a number of important features of each state's economy, and summarizes the index results for each state, showing the overall 2004 score and rank, and the 1999 rank. For the sector scores, we devised a star system that divided the states into groups of 10. The freest 10 states in each sector received five stars for that sector. The second-freest 10 states received four stars and so on until the least-free 10 states received one star for that sector. This star system provides a quick method of comparing states within each sector.

ALABAMA

Alabama is located in the East South Central region of the Southern United States. It occupies 52,237 square miles, making it the 30th-largest state in the nation.

POPULATION

As of 2002, Alabama had 4.49 million people, 1.56 percent of the total U.S. population. From 1990 to 2000, the population grew by 10.1 percent. Seventy percent of Alabamans reside in metropolitan areas. The net domestic migration during 1995 to 2000 was 25,823 persons. There are approximately 87.6 persons per square mile. Alabama ranks 26th in the nation in population density.

2004 Rank	25
Score	25.87
1999 Rank	11 ↓
Fiscal	☆☆☆☆☆
Regulatory	☆☆☆
Judicial	☆☆☆☆☆
Government Size	☆
Welfare	☆☆

PERSONAL INCOME PER CAPITA

The personal income per capita in Alabama was \$25,128 in 2002. Alabama's personal income per capita is the 43rd highest in the nation and is 18.79 percent below the national average. Between 1996 and 2002, personal income per capita in Alabama increased by 24.62 percent.

GROSS STATE PRODUCT

As of 2001, Alabama had a gross state product of \$121.49 billion. This gross state product is 1.2 percent of the national total of \$10.14 trillion. Alabama has the 25th-largest gross state product of all the 50 states. The change in gross state product between 1995 and 2001 was 15.94 percent.

PUBLIC EMPLOYMENT

As of March 2001, there were 268,400 full-time government employed workers. That year, public employees were paid approximately \$714.4 million in salaries and wages. There are approximately 601 public employees for every 10,000 Alabama residents.

EMPLOYMENT IN MAJOR BUSINESS SECTORS

In 2001, there were 99,261 private-sector firms operating in Alabama. These firms employed a total of 1,620,952 workers and that year paid out \$45.16 billion in salaries and wages. Number of firms, number of employees, and annual payroll among the major sectors were reported as the following:

	Number of Firms	Number of Employees	Annual Payroll (Thousands)
Forestry, Fishing, Hunting, and Agricultural Support	1,086	8,210	\$207,083
Mining	261	7,353	\$337,638
Construction	9,258	102,471	\$2,923,758
Manufacturing	5,200	312,352	\$10,201,766
Transportation and Warehousing	3,101	47,494	\$1,457,563
Wholesale Trade	5,984	79,873	\$2,865,813
Finance and Insurance	5,913	72,319	\$2,994,653
Other Services	11,439	84,345	\$1,443,709

UNEMPLOYMENT RATE

In 2003, 5.65 percent of the civilian labor force was unemployed. This figure is 5.02 percent greater than the national average of 5.38 percent. Alabama has the 21st-highest unemployment rate in the United States.

ALASKA

Alaska is located in the Pacific region of the Western United States. It occupies 615,230 square miles, making it the largest state in the nation.

POPULATION

As of 2002, Alaska had 0.64 million people, representing 0.22 percent of the total U.S. population. From 1990 to 2000, the population grew 14 percent.

Forty-two percent of the population resides in metropolitan areas. The net domestic migration during 1995 to 2000 was -30,498 persons. There are approximately 1.1 people per square mile. Alaska ranks last in population density.

2004 Rank	33
Score	27.82
1999 Rank	38 ↑
Fiscal	☆☆☆☆☆
Regulatory	☆☆☆☆
Judicial	☆
Government Size	☆
Welfare	☆

PERSONAL INCOME PER CAPITA

The personal income per capita in Alaska was \$32,151. Alaska's personal income per capita is the 14th highest in the nation and is 3.91 percent above the national average. Between 1996 and 2002, personal income per capita in Alaska increased by 22.74 percent.

GROSS STATE PRODUCT

As of 2001, Alaska had a gross state product of \$28.58 billion. This gross state product is 0.28 percent of the national total. Alaska has the 45th-largest gross state product of all the 50 states. The percentage change in gross state product between 1995 and 2001 was -7.08.

PUBLIC EMPLOYMENT

As of March 2001, there were 49,553 full-time government employed workers. That year, public employees were paid approximately \$186.25 million in salaries and wages. There are approximately 780 public employees for every 10,000 Alaska residents.

EMPLOYMENT IN MAJOR BUSINESS SECTORS

In 2001, there were 18,589 private-sector firms operating in Alaska. These firms employed a total of 214,297 workers and paid out \$8.33 billion that year in salaries and wages. Number of firms, number of employees, and annual payroll among the major sectors were reported as the following:

	Number of Firms	Number of Employees	Annual Payroll (Thousands)
Forestry, Fishing, Hunting, and Agriculture Support	317	1,610	\$62,596
Mining	130	9,698	\$892,128
Construction	2,316	15,183	\$865,122
Manufacturing	503	11,012	\$367,287
Transportation and Warehousing	982	18,104	\$833,909
Wholesale Trade	716	7,148	\$291,511
Finance and Insurance	692	7,084	\$311,804
Other Services	1,721	11,351	\$285,728

UNEMPLOYMENT RATE

In 2003, 7.41 percent of the civilian labor force was unemployed. This figure is 37.73 percent higher than the national average. Alaska has the second-highest unemployment rate in the United States.

ARIZONA

Arizona is located in the Mountain region of the Western United States. It occupies 114,006 square miles, making it the sixth-largest state in the nation.

POPULATION

As of 2002, Arizona had 5.46 million people, 1.89 percent of the national total. From 1990 to 2000, the population grew 40 percent. Eighty-eight percent of the population resides in metropolitan areas. The net domestic migration during 1995 to 2000 was 316,148 persons. There are approximately 45.2 persons per square mile. Arizona ranks 36th in population density.

2004 Rank	11
Score	21.89
1999 Rank	25 ↑
Fiscal	☆☆☆☆☆
Regulatory	☆☆☆
Judicial	☆☆☆
Government Size	☆☆☆☆☆
Welfare	☆☆☆☆☆

PERSONAL INCOME PER CAPITA

The personal income per capita in Arizona was \$26,183. Arizona’s personal income per capita is the 38th highest in the nation and is 15.38 percent under the national average. Between 1996 and 2002, personal income per capita in Arizona grew 25.25 percent.

GROSS STATE PRODUCT

As of 2001, Arizona had a gross state product of \$160.687 billion. This gross state product is 1.59 percent of the national total. Arizona has the 23rd-largest gross state product of all the 50 states. The percentage change in gross state product between 1995 and 2001 in Arizona was 45.81.

PUBLIC EMPLOYMENT

As of March 2001, there were 251,745 full-time government employed workers. That year, public employees were paid approximately \$742.513 million in salaries and wages. There are approximately 474 public employees for every 10,000 Arizona residents.

EMPLOYMENT IN MAJOR BUSINESS SECTORS

In 2001, there were 116,304 private-sector firms operating in Arizona. These firms employed a total of 1,941,599 workers and paid out \$60.02 billion that year in salaries and wages. Number of firms, number of employees, and annual payroll among the major sectors were reported as the following:

	Number of Firms	Number of Employees	Annual Payroll (Thousands)
Forestry, Fishing, Hunting, and Agriculture Support	235	1,823	\$45,325
Mining	204	10,008	\$446,168
Construction	12,659	168,416	\$5,501,123
Manufacturing	4,937	194,217	\$7,916,794
Transportation and Warehousing	2,605	73,585	\$2,380,219
Wholesale Trade	6,620	87,975	\$3,824,076
Finance and Insurance	7,422	112,814	\$4,848,426
Other Services	10,034	80,803	\$1,704,202

UNEMPLOYMENT RATE

In 2003, 5.84 percent of the civilian labor force was unemployed. This figure is 8.55 percent higher than the national average. Arizona has the 16th-highest unemployment rate in the United States.

ARKANSAS

Arkansas is located in the West South Central region of the Southern United States. It occupies 53,182 square miles, making it the 28th-largest state.

POPULATION

As of 2002, Arkansas had 2.71 million people, 0.94 percent of the total U.S. population. From 1990 to 2000, the population grew 13.7 percent. Forty-nine percent of Arkansans reside in metropolitan areas.

The net domestic migration during 1995 to 2000 was 42,116 persons. There are approximately 51.3 persons per square mile. Arkansas ranks 34th in population density.

PERSONAL INCOME PER CAPITA

The personal income per capita in Arkansas was \$23,512. Arkansas's personal income per capita is the 49th highest in the nation and is 24.01 percent below the national average. Between 1996 and 2002, personal income per capita in Arkansas increased by 23.68 percent.

GROSS STATE PRODUCT

As of 2001, Arkansas had a gross state product of \$67.913 billion. This gross state product is 0.67 percent of the national total. Arkansas has the 34th-largest gross state product of all the 50 states. The change in gross state product between 1995 and 2001 was 16.48 percent.

PUBLIC EMPLOYMENT

As of March 2001, there were 151,069 full-time government employed workers. That year, public employees were paid approximately \$361.45 million in salaries and wages. For every 10,000 Arkansas residents there are approximately 561 public employees.

2004 Rank	23
Score	25.14
1999 Rank	15 ↓
Fiscal	☆☆☆☆☆
Regulatory	☆☆☆☆
Judicial	☆☆☆
Government Size	☆☆☆
Welfare	☆☆

EMPLOYMENT IN MAJOR BUSINESS SECTORS

In 2001, there were 62,725 private-sector firms operating in Arkansas. These firms employed a total of 995,521 workers and paid out \$25.79 billion that year in salaries and wages. Number of firms, number of employees, and annual payroll among the major sectors were reported as the following:

	Number of Firms	Number of Employees	Annual Payroll (Thousands)
Forestry, Fishing, Hunting, and Agriculture Support	902	6,144	\$142,389
Mining	270	3,446	\$125,422
Construction	5,611	43,998	\$1,219,000
Manufacturing	3,226	228,671	\$6,461,985
Transportation and Warehousing	2,413	43,379	\$1,449,396
Wholesale Trade	3,479	43,532	\$1,442,982
Finance and Insurance	3,728	34,376	\$1,273,828
Other Services	6,735	41,762	\$675,238

UNEMPLOYMENT RATE

In 2003, 5.34 percent of the civilian labor force was unemployed, a figure 0.7 percent lower than the national average. Arkansas has the 25th-highest unemployment rate in the United States.

CALIFORNIA

California is located in the Pacific region of the Western United States. It occupies 158,869 square miles, making it the third-largest state in the nation.

POPULATION

As of 2002, California had 35.12 million people, a full 12.18 percent of the national total. From 1990 to 2000, the population grew 13.6 percent. Ninety-seven percent of Californians reside in metropolitan areas.

The net domestic migration during 1995 to 2000 was -755,536 persons. There are approximately 217.2 persons per square mile. California ranks 12th in the nation in population density.

PERSONAL INCOME PER CAPITA

The personal income per capita in California was \$32,996. California's personal income per capita is the 10th-highest in the nation and is 6.64 percent above the national average. Per-capita income in California increased by 29.66 percent between 1996 and 2002.

GROSS STATE PRODUCT

As of 2001, California had a gross state product of \$1.36 trillion. This gross state product is 13.41 percent of the national total. California has the largest gross state product of all the 50 states. The percentage change in gross state product between 1995 and 2001 was 33.78.

PUBLIC EMPLOYMENT

As of March 2001, there were 1,735,142 full-time government employed workers. That year, public employees were paid approximately \$7.18 billion in salaries and wages. There are approximately 503 public employees for every 10,000 California residents.

2004 Rank	49
Score	38.79
1999 Rank	44 ↓
Fiscal	☆
Regulatory	☆
Judicial	☆☆☆☆☆
Government Size	☆☆☆
Welfare	☆

EMPLOYMENT IN MAJOR BUSINESS SECTORS

In 2001, there were 806,733 private-sector firms operating in California. These firms employed a total of 13,239,616 workers and that year paid out \$521.77 billion in salaries and wages.

Number of firms, number of employees, and annual payroll among the major sectors were reported as the following:

	Number of Firms	Number of Employees	Annual Payroll (Thousands)
Forestry, Fishing, Hunting, and Agriculture Support	2,395	26,577	\$718,299
Mining	949	23,068	\$1,208,045
Construction	67,494	795,840	\$31,670,529
Manufacturing	49,022	1,740,754	\$75,803,452
Transportation and Warehousing	17,776	421,195	\$15,007,867
Wholesale Trade	57,975	829,917	\$41,902,786
Finance and Insurance	43,134	649,558	\$42,897,223
Other Services	68,588	566,856	\$13,079,537

UNEMPLOYMENT RATE

In 2003, 6.68 percent of the civilian labor force was unemployed, 24 percent higher than the national average. California has the fifth-highest unemployment rate in the United States.

COLORADO

Colorado is located in the Mountain region of the Western United States. It occupies 104,100 square miles, making it the eighth-largest state in the nation.

POPULATION

As of 2002, Colorado had a population of 4.51 million, 1.56 percent of the total U.S. population.

From 1990 to 2000, the population grew 30.6 percent.

Eighty-four percent of Coloradoans reside in

metropolitan areas. The net domestic migration during 1995 to 2000 was 162,633 persons. There are approximately 41.5 persons per square mile. Colorado ranks 37th in population density.

PERSONAL INCOME PER CAPITA

The personal income per capita in Colorado was \$33,276. Colorado's personal income per capita is the ninth highest in the nation and 7.55 percent above the national average. Between 1996 and 2002, personal income per capita in Colorado increased by 30 percent.

GROSS STATE PRODUCT

As of 2001, Colorado had a gross state product of \$173.77 billion. This gross state product is 1.71 percent of the national total. Colorado has the 21st-largest gross state product of all the 50 states. The percentage change in gross state product between 1995 and 2001 was 43.21.

PUBLIC EMPLOYMENT

As of March 2001, there were 234,095 full-time government employed workers. That year, public employees were paid approximately \$765.11 million in salaries and wages. There are approximately 530 public employees for every 10,000 Colorado residents.

2004 Rank	2
Score	18.81
1999 Rank	14 ↑
Fiscal	☆☆☆☆
Regulatory	☆☆☆☆☆
Judicial	☆☆☆☆
Government Size	☆☆☆☆☆
Welfare	☆☆☆☆☆

EMPLOYMENT IN MAJOR BUSINESS SECTORS

In 2001, there were 139,225 private-sector firms operating in Colorado. These firms employed a total of 1,986,570 workers and paid out \$71.51 billion that year in salaries and wages. Number of firms, number of employees, and annual payroll among the major sectors were reported as the following:

	Number of Firms	Number of Employees	Annual Payroll (Thousands)
Forestry, Fishing, Hunting, and Agriculture Support	290	1,231	\$34,627
Mining	940	12,784	\$765,686
Construction	17,497	161,531	\$6,338,648
Manufacturing	5,449	162,364	\$6,568,625
Transportation and Warehousing	2,879	59,553	\$2,154,069
Wholesale Trade	7,352	99,349	\$5,014,332
Finance and Insurance	8,630	105,924	\$5,483,515
Other Services	11,957	91,473	\$2,501,543

UNEMPLOYMENT RATE

In 2003, 5.69 percent of the civilian labor force was unemployed. This figure is 5.8 percent higher than the national average. Colorado has the 20th-highest unemployment rate in the United States.

CONNECTICUT

Connecticut is located in the New England region of the Northeastern United States. It occupies 5,544 square miles, making it the 48th-largest state.

POPULATION

As of 2002, Connecticut had 3.46 million people, 1.2 percent of the national total. From 1990 to 2000, the population shrank by 3.6 percent. Ninety-six percent of the population resides in metropolitan areas. The net domestic migration during 1995 to 2000 was -64,610 persons. There are approximately 702.9 persons per square mile. Connecticut ranks fourth in population density.

2004 Rank	48
Score	35.21
1999 Rank	46 ↓
Fiscal	☆
Regulatory	☆
Judicial	☆
Government Size	☆☆☆☆☆
Welfare	☆

PERSONAL INCOME PER CAPITA

The personal income per capita in Connecticut was \$42,706, the highest in the nation and 38.02 percent higher than the national average. Between 1996 and 2002, personal income per capita in Connecticut grew by 30.68 percent.

GROSS STATE PRODUCT

As of 2001, Connecticut had a gross state product of \$166.17 billion. This gross state product is 1.64 percent of the national total. Connecticut has the 22nd-largest gross state product of all the 50 states. The change in gross state product between 1995 and 2001 was 26.65 percent.

PUBLIC EMPLOYMENT

As of March 2001, there were 182,354 full-time government employed workers in Connecticut. That year, Connecticut public employees were paid approximately \$685.505 million in salaries and wages. There are approximately 532 public employees for every 10,000 Connecticut residents.

EMPLOYMENT IN MAJOR BUSINESS SECTORS

In 2001, there were 92,105 private-sector firms operating in Connecticut. These firms employed a total of 1,555,214 workers and paid out \$68.92 billion that year in salaries and wages. Number of firms, number of employees, and annual payroll among the major sectors were reported as the following:

	Number of Firms	Number of Employees	Annual Payroll (Thousands)
Forestry, Fishing, Hunting, and Agriculture Support	109	575	\$14,168
Mining	69	576	\$32,362
Construction	9,155	67,404	\$3,269,016
Manufacturing	5,413	233,167	\$11,202,296
Transportation and Warehousing	1,572	34,721	\$1,143,723
Wholesale Trade	4,979	78,670	\$4,493,197
Finance and Insurance	5,597	136,062	\$11,383,654
Other Services	9,444	63,635	\$1,543,175

UNEMPLOYMENT RATE

In 2003, 5.04 percent of the civilian labor force was unemployed, 6.32 percent higher than the national average. Connecticut has the 32nd-highest unemployment rate in the nation.

DELAWARE

Delaware is located in the southern Atlantic region of the United States. It occupies 2,396 square miles, making it the 49th-largest state.

POPULATION

As of 2002, Delaware had 0.807 million people, 0.28 percent of the total U.S. population. From 1990 to 2000, the population grew by 17.6 percent. Eighty percent of the population resides in metropolitan areas. The net domestic migration during 1995 to 2000 was 17,383 persons. There are approximately 401 persons per square mile, ranking Delaware seventh in population density.

2004 Rank	8
Score	20.90
1999 Rank	7 ↓
Fiscal	☆☆
Regulatory	☆☆☆☆☆
Judicial	☆
Government Size	☆☆☆☆☆
Welfare	☆☆☆☆

PERSONAL INCOME PER CAPITA

The personal income per capita in Delaware was \$32,779. Delaware's personal income per capita is the 12th-highest in the nation and 5.94 percent higher than the national average. Personal income per capita in Delaware grew by 23.59 percent between 1996 and 2002.

GROSS STATE PRODUCT

As of 2001, Delaware had a gross state product of \$40.51 billion. This gross state product is 0.4 percent of the national total. Delaware has the 41st-largest gross state product of all the 50 states. The percentage change in gross state product between 1995 and 2001 was 26.59.

PUBLIC EMPLOYMENT

As of March 2001, there were 45,758 full-time government employed workers in Delaware. That year, Delaware public employees earned approximately \$145.65 million in salaries and wages. There are approximately 575 public employees for every 10,000 Delaware residents.

EMPLOYMENT IN MAJOR BUSINESS SECTORS

In 2001, there were 24,074 private-sector firms operating in Delaware. These firms employed a total of 389,376 workers and paid out \$15.02 billion that year in salaries and wages. Number of firms, number of employees, and annual payroll among the major sectors were reported as the following:

	Number of Firms	Number of Employees	Annual Payroll (Thousands)
Forestry, Fishing, Hunting, and Agriculture Support	43	100-249	NA
Mining	23	100-249	NA
Construction	2,374	21,263	\$797,460
Manufacturing	694	41,887	\$1,744,682
Transportation and Warehousing	651	7,350	\$219,387
Wholesale Trade	989	24,106	\$1,433,239
Finance and Insurance	1,836	44,879	\$2,620,308
Other Services	2,141	16,161	\$322,285

UNEMPLOYMENT RATE

In 2003, 4.01 percent of the civilian labor force was unemployed. This figure is 25.5 percent less than the national average. Delaware has the 45th-highest unemployment rate in the United States.

FLORIDA

Florida is located in the South Atlantic region of the Southern United States. It occupies 59,928 square miles, making it the 23rd-largest state.

POPULATION

As of 2002, Florida had a population of 16.71, 5.8 percent of the total U.S. population. From 1990 to 2000, the population grew by 23.5 percent. Ninety-three percent of Floridians reside in metropolitan areas. The net domestic migration during 1995 to 2000 was 607,023 persons. There are approximately 296.4 persons per square mile. Florida ranks eighth in the nation in population density.

PERSONAL INCOME PER CAPITA

The personal income per capita in Florida was \$29,596. Florida's personal income per capita is the 23rd highest in the nation and 4.35 percent lower than the national average. Between 1996 and 2002, personal income per capita in Florida grew by 23.63 percent.

GROSS STATE PRODUCT

As of 2001, Florida had a gross state product of \$91.49 billion. This gross state product is 4.85 percent of the national total. Florida has the fourth-largest gross state product of all the 50 states. The percentage change in gross state product between 1995 and 2001 was 27.36.

PUBLIC EMPLOYMENT

As of March 2001, there were 803,175 full-time government employed workers in Florida. That year, Florida public employees were paid approximately \$2.336 billion in salaries and wages. There are approximately 490 public employees for every 10,000 Florida residents.

2004 Rank	22
Score	25.12
1999 Rank	30 ↑
Fiscal	☆☆☆☆
Regulatory	☆
Judicial	☆☆☆☆
Government Size	☆☆☆☆
Welfare	☆☆☆☆

EMPLOYMENT IN MAJOR BUSINESS SECTORS

In 2001, there were 434,583 private-sector firms operating in Florida. These firms employed a total of 6,431,696 workers and paid out \$189.63 billion that year in salaries and wages. Number of firms, number of employees, and annual payroll among the major sectors were reported as the following:

	Number of Firms	Number of Employees	Annual Payroll (Thousands)
Forestry, Fishing, Hunting, and Agriculture Support	1,209	13,486	\$258,743
Mining	268	5,742	\$233,387
Construction	39,020	369,059	\$11,909,609
Manufacturing	15,392	412,993	\$14,577,910
Transportation and Warehousing	10,730	183,265	\$6,038,755
Wholesale Trade	29,958	311,391	\$12,493,293
Finance and Insurance	26,953	348,542	\$15,572,644
Other Services	42,060	305,215	\$6,092,786

UNEMPLOYMENT RATE

In 2003, 5.33 percent of the civilian labor force was unemployed, 0.9 percent less than the national average. Florida has the 26th-highest unemployment rate in the United States.

GEORGIA

Georgia is located in the South Atlantic region of the Southern United States. It occupies 58,977 square miles, making it the 24th-largest state in the nation.

POPULATION

As of 2002, Georgia had a population of 8.56 million, 2.97 percent of the total U.S. population. Georgia is the 10th most populous state in the nation. From 1990 to 2000, the population grew by 26.4 percent. Sixty-nine percent of the Georgians reside in metropolitan areas. The net domestic migration during 1995 to 2000 was 340,705 persons. There are approximately 141.4 persons per square mile. Georgia ranks 18th in the nation for population density.

2004 Rank	19
Score	24.06
1999 Rank	12 ↓
Fiscal	☆☆☆☆☆
Regulatory	☆☆
Judicial	☆☆☆☆☆
Government Size	☆☆☆☆☆
Welfare	☆☆☆☆☆

PERSONAL INCOME PER CAPITA

The personal income per capita in Georgia was \$28,821, the 28th highest in the nation and 6.85 lower than the national average. Between 1996 and 2002, income per capita in Georgia grew by 24.5 percent.

GROSS STATE PRODUCT

As of 2001, Georgia had a gross state product of \$299 billion, 2.96 percent of the national total. Georgia has the 10th-largest gross state product of all the 50 states. The percentage change in gross state product between 1995 and 2001 was 32.68.

PUBLIC EMPLOYMENT

As of March 2001, there were 459,259 full-time government employed workers in Georgia. That year, Georgia public employees earned approximately \$1.24 billion in salaries and wages. There are approximately 548 public employees for every 10,000 Georgia residents.

EMPLOYMENT IN MAJOR BUSINESS SECTORS

In 2001, there were 202,505 private-sector firms operating in Georgia. These firms employed a total of 3,498,583 workers and paid out \$115.9 billion that year in salaries and wages. Number of firms, number of employees, and annual payroll among the major sectors were reported as the following:

	Number of Firms	Number of Employees	Annual Payroll (Thousands)
Forestry, Fishing, Hunting, and Agriculture Support	1,117	9,331	\$224,192
Mining	259	6,839	\$293,729
Construction	20,180	194,679	\$6,796,212
Manufacturing	8,688	491,688	\$16,141,378
Transportation and Warehousing	5,199	122,828	\$4,679,237
Wholesale Trade	13,629	201,981	\$9,446,530
Finance and Insurance	12,503	174,964	\$8,817,789
Other Services	19,628	145,486	\$3,018,574

UNEMPLOYMENT RATE

In 2003, 4.69 percent of the civilian labor force was unemployed, 12.8 percent less than the national average. Georgia has the 36th-highest unemployment rate in the United States.

HAWAII

Hawaii is located in the Pacific region of the Western United States. It occupies 6,459 square miles, making it the 47th-largest state.

POPULATION

As of 2002, Hawaii had 1.24 million people, 0.43 percent of the U.S. total. Hawaii is the 42nd most populous state in the nation. From 1990 to 2000, the population grew by 9.39 percent. Seventy-two percent of Hawaiians resides in metropolitan areas. The net domestic migration during 1995 to 2000 was -76,133 persons. There are approximately 188.6 persons per square mile. Hawaii ranks 13th in the nation in population density.

2004 Rank	35
Score	27.95
1999 Rank	39 ↑
Fiscal	☆☆
Regulatory	☆☆
Judicial	☆☆
Government Size	☆☆☆
Welfare	☆☆

PERSONAL INCOME PER CAPITA

The personal income per capita in Hawaii was \$30,001, 20th highest in the nation and 3.04 percent greater than the national average. Personal income per capita in Hawaii increased by 18.98 percent between 1996 and 2002.

GROSS STATE PRODUCT

As of 2001, Hawaii had a gross state product of \$43.71 billion, 0.43 percent of the national total. Hawaii has the 39th-largest gross state product of all the 50 states. The change in gross state product between 1995 and 2001 was 2.35 percent.

PUBLIC EMPLOYMENT

As of March 2001, there were 69,230 full-time government employed workers in Hawaii. That year, Hawaii public employees earned approximately \$207.8 million in salaries and wages. There are approximately 566 public employees for every 10,000 Hawaii residents.

EMPLOYMENT IN MAJOR BUSINESS SECTORS

In 2001, there were 30,175 private-sector firms operating in Hawaii. These firms employed a total of 441,856 workers and paid out \$12.68 billion that year in salaries and wages. Number of firms, number of employees, and annual payroll among the major sectors were reported as the following:

	Number of Firms	Number of Employees	Annual Payroll (Thousands)
Forestry, Fishing, Hunting, and Agriculture Support	52	519	\$9,744
Mining	11	100-249	NA
Construction	2,385	24,238	\$1,071,113
Manufacturing	940	15,221	\$463,160
Transportation and Warehousing	708	23,278	\$732,711
Wholesale Trade	1,803	19,673	\$651,572
Finance and Insurance	1,373	18,104	\$808,711
Other Services	3,226	24,024	\$513,081

UNEMPLOYMENT RATE

In 2003, 3.84 percent of the civilian labor force was unemployed, 28.6 percent lower than the national average. Hawaii has the 47th-highest unemployment rate in the United States.

IDAHO

Idaho is located in the Mountain region of the Western United States. The 14th-largest state, it occupies 83,574 square miles.

POPULATION

As of 2002, Idaho had a population of 1.34 million, 0.47 percent of the U.S. total, making Idaho the 39th most populous state. From 1990 to 2000, the population grew by 28.5 percent. Thirty-nine percent of Idaho residents live in metropolitan areas. The net domestic migration during 1995 to 2000 was 33,847 persons. There are approximately 15.6 persons per square mile. Idaho ranks 44th in the nation in population density.

2004 Rank	4
Score	19.02
1999 Rank	1 ↓
Fiscal	☆☆☆
Regulatory	☆☆☆☆
Judicial	☆☆☆☆
Government Size	☆☆☆
Welfare	☆☆☆☆☆

PERSONAL INCOME PER CAPITA

The personal income per capita in Idaho was \$25,057, 44th highest in the nation and 19.02 percent less than the national average. Between 1996 and 2002, income per capita grew by 24.63 percent.

GROSS STATE PRODUCT

As of 2001, Idaho had a gross state product of \$36.916 billion, 0.36 percent of the national total. Idaho has the 44th-largest gross state product of all the 50 states. The percentage change in gross state product between 1995 and 2001 was 34.45 percent.

PUBLIC EMPLOYMENT

As of March 2001, there were 76,076 full-time government employed workers in Idaho. That year, Idaho public employees earned approximately \$197.28 million in salaries and wages. For every 10,000 Idaho residents there are approximately 576 public employees.

EMPLOYMENT IN MAJOR BUSINESS SECTORS

In 2001, there were 37,622 private-sector firms operating in Idaho. These firms employed a total of 467,316 workers and paid out \$12.36 billion that year in salaries and wages. Number of firms, number of employees, and annual payroll among the major sectors were reported as the following:

	Number of Firms	Number of Employees	Annual Payroll (Thousands)
Forestry, Fishing, Hunting, and Agriculture Support	601	4,254	\$114,022
Mining	116	1,950	\$85,480
Construction	5,665	41,023	\$1,251,760
Manufacturing	1,729	66,507	\$2,137,508
Transportation and Warehousing	1,367	12,526	\$308,850
Wholesale Trade	1,958	25,138	\$853,820
Finance and Insurance	2,249	17,676	\$659,893
Other Services	3,061	19,273	\$335,491

UNEMPLOYMENT RATE

In 2003, 5.42 percent of the civilian labor force was unemployed, 0.7 percent greater than the national average. Idaho has the 24th-highest unemployment rate in the United States.

ILLINOIS

Illinois is located in the East North Central region of the Midwestern United States. It occupies 57,918 square miles, the 25th-largest state in the nation.

POPULATION

As of 2002, Illinois had a population of 12.6 million, 4.37 percent of the national total. Illinois is the fifth most populous state and from 1990 to 2000, grew by 8.6 percent. Eighty-five percent of the population resides in metropolitan areas. The net domestic migration during 1995 to 2000 was -342,616 persons. There are approximately 223.4 persons per square mile. Illinois ranks 11th in population density.

PERSONAL INCOME PER CAPITA

The personal income per capita in Illinois was \$33,404, eighth highest in the nation and 7.96 percent above the national average. Between 1996 and 2002, personal income per capita in Illinois grew by 24.93 percent.

GROSS STATE PRODUCT

As of 2001, Illinois had a gross state product of \$475.54 billion, 4.69 percent of the national total. Illinois has the fifth-largest gross state product of all 50 states. The percentage change between 1995 and 2001 was 21.35 percent.

PUBLIC EMPLOYMENT

As of March 2001, there were 616,153 full-time government employed workers in Illinois. That year, Illinois public employees earned approximately \$2.04 billion in salaries and wages. There are approximately 494 public employees for every 10,000 Illinois residents.

2004 Rank	46
Score	32.77
1999 Rank	36 ↓
Fiscal	☆☆
Regulatory	☆
Judicial	☆☆☆☆☆
Government Size	☆☆☆☆
Welfare	☆☆

EMPLOYMENT IN MAJOR BUSINESS SECTORS

In 2001, there were 307,356 private-sector firms operating in Illinois. These firms employed a total of 5,447,349 workers and paid out \$204.27 billion that year in salaries and wages. Number of firms, number of employees, and annual payroll among the major sectors were reported as the following:

	Number of Firms	Number of Employees	Annual Payroll (Thousands)
Forestry, Fishing, Hunting, and Agriculture Support	415	2,788	\$97,613
Mining	603	8,780	\$420,496
Construction	29,581	258,993	\$12,671,064
Manufacturing	17,134	820,179	\$32,832,372
Transportation and Warehousing	9,425	213,334	\$7,824,108
Wholesale Trade	20,975	343,491	\$16,482,198
Finance and Insurance	21,318	343,273	\$21,590,623
Other Services	32,024	260,706	\$6,205,947

UNEMPLOYMENT RATE

In 2003, 6.52 percent of the civilian labor force was unemployed. This figure is 21.2 percent greater than the national average. Illinois has the seventh-highest unemployment rate in the United States.

INDIANA

Indiana is located in the East North Central region of the Midwestern United States. The 38th-largest state, it occupies 36,420 square miles.

POPULATION

As of 2002, Indiana had 6.16 million people, 2.14 percent of the nation. Indiana is the 14th most populous state in the nation. From 1990 to 2000, the population grew by 9.7 percent. Seventy-two percent of the population resides in metropolitan areas. The net domestic migration during 1995 to 2000 was 21,625 persons. There are approximately 169.5 persons per square mile. Indiana ranks 16th in population density.

2004 Rank	14
Score	22.69
1999 Rank	22 ↑
Fiscal	☆☆☆☆
Regulatory	☆☆
Judicial	☆☆
Government Size	☆☆☆☆
Welfare	☆☆☆☆

PERSONAL INCOME PER CAPITA

The personal income per capita in Indiana was \$28,240, 32nd highest in the nation and is 8.73 percent below the national average. Between 1996 and 2002, personal income per capita in Indiana grew by 25.47 percent.

GROSS STATE PRODUCT

As of 2001, Indiana had a gross state product of \$189.92 billion, 1.87 percent of the national total. Indiana has the 16th-largest gross state product of all the 50 states. The percentage change in gross state product between 1995 and 2001 was 18.76.

PUBLIC EMPLOYMENT

As of March 2001, there were 324,447 full-time government employed workers in Indiana. That year, Indiana public employees earned approximately \$903.06 million in salaries and wages. There are approximately 531 public employees for every 10,000 Indiana residents.

EMPLOYMENT IN MAJOR BUSINESS SECTORS

In 2001, there were 145,580 private-sector firms operating in Indiana. These firms employed a total of 2,601,738 workers and paid out \$79.32 billion that year in salaries and wages. Number of firms, number of employees, and annual payroll among the major sectors were reported as the following:

	Number of Firms	Number of Employees	Annual Payroll (Thousands)
Forestry, Fishing, Hunting, and Agriculture Support	264	1,669	\$46,912
Mining	338	5,449	\$254,102
Construction	15,824	141,380	\$5,310,225
Manufacturing	9,131	604,255	\$23,471,195
Transportation and Warehousing	4,527	93,458	\$2,944,166
Wholesale Trade	8,573	119,576	\$4,605,064
Finance and Insurance	9,337	106,107	\$4,625,492
Other Services	17,021	131,234	\$2,479,212

UNEMPLOYMENT RATE

In 2003, five percent of the civilian labor force was unemployed, seven percent less than the national average. Indiana has the 34th-highest unemployment rate in the United States.

IOWA

Iowa is located in the West North Central region of the Midwestern United States. It occupies 56,276 square miles, making it the 26th-largest state in the nation.

POPULATION

As of 2002, Iowa had a population of 2.94 million, 1.02 percent of the national total. Iowa is the 30th most populous state in the nation. From 1990 to 2000, the population grew by 25.4 percent. Forty-five percent of Iowans reside in metropolitan areas. The net domestic migration during 1995 to 2000 was -33,012 persons. There are approximately 52.4 persons per square mile. Iowa ranks 33rd among states in population density.

2004 Rank	16
Score	23.43
1999 Rank	24 ↑
Fiscal	☆☆☆
Regulatory	☆☆☆☆
Judicial	☆☆☆
Government Size	☆
Welfare	☆☆☆☆

PERSONAL INCOME PER CAPITA

The personal income per capita in Iowa was \$28,280, 31st highest in the nation and 8.6 percent below the national average. Between 1996 and 2002, personal income per capita in Iowa grew by 25.27 percent.

GROSS STATE PRODUCT

As of 2001, Iowa had a gross state product of \$90.94 billion, representing 0.9 percent of the national total. Iowa has the 30th-largest gross state product of all the 50 states. The change in gross state product between 1995 and 2001 was 18.95 percent.

PUBLIC EMPLOYMENT

As of March 2001, there were 176,084 full-time government employed workers in Iowa. That year, Iowa public employees earned approximately \$508.66 million in salaries and wages. There are approximately 602 public employees for every 10,000 Iowa residents.

EMPLOYMENT IN MAJOR BUSINESS SECTORS

In 2001, there were 80,392 private-sector firms operating in Iowa. These firms employed a total of 1,255,162 workers and that year paid out \$34.45 billion in salaries and wages. Number of firms, number of employees, and annual payroll among the major sectors were reported as the following:

	Number of Firms	Number of Employees	Annual Payroll (Thousands)
Forestry, Fishing, Hunting, and Agriculture Support	284	1,000-2,499	NA
Mining	192	1,855	\$74,293
Construction	8,526	58,895	\$2,190,695
Manufacturing	3,721	237,779	\$8,354,608
Transportation and Warehousing	3,286	40,735	\$1,208,851
Wholesale Trade	5,020	64,527	\$2,170,830
Finance and Insurance	5,453	81,243	\$3,260,109
Other Services	9,487	53,502	\$881,214

UNEMPLOYMENT RATE

In 2003, 4.28 percent of the civilian labor force was unemployed, 20.4 percent less than the national average. Iowa has the 42nd-highest unemployment rate in the United States.

KANSAS

Kansas is located in the West North Central region of the Midwestern United States. The 15th-largest state in the nation, it occupies 82,282 square miles.

POPULATION

As of 2002, Kansas had 2.72 million people, 0.94 percent of the total U.S. population. Kansas is the 32nd most populous state. From 1990 to 2000, the population grew by 8.5 percent. Fifty-seven percent of Kansans reside in metropolitan areas. The net domestic migration during 1995 to 2000 was -7,792 persons. There are approximately 32.9 persons per square mile. Kansas ranks 40th in population density.

PERSONAL INCOME PER CAPITA

The personal income per capita in Kansas was \$29,141, 26th highest in the nation and 5.82 percent below the national average. Between 1996 and 2002, personal income per capita in Kansas grew by 25.51 percent.

GROSS STATE PRODUCT

As of 2001, Kansas had a gross state product of \$87.2 billion, 0.86 percent of the national total. Kansas has the 31st-largest gross state product, with a 22.95 percent increase between 1995 and 2001.

PUBLIC EMPLOYMENT

As of March 2001, there were 170,771 full-time government employed workers in Kansas. That year, Kansas's public employees earned approximately \$459.926 million in salaries and wages. There are approximately 634 public employees for every 10,000 Kansas residents.

2004 Rank	1
Score	18.18
1999 Rank	10 ↑
Fiscal	☆☆☆☆
Regulatory	☆☆☆☆☆
Judicial	☆☆☆☆
Government Size	☆☆☆
Welfare	☆☆☆☆☆

EMPLOYMENT IN MAJOR BUSINESS SECTORS

In 2001, there were 74,565 private-sector firms operating in Kansas. These firms employed a total of 1,118,898 workers and paid out \$33.3 billion that year in salaries and wages. Number of firms, number of employees, and annual payroll among the major sectors were reported as the following:

	Number of Firms	Number of Employees	Annual Payroll (Thousands)
Forestry, Fishing, Hunting, and Agriculture Support	217	500-999	NA
Mining	878	7,091	\$273,838
Construction	7,449	64,308	\$2,320,652
Manufacturing	3,240	191,013	\$7,301,706
Transportation and Warehousing	2,463	35,323	\$1,089,405
Wholesale Trade	4,811	59,479	\$2,283,169
Finance and Insurance	5,178	52,857	\$2,129,587
Other Services	8,310	54,171	\$996,716

UNEMPLOYMENT RATE

In 2003, 4.77 percent of the civilian labor force was unemployed. This figure is 11.34 percent less than the national average. Kansas has the 35th-highest unemployment rate in the United States.

KENTUCKY

Located in the East South Central region of the Southern United States, Kentucky occupies 40,411 square miles, the 37th-largest state in the nation.

POPULATION

As of 2002, Kentucky had 4.09 million people, 1.42 percent of the total U.S. population. Kentucky is the 26th most populous state and grew by 9.6 percent from 1990 to 2000. Forty-nine percent of the population resides in metropolitan areas. The net domestic migration during 1995 to 2000 was 34,127 persons. There are approximately 101.7 persons per square mile. Kentucky ranks 23rd in population density.

PERSONAL INCOME PER CAPITA

The personal income per capita in Kentucky was \$25,570, the 39th highest in the nation and 17.33 percent below the national average. Between 1996 and 2002, personal income per capita in Kentucky grew by 28.56 percent.

GROSS STATE PRODUCT

As of 2001, Kentucky had a gross state product of \$120.27 billion, 1.19 percent of the national total. Kentucky has the 26th-largest gross state product of all the 50 states. The percentage change between 1995 and 2001 was 18.62.

PUBLIC EMPLOYMENT

As of March 2001, there were 227,713 full-time government employed workers in Kentucky. That year, Kentucky public employees earned approximately \$584.32 million in salaries and wages. For every 10,000 Kentucky residents there are approximately 560 public employees.

2004 Rank	39
Score	29.13
1999 Rank	29 ↓
Fiscal	☆☆☆
Regulatory	☆
Judicial	☆☆
Government Size	☆☆☆
Welfare	☆

EMPLOYMENT IN MAJOR BUSINESS SECTORS

In 2001, there were 89,501 private-sector firms operating in Kentucky. These firms employed a total of 1,497,466 workers and paid out \$42.6 billion that year in salaries and wages. Number of firms, number of employees, and annual payroll among the major sectors were reported as the following:

	Number of Firms	Number of Employees	Annual Payroll (Thousands)
Forestry, Fishing, Hunting, and Agriculture Support	328	2,219	\$49,331
Mining	643	18,361	\$814,172
Construction	9,037	82,964	\$2,693,383
Manufacturing	4,210	279,836	\$10,182,215
Transportation and Warehousing	2,990	66,627	\$2,686,520
Wholesale Trade	4,803	73,595	\$2,616,416
Finance and Insurance	5,616	65,166	\$2,359,882
Other Services	9,836	66,653	\$1,221,588

UNEMPLOYMENT RATE

In 2003, 5.76 percent of the civilian labor force was unemployed, 7.06 percent greater than the national average. Kentucky has the 18th-highest unemployment rate in the United States.

LOUISIANA

Louisiana is located in the West South Central region of the United States. It occupies 49,651 square miles, the 31st-largest state in the nation.

POPULATION

As of 2002, Louisiana had 4.48 million people, 1.55 percent of the national total. Louisiana is the 24th most populous state and grew by 5.9 percent from 1990 to 2000. Seventy-five percent of the population resides in metropolitan areas. The net domestic migration during 1995 to 2000 was -75,759 persons. There are approximately 102.6 persons per square mile. Louisiana ranks 22nd in population density.

PERSONAL INCOME PER CAPITA

The personal income per capita in Louisiana was \$25,446, 41st highest in the nation and 17.76 percent below the national average. Between 1996 and 2002, personal income per capita in Louisiana grew by 26.99 percent.

GROSS STATE PRODUCT

As of 2001, Louisiana had a gross state product of \$148.7 billion, 1.47 percent of the national total. Louisiana has the 24th-largest gross state product and the percentage change between 1995 and 2001 was 7.55.

PUBLIC EMPLOYMENT

As of March 2001, there were 280,139 full-time government employed workers in Louisiana. That year, Louisiana public employees earned approximately \$691.28 million in salaries and wages. There are approximately 627 public employees for every 10,000 Louisiana residents.

2004 Rank	40
Score	29.16
1999 Rank	31 ↓
Fiscal	☆☆☆
Regulatory	☆☆
Judicial	☆☆☆☆
Government Size	☆☆
Welfare	☆

EMPLOYMENT IN MAJOR BUSINESS SECTORS

In 2001, there were 100,780 private-sector firms operating in Louisiana. These firms employed a total of 1,599,482 workers and paid out \$45.16 billion that year in salaries and wages. Number of firms, number of employees, and annual payroll among the major sectors were reported as the following:

	Number of Firms	Number of Employees	Annual Payroll (Thousands)
Forestry, Fishing, Hunting, and Agriculture Support	799	4,896	\$121,552
Mining	1,512	46,547	\$2,424,581
Construction	8,041	122,317	\$3,820,905
Manufacturing	3,436	159,039	\$6,538,830
Transportation and Warehousing	3,632	65,579	\$2,270,283
Wholesale Trade	6,035	78,288	\$2,838,659
Finance and Insurance	7,094	66,937	\$2,452,997
Other Services	10,292	81,289	\$1,456,553

UNEMPLOYMENT RATE

In 2003, 6.37 percent of the civilian labor force was unemployed, 18.4 percent greater than the national average. Louisiana has the ninth-highest unemployment rate.

MAINE

Maine is located in the Northeast region of the United States. It occupies 33,741 square miles, the 39th-largest state in the nation.

POPULATION

As of 2002, Maine had 1.29 million people, 0.457 percent of the U.S. total, and it ranked 40th among the states. From 1990 to 2000, Maine’s population grew by 3.8 percent. Sixty-seven percent of the population resides in metropolitan areas. The net domestic migration during 1995 to 2000 was 3,640 persons. There are approximately 41.3 persons per square mile, ranking Maine 38th in population density.

PERSONAL INCOME PER CAPITA

The personal income per capita in Maine was \$27,744, the 33rd-highest in the nation and 10.33 percent below the national average. Between 1996 and 2002, personal income per capita in Maine grew by 31.38 percent.

GROSS STATE PRODUCT

As of 2001, Maine had a gross state product of \$37.45 billion, 0.37 percent of the national total. Maine has the 42nd-largest gross state product of all the 50 states. The percentage change between 1995 and 2001 was 20.4.

PUBLIC EMPLOYMENT

As of March 2001, there were 74,661 full-time government employed workers in Maine. That year, Maine public employees earned approximately \$198.93 million in salaries and wages. There are approximately 580 public employees for every 10,000 Maine residents.

2004 Rank	30
Score	26.93
1999 Rank	42 ↑
Fiscal	☆
Regulatory	☆☆☆
Judicial	☆☆
Government Size	☆☆
Welfare	☆☆☆

EMPLOYMENT IN MAJOR BUSINESS SECTORS

In 2001, there were 39,650 private-sector firms operating in Maine. These firms employed a total of 500,030 workers and paid out \$14.2 billion that year in salaries and wages. Number of firms, number of employees, and annual payroll among the major sectors were reported as the following:

	Number of Firms	Number of Employees	Annual Payroll (Thousands)
Forestry, Fishing, Hunting, and Agriculture Support	779	3,421	\$92,923
Mining	28	20-99	NA
Construction	4,756	28,113	\$1,001,818
Manufacturing	1,866	77,091	\$2,704,969
Transportation and Warehousing	1,294	10,755	\$289,623
Wholesale Trade	1,723	21,831	\$776,181
Finance and Insurance	1,702	24,473	\$1,011,268
Other Services	3,587	18,453	\$361,554

UNEMPLOYMENT RATE

In 2003, 4.68 percent of the civilian labor force was unemployed. This figure is 13 percent less than the national average. Maine has the 37th-highest unemployment rate.

MARYLAND

Maryland is located in the South Atlantic region of the United States. It occupies 12,297 square miles, the 42nd-largest state.

POPULATION

As of 2002, Maryland had 5.46 million people, 1.89 percent of the national total, the 18th most populous state. From 1990 to 2000, Maryland grew by 10.8 percent. Ninety-three percent of the population resides in metropolitan areas. The net domestic migration during 1995 to 2000 was -19,723 persons. There are approximately 525.3 persons per square mile. Maryland ranks fifth in population density.

PERSONAL INCOME PER CAPITA

The personal income per capita in Maryland was \$36,298, 17.31 percent above the national average and fourth highest in the nation. Between 1996 and 2002, personal income per capita in Maryland grew by 31.13 percent.

GROSS STATE PRODUCT

As of 2001, Maryland had a gross state product of \$195 billion, 1.92 percent of the national total and the 15th-largest gross state product. The percentage change between 1995 and 2001 was 23.3.

PUBLIC EMPLOYMENT

As of March 2001, there were 279,013 full-time government employed workers in Maryland. That year, Maryland public employees earned approximately \$984.3 million in salaries and wages. There are approximately 519 public employees for every 10,000 Maryland residents.

2004 Rank	27
Score	26.54
1999 Rank	35 ↑
Fiscal	☆☆
Regulatory	☆☆☆
Judicial	☆☆☆
Government Size	☆☆☆☆☆☆
Welfare	☆☆☆

EMPLOYMENT IN MAJOR BUSINESS SECTORS

In 2001, there were 129,301 private-sector firms operating in Maryland. These firms employed a total of 2,091,198 workers and paid out \$74.19 billion that year in salaries and wages. Number of firms, number of employees, and annual payroll among the major sectors were reported as the following:

	Number of Firms	Number of Employees	Annual Payroll (Thousands)
Forestry, Fishing, Hunting, and Agriculture Support	231	943	\$21,846
Mining	101	2,160	\$95,097
Construction	14,830	159,338	\$6,205,507
Manufacturing	3,936	157,084	\$6,791,564
Transportation and Warehousing	3,359	54,324	\$1,749,740
Wholesale Trade	5,967	95,481	\$4,542,575
Finance and Insurance	7,183	115,169	\$5,802,277
Other Services	13,326	113,185	\$2,751,508

UNEMPLOYMENT RATE

In 2003, 4.34 percent of the civilian labor force was unemployed, 19.33 percent less than the national average. Maryland has the 41st-highest unemployment rate in the United States.

MASSACHUSETTS

Massachusetts is located in the Northeast region of the United States. It occupies 9,241 square miles, the 45th-largest state in the nation.

POPULATION

As of 2002, Massachusetts had a population of 6.43 million, 2.23 percent of the national population. Massachusetts is the 13th most populous state. From 1990 to 2000, the state grew by 5.5 percent. Ninety-six percent of the population resides in metropolitan areas. The net domestic migration during 1995 to 2000 was -54,708 persons. There are approximately 809.8 persons per square mile. Massachusetts ranks third in population density.

PERSONAL INCOME PER CAPITA

The personal income per capita in Massachusetts was \$39,244, third highest in the nation and 26.83 percent above the national average. Between 1996 and 2002, personal income per capita in Massachusetts grew by 33.8 percent.

GROSS STATE PRODUCT

As of 2001, Massachusetts had a gross state product of \$287.8 billion, 2.84 percent of the national total. Massachusetts has the 11th-largest gross state product of all the 50 states. The percentage change in gross state product between 1995 and 2001 was 32.51.

PUBLIC EMPLOYMENT

As of March 2001, there were 332,556 full-time government employed workers in Massachusetts. That year, Massachusetts's public employees earned approximately \$1.17 billion in salaries and wages. There are approximately 521 public employees for every 10,000 Massachusetts residents.

2004 Rank	41
Score	29.41
1999 Rank	47 ↑
Fiscal	★
Regulatory	★★★
Judicial	★★★
Government Size	★★★★★
Welfare	★

EMPLOYMENT IN MAJOR BUSINESS SECTORS

In 2001, there were 177,434 private-sector firms operating in Massachusetts. These firms employed a total of 3,129,980 workers and paid out \$134.67 billion that year in salaries and wages. Number of firms, number of employees, and annual payroll among the major sectors were reported as the following:

	Number of Firms	Number of Employees	Annual Payroll (Thousands)
Forestry, Fishing, Hunting, and Agriculture Support	389	1,000-2,499	NA
Mining	100	1,000-2,499	NA
Construction	16,363	130,246	\$6,526,132
Manufacturing	9,015	390,351	\$18,907,310
Transportation and Warehousing	3,429	72,008	\$2,388,601
Wholesale Trade	9,627	161,794	\$9,219,666
Finance and Insurance	8,880	215,087	\$17,269,940
Other Services	16,888	126,569	\$3,622,832

UNEMPLOYMENT RATE

In 2003, 5.54 percent of the civilian labor force was unemployed, 2.97 percent greater than the national average. Massachusetts has the 22nd-highest unemployment rate in the United States.

MICHIGAN

Michigan is a Midwestern state located in the East North Central region of the United States. It occupies 96,705 square miles, the 11th-largest state in the nation.

POPULATION

As of 2002, Michigan had 10.05 million people, 3.49 percent of the U.S. total and the eighth most populous state. From 1990 to 2000, Michigan's population grew by 6.9 percent. Eighty-two percent of the population resides in metropolitan areas. The net domestic migration during 1995 to 2000 was -91,930 persons. There are approximately 175 persons per square mile. Michigan ranks 15th in population density.

2004 Rank	34
Score	27.90
1999 Rank	27 ↓
Fiscal	☆☆
Regulatory	☆☆☆☆☆
Judicial	☆☆☆☆☆
Government Size	☆☆☆
Welfare	☆☆☆

PERSONAL INCOME PER CAPITA

The personal income per capita in Michigan was \$30,296, the 18th highest in the nation and 2.08 percent below the national average. Between 1996 and 2002, personal income per capita in Michigan grew by 23.87 percent.

GROSS STATE PRODUCT

As of 2001, Michigan had a gross state product of \$320.47 billion, 3.16 percent of the national total. Michigan has the 9th-largest gross state product of all the 50 states. The percentage change in gross state product between 1995 and 2001 was 15.15.

PUBLIC EMPLOYMENT

As of March 2001, there were 499,493 full-time government employed workers in Michigan. That year, Michigan public employees earned approximately \$1.71 billion in salaries and wages. There are approximately 500 public employees for every 10,000 Michigan residents.

EMPLOYMENT IN MAJOR BUSINESS SECTORS

In 2001, there were 236,711 private-sector firms operating in Michigan. These firms employed a total of 4,008,572 workers and paid out \$142.94 billion that year in salaries and wages. Number of firms, number of employees, and annual payroll among the major sectors were reported as the following:

	Number of Firms	Number of Employees	Annual Payroll (Thousands)
Forestry, Fishing, Hunting, and Agriculture Support	647	3,572	\$92,126
Mining	448	6,224	\$327,620
Construction	26,493	190,975	\$8,260,619
Manufacturing	15,431	755,635	\$33,633,825
Transportation and Warehousing	5,214	97,145	\$3,574,254
Wholesale Trade	13,226	188,551	\$8,888,184
Finance and Insurance	12,906	162,700	\$7,677,328
Other Services	24,764	182,819	\$3,942,044

UNEMPLOYMENT RATE

In 2003, 6.92 percent of the civilian labor force was unemployed. This figure is 28 percent greater than the national average. Michigan has the fourth-highest unemployment rate in the United States.

MINNESOTA

Minnesota is a Midwestern state located in the West North Central region of the United States. It occupies 86,943 square miles, the 12th-largest state in the nation.

POPULATION

As of 2002, Minnesota had 5.02 million people, 1.74 percent of the U.S. total. Minnesota is the 21st most populous state in the nation and grew by 12.4 percent from 1990 to 2000. Seventy percent of Minnesotans reside in metropolitan areas. The net domestic migration during 1995 to 2000 was 29,169 persons. There are approximately 61.8 persons per square mile. Minnesota ranks 31st in population density.

2004 Rank	44
Score	31.13
1999 Rank	43 ↓
Fiscal	★
Regulatory	★★★
Judicial	★★★★★
Government Size	★★★
Welfare	★★

PERSONAL INCOME PER CAPITA

The personal income per capita in Minnesota was \$34,071, seventh highest in the nation and 10.12 percent above the national average. Between 1996 and 2002, income per capita in Minnesota grew by 30.85 percent.

GROSS STATE PRODUCT

As of 2001, Minnesota had a gross state product of \$188.05 billion, 1.86 percent of the national total. Minnesota has the 17th-largest gross state product. The percentage change between 1995 and 2001 was 31.07.

PUBLIC EMPLOYMENT

As of March 2001, there were 280,665 full-time government employed workers in Minnesota. That year, Minnesota public employees earned approximately \$932.56 million in salaries and wages. There are approximately 564 public employees for every 10,000 Minnesota residents.

EMPLOYMENT IN MAJOR BUSINESS SECTORS

In 2001, there were 140,968 private-sector firms operating in Minnesota. These firms employed a total of 2,418,159 workers and paid out \$84.86 billion that year in salaries and wages. Number of firms, number of employees, and annual payroll among the major sectors were reported as the following:

	Number of Firms	Number of Employees	Annual Payroll (Thousands)
Forestry, Fishing, Hunting, and Agriculture Support	495	2,351	\$56,623
Mining	167	6,676	\$314,211
Construction	15,399	117,506	\$5,645,327
Manufacturing	8,146	373,586	\$14,845,620
Transportation and Warehousing	4,082	79,090	\$2,774,789
Wholesale Trade	9,159	140,178	\$6,705,189
Finance and Insurance	8,704	139,830	\$7,903,478
Other Services	14,952	122,247	\$2,367,570

UNEMPLOYMENT RATE

In 2003, 4.42 percent of the civilian labor force was unemployed, 17.84 percent less than the national average. Minnesota has the 38th-highest unemployment rate in the United States.

MISSISSIPPI

Mississippi is located in the East South Central region of the Southern United States. The 32nd-largest state, it occupies 48,286 square miles.

POPULATION

As of 2002, Mississippi had 2.87 million people, one percent of the U.S. total and 31st among the states. From 1990 to 2000, the population grew by 10.5 percent. Thirty-six percent of Mississippians reside in metropolitan areas. The net domestic migration during 1995 to 2000 was 26,930 persons. There are approximately 60.6 persons per square mile, ranking Mississippi 32nd in population density.

2004 Rank	28
Score	26.54
1999 Rank	9 ↓
Fiscal	☆☆☆☆
Regulatory	☆☆☆☆
Judicial	☆☆☆☆
Government Size	☆
Welfare	☆☆

PERSONAL INCOME PER CAPITA

The personal income per capita in Mississippi was \$22,372, lowest in the nation and 27.69 percent below the national average. Between 1996 and 2002, personal income per capita in Mississippi grew by 25.72 percent.

GROSS STATE PRODUCT

As of 2001, Mississippi had a gross state product of \$67.13 billion, 0.66 percent of the national total. Mississippi has the 35th-largest gross state product. Between 1995 and 2001 the percentage change was 11.02.

PUBLIC EMPLOYMENT

As of March 2001, there were 192,963 full-time government employed workers in Mississippi. That year, Mississippi public employees earned approximately \$437.13 million in salaries and wages. For every 10,000 Mississippi residents there are approximately 675 public employees.

EMPLOYMENT IN MAJOR BUSINESS SECTORS

In 2001, there were 59,056 private-sector firms operating in Mississippi. These firms employed a total of 926,868 workers and that year paid out \$22.72 billion in salaries and wages. Number of firms, number of employees, and annual payroll among the major sectors were reported as the following:

	Number of Firms	Number of Employees	Annual Payroll (Thousands)
Forestry, Fishing, Hunting, and Agriculture Support	833	5,668	\$131,942
Mining	305	4,518	\$175,355
Construction	4,732	48,334	\$1,355,873
Manufacturing	2,815	200,793	\$5,673,703
Transportation and Warehousing	2,199	25,262	\$756,621
Wholesale Trade	3,054	36,709	\$1,145,114
Finance and Insurance	4,237	33,097	\$1,123,945
Other Services	6,728	41,528	\$660,711

UNEMPLOYMENT RATE

In 2003, 6.38 percent of the civilian labor force was unemployed, 18 percent greater than the national average. Mississippi has the eighth-highest unemployment rate in the United States.

MISSOURI

Missouri is a Midwestern state located in the West North Central region of the United States. It occupies 69,709 square miles, the 21st-largest state in the nation.

POPULATION

As of 2002, Missouri had 5.67 million people, 1.97 percent of the national total. Missouri is the 17th most populous state and from 1990 to 2000, it grew by 9.3 percent. Sixty-eight percent of the population resides in metropolitan areas. The net domestic migration during 1995 to 2000 was 46,053 persons. There are approximately 81.2 persons per square mile. Missouri ranks 27th in population density.

2004 Rank	10
Score	21.82
1999 Rank	13 ↑
Fiscal	☆☆☆☆☆
Regulatory	☆☆☆
Judicial	☆☆
Government Size	☆☆☆☆
Welfare	☆☆☆☆

PERSONAL INCOME PER CAPITA

The personal income per capita in Missouri was \$28,936, the 27th highest in the nation and 6.48 percent below the national average. Between 1996 and 2002, personal income per capita in Missouri grew by 26.34 percent.

GROSS STATE PRODUCT

As of 2001, Missouri had a gross state product of \$181.493 billion, 1.79 percent of the national total and ranking the state 19th overall. The change in gross state product between 1995 and 2001 was 17.93 percent.

PUBLIC EMPLOYMENT

As of March 2001, there were 305,853 full-time government employed workers in Missouri. That year, Missouri public employees earned approximately \$813.6 million in salaries and wages. There are approximately 543 public employees for every 10,000 Missouri residents.

EMPLOYMENT IN MAJOR BUSINESS SECTORS

In 2001, there were 144,071 private-sector firms operating in Missouri. These firms employed a total of 2,404,489 workers and paid out \$74.43 billion that year in salaries and wages. Number of firms, number of employees, and annual payroll among the major sectors were reported as the following:

	Number of Firms	Number of Employees	Annual Payroll (Thousands)
Forestry, Fishing, Hunting, and Agriculture Support	325	1,506	\$29,290
Mining	308	4,776	\$180,669
Construction	15,191	137,383	\$5,378,226
Manufacturing	7,216	335,403	\$11,318,173
Transportation and Warehousing	4,867	85,862	\$2,704,789
Wholesale Trade	8,841	141,344	\$5,087,536
Finance and Insurance	9,479	134,293	\$6,077,221
Other Services	16,063	117,592	\$2,278,134

UNEMPLOYMENT RATE

In 2003, 5.24 percent of the civilian labor force was unemployed, 2.6 percent less than the national average. Missouri has the 31st-highest unemployment rate in the United States.

MONTANA

Montana is located in the Mountain region of the Western United States. It occupies 147,046 square miles, the fourth-largest state in the nation.

POPULATION

As of 2002, Montana had 0.91 million people, 0.32 percent of the total U.S. population. Montana is the 44th most populous state and grew by 12.9 percent from 1990 to 2000. Thirty-four percent of Montanans reside in metropolitan areas. The net domestic migration during 1995 to 2000 was -5,166 persons. There are approximately 6.2 persons per square mile. Montana ranks 48th in population density.

PERSONAL INCOME PER CAPITA

The personal income per capita in Montana was \$25,020, 45th highest in the nation and 19.14 percent below the national average. Between 1996 and 2002, income per capita in Montana grew by 29.9 percent.

GROSS STATE PRODUCT

As of 2001, Montana had a gross state product of \$22.64 billion, 0.22 percent of the national total. Montana has the 47th-largest gross state product of all the 50 states. The percentage change between 1995 and 2001 was 15.96.

PUBLIC EMPLOYMENT

As of March 2001, there were 53,302 full-time government employed workers in Montana. That year, Montana public employees earned approximately \$138.03 million in salaries and wages. For every 10,000 Montana residents there are approximately 590 public employees.

2004 Rank	21
Score	24.63
1999 Rank	26 ↑
Fiscal	☆☆☆
Regulatory	☆☆☆☆
Judicial	☆☆
Government Size	☆
Welfare	☆☆☆

EMPLOYMENT IN MAJOR BUSINESS SECTORS

In 2001, there were 32,294 private-sector firms operating in Montana. These firms employed a total of 301,460 workers and paid out \$7.23 billion that year in salaries and wages. Number of firms, number of employees, and annual payroll among the major sectors were reported as the following:

	Number of Firms	Number of Employees	Annual Payroll (Thousands)
Forestry, Fishing, Hunting, and Agriculture Support	390	1,616	\$46,712
Mining	268	4,486	\$235,770
Construction	3,958	18,607	\$635,106
Manufacturing	1,226	20,759	\$646,323
Transportation and Warehousing	1,117	9,674	\$261,032
Wholesale Trade	1,523	14,766	\$452,575
Finance and Insurance	1,685	13,987	\$469,981
Other Services	3,008	14,520	\$250,359

UNEMPLOYMENT RATE

In 2003, 4.41 percent of the civilian labor force was unemployed, 18 percent less than the national average. Montana has the 39th-highest unemployment rate in the United States.

NEBRASKA

Nebraska is located in the West North Central Region of the Midwestern United States. It occupies 77,358 square miles, the 16th-largest state.

POPULATION

As of 2002, Nebraska had 1.73 million people, 0.60 percent of the U.S. total. Nebraska is the 38th most populous state and grew by 8.4 percent from 1990 to 2000. Fifty-three percent of Nebraskans reside in metropolitan areas. The net domestic migration during 1995 to 2000 was -15,353 persons. There are approximately 22.3 persons per square mile. Nebraska ranks 42nd in population density.

2004 Rank	20
Score	24.23
1999 Rank	23 ↑
Fiscal	☆☆☆
Regulatory	☆☆☆☆☆
Judicial	☆☆
Government Size	☆
Welfare	☆☆☆

PERSONAL INCOME PER CAPITA

The personal income per capita in Nebraska was \$29,771, 22nd-highest in the nation and 3.78 percent below the national average. Personal income per capita in Nebraska grew by 24.82 percent between 1996 and 2002.

GROSS STATE PRODUCT

As of 2001, Nebraska had a gross state product of \$56.97 billion, 0.56 percent of the national total and 36th among the states. The change in gross state product between 1995 and 2001 was 18.38 percent.

PUBLIC EMPLOYMENT

As of March 2001, there were 112,072 full-time government employed workers in Nebraska. That year, Nebraska public employees earned approximately \$305.33 million in salaries and wages. There are approximately 654 public employees for every 10,000 Nebraska residents.

EMPLOYMENT IN MAJOR BUSINESS SECTORS

In 2001, there were 49,710 private-sector firms operating in Nebraska. These firms employed a total of 746,168 workers and paid out \$20.83 billion that year in salaries and wages. Number of firms, number of employees, and annual payroll among the major sectors were reported as the following:

	Number of Firms	Number of Employees	Annual Payroll (Thousands)
Forestry, Fishing, Hunting, and Agriculture Support	207	818	\$28,743
Mining	129	1,134	\$39,087
Construction	5,561	40,004	\$1,394,755
Manufacturing	1,934	108,539	\$3,361,281
Transportation and Warehousing	2,172	28,623	\$929,619
Wholesale Trade	2,981	38,762	\$1,319,510
Finance and Insurance	3,645	53,136	\$1,973,390
Other Services	5,678	35,304	\$621,812

UNEMPLOYMENT RATE

In 2003, 3.79 percent of the civilian labor force was unemployed, 29.55 percent less than the national average. Nebraska has the 48th-highest unemployment rate in the United States.

NEVADA

Nevada is located in the Mountain region of the Western United States. It occupies 110,567 square miles, making it the seventh-largest state in the nation.

POPULATION

As of 2002, Nevada had 2.17 million people, 0.75 percent of the total U.S. population. Nevada is the 35th most populous state in the nation. From 1990 to 2000, the population grew by 66.3 percent. Eighty-eight percent of Nevadans reside in metropolitan areas. The net domestic migration during 1995 to 2000 was 233,934 persons. There are approximately 18.2 persons per square mile. Nevada ranks 43rd in population density.

2004 Rank	12
Score	22.10
1999 Rank	20 ↑
Fiscal	☆☆☆☆
Regulatory	☆☆☆☆
Judicial	☆☆☆☆☆
Government Size	☆☆☆☆☆
Welfare	☆☆☆☆

PERSONAL INCOME PER CAPITA

The personal income per capita in Nevada was \$30,180, 19th highest in the nation and 2.46 percent below the national average. Between 1996 and 2002, personal income per capita in Nevada grew by 16 percent.

GROSS STATE PRODUCT

As of 2001, Nevada had a gross state product of \$79.22 billion, 0.78 percent of the national total. Nevada has the 32nd-largest gross state product. The percentage change in gross state product between 1995 and 2001 was 38.9.

PUBLIC EMPLOYMENT

As of March 2001, there were 87,074 full-time government employed workers in Nevada. That year, Nevada public employees earned approximately \$316.51 million in salaries and wages. There are approximately 413 public employees for every 10,000 Nevada residents.

EMPLOYMENT IN MAJOR BUSINESS SECTORS

In 2001, there were 48,863 private-sector firms operating in Nevada. These firms employed a total of 916,981 workers and paid out \$27.54 billion that year in salaries and wages. Number of firms, number of employees, and annual payroll among the major sectors were reported as the following:

	Number of Firms	Number of Employees	Annual Payroll (Thousands)
Forestry, Fishing, Hunting, and Agriculture Support	53	222	\$5,684
Mining	206	9,771	\$520,579
Construction	4,710	80,298	\$2,984,697
Manufacturing	1,722	40,147	\$1,463,993
Transportation and Warehousing	1,030	30,154	\$775,395
Wholesale Trade	2,512	32,169	\$1,311,376
Finance and Insurance	3,685	32,858	\$1,323,157
Other Services	3,596	29,777	\$643,114

UNEMPLOYMENT RATE

In 2003, 5.28 percent of the civilian labor force was unemployed. This figure is 1.86 percent less than the national average. Nevada has the 29th-highest unemployment rate in the United States.

NEW HAMPSHIRE

New Hampshire is located in the New England region of the Northeastern United States. It occupies 9,283 square miles, the 44th-largest state in the nation.

POPULATION

As of 2002, New Hampshire had 1.28 million people, 0.44 percent of the national total and 41st among the states. From 1990 to 2000 the population grew by 11.4 percent. Sixty percent of the population resides in metropolitan areas. The net domestic migration during 1995 to 2000 was 27,903 persons. There are approximately 137.8 persons per square mile. New Hampshire ranks 20th in population density.

2004 Rank	7
Score	20.19
1999 Rank	6 ↓
Fiscal	☆☆☆
Regulatory	☆☆☆☆
Judicial	☆
Government Size	☆☆☆☆☆
Welfare	☆☆☆☆

PERSONAL INCOME PER CAPITA

The personal income per capita in New Hampshire was \$34,334, the sixth highest in the nation and 10.97 percent above the national average. Between 1996 and 2002, personal income per capita in New Hampshire grew by 33.2 percent.

GROSS STATE PRODUCT

As of 2001, New Hampshire had a gross state product of \$47.18 billion, 0.47 percent of the national total. New Hampshire has the 38th-largest gross state product of all the 50 states. The percentage change in gross state product between 1995 and 2001 was 38.74.

PUBLIC EMPLOYMENT

As of March 2001, there were 65,689 full-time government employed workers in New Hampshire. That year, New Hampshire public employees earned approximately \$188.2 million in salaries and wages. There are approximately 522 public employees for every 10,000 New Hampshire residents.

EMPLOYMENT IN MAJOR BUSINESS SECTORS

In 2001, there were 37,312 private-sector firms operating in New Hampshire. These firms employed a total of 556,877 workers and paid out \$18.49 billion that year in salaries and wages. Number of firms, number of employees, and annual payroll among the major sectors were reported as the following:

	Number of Firms	Number of Employees	Annual Payroll (Thousands)
Forestry, Fishing, Hunting, and Agriculture Support	198	857	\$24,847
Mining	42	250-499	NA
Construction	4,144	26,572	\$1,141,037
Manufacturing	2,249	96,262	\$3,819,083
Transportation and Warehousing	797	14,717	\$417,977
Wholesale Trade	2,069	24,227	\$1,160,687
Finance and Insurance	1,685	23,637	\$1,108,753
Other Services	3,519	22,073	\$485,516

UNEMPLOYMENT RATE

In 2003, 4.18 percent of the civilian labor force was unemployed, 22.3 percent less than the national average. New Hampshire has the 43rd-highest unemployment rate in the United States.

NEW JERSEY

New Jersey is located in the Middle Atlantic region of the Northeastern United States. It occupies 8,215 square miles, the 46th-largest state in the nation.

POPULATION

As of 2002, New Jersey had 8.59 million people, 2.98 percent of the U.S. total. New Jersey is the ninth most populous state and from 1990 to 2000, it grew by 8.6 percent. The entire population resides in metropolitan areas. The net domestic migration during 1995 to 2000 was -182,829 persons. There are approximately 1,134.5 persons per square mile, making New Jersey the most densely populated state.

PERSONAL INCOME PER CAPITA

The personal income per capita in New Jersey was \$39,453, second highest in the nation and 27.51 percent above the national average. Between 1996 and 2002, personal income per capita in New Jersey grew by 30.73 percent.

GROSS STATE PRODUCT

As of 2001, New Jersey had a gross state product of \$365.39 billion, 3.6 percent of the national total. New Jersey has the eighth-largest gross state product of all the 50 states. The percentage change between 1995 and 2001 was 21.05.

PUBLIC EMPLOYMENT

As of March 2001, there were 459,066 full-time government employed workers in New Jersey. That year, New Jersey public employees earned approximately \$1.84 billion in salaries and wages. There are approximately 541 public employees for every 10,000 New Jersey residents.

2004 Rank	42
Score	30.19
1999 Rank	48 ↑
Fiscal	★
Regulatory	★★
Judicial	★★★
Government Size	★★★★
Welfare	★★★

EMPLOYMENT IN MAJOR BUSINESS SECTORS

In 2001, there were 234,558 private-sector firms operating in New Jersey. These firms employed a total of 3,622,788 workers and together paid out \$154.24 billion that year in salaries and wages. Number of firms, number of employees, and annual payroll among the major sectors were reported as the following:

	Number of Firms	Number of Employees	Annual Payroll (Thousands)
Forestry, Fishing, Hunting, and Agriculture Support	247	850	\$20,073
Mining	127	2,552	\$148,722
Construction	22,880	167,978	\$7,718,868
Manufacturing	10,872	379,647	\$17,282,718
Transportation and Warehousing	6,795	161,741	\$5,812,954
Wholesale Trade	16,791	281,004	\$15,163,297
Finance and Insurance	12,877	221,268	\$15,204,421
Other Services	22,578	153,393	\$3,685,272

UNEMPLOYMENT RATE

In 2003, 5.79 percent of the civilian labor force was unemployed, 7.62 percent greater than the national average. New Jersey has the 17th-highest unemployment rate in the United States.

NEW MEXICO

New Mexico is located in the Mountain region of the Western United States. It occupies 121,598 square miles, the fifth-largest state in the nation.

POPULATION

As of 2002, New Mexico had 1.86 million people, 0.64 percent of the national total and 36th among the states. From 1990 to 2000, the population grew by 20.1 percent. Fifty-seven percent of the population resides in metropolitan areas. The net domestic migration during 1995 to 2000 was -29,945 persons. There are approximately 15 persons per square mile. New Mexico ranks 45th in population density.

PERSONAL INCOME PER CAPITA

The personal income per capita in New Mexico was \$23,941, the 47th highest in the nation and 22.62 percent below the national average. Between 1996 and 2002, personal income per capita in New Mexico grew by 26.07 percent.

GROSS STATE PRODUCT

As of 2001, New Mexico had a gross state product of \$55.43 billion, 0.55 percent of the national total. New Mexico has the 37th-largest gross state product and the percentage change between 1995 and 2001 was 28.62 percent.

PUBLIC EMPLOYMENT

As of March 2001, there were 120,517 full-time government employed workers in New Mexico. That year, New Mexico public employees earned approximately \$311.5 million in salaries and wages. There are approximately 659 public employees for every 10,000 New Mexico residents.

2004 Rank	37
Score	28.37
1999 Rank	28 ↓
Fiscal	☆☆☆
Regulatory	☆
Judicial	☆
Government Size	☆
Welfare	☆☆☆

EMPLOYMENT IN MAJOR BUSINESS SECTORS

In 2001, there were 42,686 private-sector firms operating in New Mexico. These firms employed a total of 553,357 workers and paid out \$14.82 billion that year in salaries and wages. Number of firms, number of employees, and annual payroll among the major sectors were reported as the following:

	Number of Firms	Number of Employees	Annual Payroll (Thousands)
Forestry, Fishing, Hunting, and Agriculture Support	89	410	\$10,859
Mining	587	14,119	\$665,760
Construction	4,775	45,732	\$1,363,109
Manufacturing	1,585	36,932	\$1,299,114
Transportation and Warehousing	1,135	13,285	\$380,783
Wholesale Trade	2,088	21,523	\$750,199
Finance and Insurance	2,531	24,652	\$806,303
Other Services	4,180	26,868	\$493,074

UNEMPLOYMENT RATE

In 2003, 5.96 percent of the civilian labor force was unemployed. This figure is 10.78 percent greater than the national average and the 15th-highest unemployment rate in the United States.

NEW YORK

New York is located in the Middle Atlantic region of the Northeastern United States. It occupies 53,989 square miles, the 27th-largest state.

POPULATION

As of 2002, New York had 19.16 million people, 6.64 percent of the U.S. total and the 3rd most populous state in the nation. From 1990 to 2000, the population grew by 5.5 percent. Ninety-two percent of New Yorkers reside in metropolitan areas. The net domestic migration during 1995 to 2000 was -874,248 persons. There are approximately 401.9 persons per square mile. New York ranks sixth in population density.

PERSONAL INCOME PER CAPITA

The personal income per capita in New York was \$36,043, fifth highest in the nation and 16.49 percent above the national average. Between 1996 and 2002, personal income per capita in the state grew by 25 percent.

GROSS STATE PRODUCT

As of 2001, New York had a gross state product of \$826.49 billion, 8.15 percent of the national total. New York has the second-largest gross state product and the percentage change between 1995 and 2001 was 25.85.

PUBLIC EMPLOYMENT

As of March 2001, there were 1,178,230 full-time government employed workers in New York. That year, New York public employees earned approximately \$45.8 billion in salaries and wages. There are approximately 620 public employees for every 10,000 New York residents.

2004 Rank	50
Score	39.50
1999 Rank	50
Fiscal	☆
Regulatory	☆
Judicial	☆☆☆☆☆
Government Size	☆
Welfare	☆

EMPLOYMENT IN MAJOR BUSINESS SECTORS

In 2001, there were 493,863 private-sector firms operating in New York. These firms employed a total of 7,428,349 workers and paid out \$343.5 billion that year in salaries and wages. Number of firms, number of employees, and annual payroll among the major sectors were reported as the following:

	Number of Firms	Number of Employees	Annual Payroll (Thousands)
Forestry, Fishing, Hunting, and Agriculture Support	705	5,842	\$156,033
Mining	383	3,805	\$215,221
Construction	40,834	317,282	\$14,867,996
Manufacturing	21,499	689,425	\$27,241,046
Transportation and Warehousing	10,938	224,257	\$7,532,025
Wholesale Trade	36,019	426,983	\$21,246,074
Finance and Insurance	28,077	610,998	\$80,176,105
Other Services	50,559	346,832	\$8,832,982

UNEMPLOYMENT RATE

In 2003, 6.16 percent of the civilian labor force was unemployed, 14.5 percent greater than the national average. New York has the 12th-highest unemployment rate in the United States.

NORTH CAROLINA

North Carolina is located in the South Atlantic region of the Southern United States. It occupies 52,672 square miles, the 29th-largest state.

POPULATION

As of 2002, North Carolina had a population of 8.32 million, 2.89 percent of the national total. North Carolina is the 11th most populous state and grew by 21.4 percent from 1990 to 2000. Sixty-eight percent of the population resides in metropolitan areas. The net domestic migration during 1995 to 2000 was 337,883 persons. There are approximately 165.2 persons per square mile, ranking North Carolina 17th in population density.

PERSONAL INCOME PER CAPITA

The personal income per capita in North Carolina was \$27,711, 34th highest in the nation and 10.44 percent below the national average. Between 1996 and 2002, personal income per capita in North Carolina grew by 23.34 percent.

GROSS STATE PRODUCT

As of 2001, North Carolina had a gross state product of \$275.62 billion, 2.72 percent of the national total and 12th among the 50 states. The percentage between 1995 and 2001 was 24.7.

PUBLIC EMPLOYMENT

As of March 2001, there were 463,555 full-time government employed workers in North Carolina. That year, North Carolina public employees earned approximately \$1.29 billion in salaries and wages. There are approximately 566 public employees for every 10,000 North Carolina residents.

2004 Rank	24
Score	25.58
1999 Rank	17 ↓
Fiscal	☆☆☆
Regulatory	☆☆☆
Judicial	☆☆☆☆
Government Size	☆☆☆☆
Welfare	☆☆☆

EMPLOYMENT IN MAJOR BUSINESS SECTORS

In 2001, there were 204,075 private-sector firms operating in North Carolina. These firms employed a total of 3,431,554 workers and paid out \$103.03 billion that year in salaries and wages. Number of firms, number of employees, and annual payroll among the major sectors were reported as the following:

	Number of Firms	Number of Employees	Annual Payroll (Thousands)
Forestry, Fishing, Hunting, and Agriculture Support	1,036	6,091	\$143,480
Mining	202	3,492	\$137,824
Construction	25,275	225,740	\$6,919,955
Manufacturing	10,844	690,686	\$21,582,767
Transportation and Warehousing	5,311	100,210	\$3,362,513
Wholesale Trade	12,187	172,306	\$7,235,489
Finance and Insurance	11,583	186,767	\$8,314,281
Other Services	21,350	147,918	\$2,782,158

UNEMPLOYMENT RATE

In 2003, 6.3 percent of the civilian labor force was unemployed, a figure 17 percent greater than the national average. North Carolina has the 11th-highest unemployment rate.

NORTH DAKOTA

North Dakota is located in the West North Central region of the Midwestern United States. The 18th-largest state, it occupies 70,704 square miles.

POPULATION

As of 2002, North Dakota had 0.63 million people or 0.22 percent of the nation. North Dakota is the 48th most populous state and grew by 0.5 percent from 1990 to 2000. Forty-four percent of the population resides in metropolitan areas. The net domestic migration during 1995 to 2000 was -25,207 persons. There are approximately 9.3 persons per square mile. North Dakota ranks 47th in population density.

PERSONAL INCOME PER CAPITA

The personal income per capita in North Dakota was \$26,982, the 36th highest and 12.8 percent below the national average. Between 1996 and 2002, personal income per capita in North Dakota grew by 26.99 percent.

GROSS STATE PRODUCT

As of 2001, North Dakota had a gross state product of \$19 billion, 0.19 percent of the national total and the lowest gross state product of all 50 states. The percentage change in gross state product between 1995 and 2001 was 18.47 percent.

PUBLIC EMPLOYMENT

As of March 2001, there were 38,201 full-time government employed workers in North Dakota. That year, North Dakota public employees earned approximately \$103.88 million in salaries and wages. There are approximately 603 public employees for every 10,000 North Dakota residents.

2004 Rank	18
Score	24.00
1999 Rank	21 ↑
Fiscal	☆☆☆☆
Regulatory	☆☆☆☆☆
Judicial	☆☆☆
Government Size	☆
Welfare	☆☆

EMPLOYMENT IN MAJOR BUSINESS SECTORS

In 2001, there were 20,206 private-sector firms operating in North Dakota. These firms employed a total of 257,335 workers and paid out \$6.44 billion that year in salaries and wages. Number of firms, number of employees, and annual payroll among the major sectors were reported as the following:

	Number of Firms	Number of Employees	Annual Payroll (Thousands)
Forestry, Fishing, Hunting, and Agriculture Support	147	500-999	NA
Mining	181	4,638	\$223,232
Construction	2,043	13,814	\$512,169
Manufacturing	681	24,321	\$762,447
Transportation and Warehousing	946	8,088	\$221,086
Wholesale Trade	1,518	17,362	\$533,864
Finance and Insurance	1,464	13,503	\$441,993
Other Services	2,429	13,791	\$208,211

UNEMPLOYMENT RATE

In 2003, 3.59 percent of the civilian labor force was unemployed, 33.27 percent less than the national average. North Dakota has the 49th-highest unemployment rate in the United States.

OHIO

Ohio is located in the East North Central region of the Midwestern United States. It occupies 44,828 square miles, making it the 34th-largest state in the nation.

POPULATION

As of 2002, Ohio had 11.42 million people, 3.96 percent of the total U.S. population. Ohio is the seventh most populous state in the nation, growing 4.7 percent from 1990 to 2000. Eighty-one percent of the population resides in metropolitan areas. The net domestic migration during 1995 to 2000 was -116,940 persons. There are approximately 277.3 persons per square mile. Ohio ranks ninth in population density.

2004 Rank	43
Score	30.91
1999 Rank	33 ↓
Fiscal	☆☆
Regulatory	☆
Judicial	☆☆☆☆☆
Government Size	☆☆☆
Welfare	☆

PERSONAL INCOME PER CAPITA

The personal income per capita in Ohio was \$29,405, the 25th highest in the nation and 4.96 percent below the national average. Between 1996 and 2002, personal income per capita in Ohio grew by 24.77 percent.

GROSS STATE PRODUCT

As of 2001, Ohio had a gross state product of \$373.71 billion, 3.69 percent of the national total. Ohio has the seventh-largest gross state product. The percentage change in gross state product between 1995 and 2001 was 16.74.

PUBLIC EMPLOYMENT

As of March 2001, there were 607,482 full-time government employed workers in Ohio. That year, Ohio public employees earned approximately \$1.88 billion in salaries and wages. There are approximately 534 public employees for every 10,000 Ohio residents.

EMPLOYMENT IN MAJOR BUSINESS SECTORS

In 2001, there were 269,944 private-sector firms operating in Ohio. These firms employed a total of 4,932,943 workers and paid out \$156.87 billion that year in salaries and wages. Number of firms, number of employees, and annual payroll among the major sectors were reported as the following:

	Number of Firms	Number of Employees	Annual Payroll (Thousands)
Forestry, Fishing, Hunting, and Agriculture Support	387	1,775	\$39,361
Mining	797	11,921	\$548,470
Construction	26,378	228,802	\$8,695,146
Manufacturing	17,597	936,161	\$37,462,633
Transportation and Warehousing	6,972	140,627	\$4,803,391
Wholesale Trade	16,502	262,986	\$10,706,915
Finance and Insurance	17,167	252,318	\$11,204,622
Other Services	30,316	237,566	\$4,545,969

UNEMPLOYMENT RATE

In 2003, 6.06 percent of Ohio's civilian labor force was unemployed. This figure is 12.64 percent greater than the national average. Ohio has the 13th-highest unemployment rate in the United States.

OKLAHOMA

Oklahoma is located in the West South Central region of the Southern United States. It occupies 69,903 square miles, the 20th-largest state in the nation.

POPULATION

As of 2002, Oklahoma’s population of 3.49 million represents 1.21 percent of the national total.

Oklahoma is the 28th most populous state. From 1990 to 2000, the population grew by 9.7 percent. Sixty-one percent of the Oklahomans reside in metropolitan areas. The net domestic migration during 1995 to 2000 was 16,887 persons. There are approximately 50.3 persons per square mile, ranking Oklahoma 35th in population density.

PERSONAL INCOME PER CAPITA

The personal income per capita in Oklahoma was \$25,575, 40th highest in the nation and 17.34 percent below the national average. Between 1996 and 2002, personal income per capita in Oklahoma grew by 26.66 percent.

GROSS STATE PRODUCT

As of 2001, Oklahoma had a gross state product of \$93.86 billion, 0.93 percent of the national total and 29th among the 50 states. The percentage change in gross state product between 1995 and 2001 was 19.67.

PUBLIC EMPLOYMENT

As of March 2001, there were 199,819 full-time government employed workers in Oklahoma. That year, Oklahoma public employees earned approximately \$498.95 million in salaries and wages. There are approximately 578 public employees for every 10,000 Oklahoma residents.

2004 Rank	6
Score	19.56
1999 Rank	18 ↑
Fiscal	☆☆☆☆
Regulatory	☆☆☆☆☆
Judicial	☆☆
Government Size	☆☆
Welfare	☆☆☆☆☆

EMPLOYMENT IN MAJOR BUSINESS SECTORS

In 2001, there were 85,276 private-sector firms operating in Oklahoma. These firms employed a total of 1,212,230 workers and paid out \$33.4 billion that year in salaries and wages. Number of firms, number of employees, and annual payroll among the major sectors were reported as the following:

	Number of Firms	Number of Employees	Annual Payroll (Thousands)
Forestry, Fishing, Hunting, and Agriculture Support	216	1,338	\$28,987
Mining	2,182	29,215	\$1,301,817
Construction	7,594	63,282	\$1,851,778
Manufacturing	4,025	163,256	\$5,508,862
Transportation and Warehousing	2,284	34,902	\$1,138,365
Wholesale Trade	4,868	62,018	\$2,193,921
Finance and Insurance	5,674	55,565	\$1,989,812
Other Services	9,038	65,021	\$1,120,775

UNEMPLOYMENT RATE

In 2003, 5.32 percent of the civilian labor force was unemployed, 1.12 percent less than the national average. Oklahoma has the 27th-highest unemployment rate in the United States.

OREGON

Oregon is located in the Pacific region of the Western United States. It occupies 97,132 square miles, making it the 10th-largest state in the nation.

POPULATION

As of 2002, Oregon had 3.52 million people, 1.22 percent of the nation’s total. Oregon is the 27th most populous state and grew 20.4 percent from 1990 to 2000. Seventy-three percent of Oregonians reside in metropolitan areas. The net domestic migration during 1995 to 2000 was 74,665 persons. There are approximately 35.6 persons per square mile. Oregon ranks 39th in population density.

2004 Rank	29
Score	26.86
1999 Rank	41 ↑
Fiscal	☆☆
Regulatory	☆
Judicial	☆☆☆
Government Size	☆☆
Welfare	☆☆☆☆

PERSONAL INCOME PER CAPITA

The personal income per capita in Oregon was \$28,731, the 29th highest in the nation and 7.14 percent below the national average. Between 1996 and 2002, personal income per capita in Oregon grew by 22.62 percent.

GROSS STATE PRODUCT

As of 2001, Oregon’s gross state product of \$120.05 billion represented 1.18 percent of the national total. Oregon has the 27th-largest gross state product, with a change of 53.51 percent between 1995 and 2001.

PUBLIC EMPLOYMENT

As of March 2001, there were 179,221 full-time government employed workers in Oregon. That year, Oregon public employees earned approximately \$579.98 million in salaries and wages. There are approximately 516 public employees for every 10,000 Oregon residents.

EMPLOYMENT IN MAJOR BUSINESS SECTORS

In 2001, there were 101,003 private-sector firms operating in Oregon. These firms employed a total of 1,364,924 workers and paid out \$44.08 billion that year in salaries and wages. Number of firms, number of employees, and annual payroll among the major sectors were reported as the following:

	Number of Firms	Number of Employees	Annual Payroll (Thousands)
Forestry, Fishing, Hunting, and Agriculture Support	1,529	12,772	\$378,056
Mining	152	2,218	\$70,632
Construction	12,106	79,282	\$2,913,427
Manufacturing	5,587	197,897	\$7,981,322
Transportation and Warehousing	2,664	43,398	\$1,435,450
Wholesale Trade	5,840	81,080	\$3,535,043
Finance and Insurance	5,499	60,654	\$2,753,820
Other Services	8,815	58,489	\$1,182,091

UNEMPLOYMENT RATE

In 2003, 7.93 percent of the civilian labor force was unemployed, 47.4 percent greater than the national average. Oregon has the highest unemployment rate in the United States.

PENNSYLVANIA

Pennsylvania is located in the Middle Atlantic region of the Northeastern United States. With 46,058 square miles, it is the 33rd-largest state.

POPULATION

As of 2002, Pennsylvania had a population of 12.33 million, 4.28 percent of the U.S. total. Pennsylvania is the sixth most populous state and from 1990 to 2000, it grew by 3.4 percent. Eighty-five percent of the population resides in metropolitan areas. The net domestic migration during 1995 to 2000 was -131,296 persons. There are approximately 274 persons per square mile. Pennsylvania ranks 10th in population density.

2004 Rank	45
Score	31.58
1999 Rank	45
Fiscal	☆
Regulatory	☆
Judicial	☆☆☆☆
Government Size	☆☆☆
Welfare	☆☆

PERSONAL INCOME PER CAPITA

The personal income per capita in Pennsylvania was \$31,727, the 15th highest in the nation and 2.54 percent above the national average. Between 1996 and 2002, per-capita income in Pennsylvania grew by 29.41 percent.

GROSS STATE PRODUCT

As of 2001, Pennsylvania had a gross state product of \$408.37 billion, 4.03 percent of the national total and the sixth largest in the nation. The percentage change in gross state product between 1995 and 2001 was 15.97.

PUBLIC EMPLOYMENT

As of March 2001, there were 540,725 full-time government employed workers in Pennsylvania. That year, Pennsylvania public employees earned approximately \$1.79 billion in salaries and wages. There are approximately 440 public employees for every 10,000 Pennsylvania residents.

EMPLOYMENT IN MAJOR BUSINESS SECTORS

In 2001, there were 295,096 private-sector firms operating in Pennsylvania. These firms employed a total of 5,123,111 workers and paid out \$169.85 billion that year in salaries and wages. Number of firms, number of employees, and annual payroll among the major sectors were reported as the following:

	Number of Firms	Number of Employees	Annual Payroll (Thousands)
Forestry, Fishing, Hunting, and Agriculture Support	667	2,842	\$61,639
Mining	932	16,775	\$765,142
Construction	27,869	243,523	\$9,896,134
Manufacturing	16,796	780,266	\$29,311,679
Transportation and Warehousing	6,999	171,746	\$5,611,050
Wholesale Trade	16,447	244,395	\$10,679,240
Finance and Insurance	17,842	307,930	\$14,858,079
Other Services	35,279	252,533	\$4,771,540

UNEMPLOYMENT RATE

In 2003, 5.71 percent of the civilian labor force was unemployed, 6.13 percent greater than the national average. Pennsylvania has the 19th-highest unemployment rate in the United States.

RHODE ISLAND

Located in the New England region of the Northeastern United States, Rhode Island occupies 1,231 square miles, making it the smallest state in the nation.

POPULATION

As of 2002, Rhode Island had 1.07 million people, 0.37 percent of the total U.S. population. Rhode Island is the 43rd most populous state in the nation and decreased by 4.5 percent from 1990 to 2000. Ninety-four percent of the population resides in metropolitan areas. The net domestic migration during 1995 to 2000 was -3,236 persons. There are approximately 1003.2 persons per square mile. Rhode Island ranks second in population density.

PERSONAL INCOME PER CAPITA

The personal income per capita in Rhode Island was \$31,319, the 16th highest in the nation and 1.22 percent above the national average. Between 1996 and 2002, personal income per capita in Rhode Island grew by 27.96 percent.

GROSS STATE PRODUCT

As of 2001, Rhode Island had a gross state product of \$36.94 billion, 0.36 percent of the national total. Rhode Island has the 43rd largest gross state product of all the 50 states. The percentage change between 1995 and 2001 was 27.76.

PUBLIC EMPLOYMENT

As of March 2001, there were 57,016 full-time government employed workers in Rhode Island. That year, Rhode Island public employees earned approximately \$206.14 million in salaries and wages. There are approximately 538 public employees for every 10,000 Rhode Island residents.

2004 Rank	47
Score	33.21
1999 Rank	49 ↑
Fiscal	☆
Regulatory	☆☆
Judicial	☆
Government Size	☆☆☆☆
Welfare	☆

EMPLOYMENT IN MAJOR BUSINESS SECTORS

In 2001, there were 28,539 private-sector firms operating in Rhode Island. These firms employed a total of 414,638 workers and that year paid out \$13.16 billion in salaries and wages. Number of firms, number of employees, and annual payroll among the major sectors were reported as the following:

	Number of Firms	Number of Employees	Annual Payroll (Thousands)
Forestry, Fishing, Hunting, and Agriculture Support	54	100-249	NA
Mining	20	196	\$9,755
Construction	3,110	19,681	\$856,998
Manufacturing	2,185	66,630	\$2,333,170
Transportation and Warehousing	616	7,338	\$211,460
Wholesale Trade	1,504	18,905	\$726,949
Finance and Insurance	1,299	24,332	\$1,204,074
Other Services	2,953	18,352	\$391,031

UNEMPLOYMENT RATE

In 2003, 5.28 percent of the civilian labor force was unemployed, 1.86 percent less than the national average. Rhode Island has the 29th-highest unemployment rate in the United States.

SOUTH CAROLINA

South Carolina is located in the South Atlantic region of the Southern United States. The 40th-largest state, it occupies 31,189 square miles.

POPULATION

As of 2002, South Carolina had 4.11 million people, 1.42 percent of the nation and 25th among the states. South Carolina's population increased 15.1 percent from 1990 to 2000. Seventy percent of the population resides in metropolitan areas. The net domestic migration during 1995 to 2000 was 132,205 persons. There are approximately 133.2 persons per square mile. South Carolina ranks 21st in population density.

PERSONAL INCOME PER CAPITA

The personal income per capita in South Carolina was \$25,400, 42nd highest in the nation and 17.91 percent below the national average. Between 1996 and 2002, personal income per capita in South Carolina grew by 26.37 percent.

GROSS STATE PRODUCT

As of 2001, South Carolina had a gross state product of \$115.2 billion, 1.14 percent of the national total and 28th largest nationwide. The percentage change in gross state product between 1995 and 2001 was 21.35.

PUBLIC EMPLOYMENT

As of March 2001, there were 237,408 full-time government employed workers in South Carolina. That year, South Carolina public employees earned approximately \$619.21 million in salaries and wages. For every 10,000 South Carolina residents there are approximately 584 public employees.

2004 Rank	13
Score	22.41
1999 Rank	16 ↑
Fiscal	☆☆☆☆☆
Regulatory	☆☆☆☆☆
Judicial	☆
Government Size	☆
Welfare	☆☆☆

EMPLOYMENT IN MAJOR BUSINESS SECTORS

In 2001, there were 97,030 private-sector firms operating in South Carolina. These firms employed a total of 1,596,385 workers and that year paid out \$43.84 billion in salaries and wages. Number of firms, number of employees, and annual payroll among the major sectors were reported as the following:

	Number of Firms	Number of Employees	Annual Payroll (Thousands)
Forestry, Fishing, Hunting, and Agriculture Support	643	5,138	\$140,068
Mining	80	1,473	\$55,266
Construction	11,053	112,862	\$3,263,225
Manufacturing	4,430	325,619	\$11,289,409
Transportation and Warehousing	2,345	40,166	\$1,220,573
Wholesale Trade	4,991	62,000	\$2,266,109
Finance and Insurance	5,993	62,996	\$2,304,750
Other Services	10,701	73,337	\$1,292,203

UNEMPLOYMENT RATE

In 2003, 6.32 percent of the civilian labor force was unemployed, 17.47 percent greater than the national average. South Carolina has the 10th-highest unemployment rate in the United States.

SOUTH DAKOTA

South Dakota is located in the West North Central region of the Midwestern United States. It occupies 77,121 square miles, making it the 17th-largest state in the nation.

POPULATION

As of 2002, South Dakota had 0.76 million people, 0.26 percent of the national total. South Dakota is the 46th most populous state in the nation. From 1990 to 2000, the population increased by 8.5 percent. Thirty-five percent of South Dakotans reside in metropolitan areas. The net domestic migration during 1995 to 2000 was -12,468 persons. There are approximately 9.9 persons per square mile. The state ranks 46th in population density.

2004 Rank	15
Score	23.34
1999 Rank	5 ↓
Fiscal	☆☆☆☆☆
Regulatory	☆☆☆
Judicial	☆☆
Government Size	☆☆☆☆
Welfare	☆☆☆☆

PERSONAL INCOME PER CAPITA

The personal income per capita in South Dakota was \$26,894, the 37th highest in the nation and 13.08 percent below the national average. Between 1996 and 2002, per capita income grew by 24.74 percent.

GROSS STATE PRODUCT

As of 2001, South Dakota had a gross state product of \$24.25 billion, 0.24 percent of the national total. South Dakota has the 46th-largest gross state product. The change between 1995 and 2001 was 23.59 percent.

PUBLIC EMPLOYMENT

As of March 2001, there were 40,739 full-time government employed workers in South Dakota. That year, South Dakota public employees earned approximately \$100.05 million in salaries and wages. For every 10,000 South Dakota residents, there are approximately 538 public employees.

EMPLOYMENT IN MAJOR BUSINESS SECTORS

In 2001, there were 24,032 private-sector firms operating in South Dakota. These firms employed a total of 310,035 workers and paid out \$7.61 billion that year in salaries and wages. Number of firms, number of employees, and annual payroll among the major sectors were reported as the following:

	Number of Firms	Number of Employees	Annual Payroll (Thousands)
Forestry, Fishing, Hunting, and Agriculture Support	106	250-499	NA
Mining	61	1,181	46,474
Construction	2,748	16,318	\$516,256
Manufacturing	922	47,077	\$1,401,366
Transportation and Warehousing	1,025	7,312	\$186,866
Wholesale Trade	1,324	15,708	\$477,782
Finance and Insurance	1,741	24,303	\$759,785
Other Services	2,675	13,662	\$215,911

UNEMPLOYMENT RATE

In 2003, 3.23 percent of the civilian labor force was unemployed, 39.96 percent less than the national average. South Dakota has the lowest unemployment rate in the United States.

TENNESSEE

Tennessee is located in the East South Central region of the Southern United States. It occupies 42,146 square miles, the 36th-largest state in the nation.

POPULATION

As of 2002, Tennessee had a population of 5.8 million, 2.01 percent of the U.S. total. Tennessee is the 16th most populous state and grew 16.7 percent from 1990 to 2000. Sixty-eight percent of the population resides in metropolitan areas. The net domestic migration during 1995 to 2000 was 146,314 persons. There are approximately 138 persons per square mile. Tennessee ranks 19th in population density.

PERSONAL INCOME PER CAPITA

The personal income per capita in Tennessee was \$27,671, the 35th-highest in the nation and 10.57 percent below the national average. Between 1996 and 2002, personal income per capita in Tennessee grew by 24.32 percent.

GROSS STATE PRODUCT

As of 2001, Tennessee had a gross state product of \$182.52 billion, 1.8 percent of the national total. Tennessee has the 18th-largest gross state product, with a change of 21.48 percent between 1995 and 2001.

PUBLIC EMPLOYMENT

As of March 2001, there were 305,583 full-time government employed workers in Tennessee. That year, Tennessee public employees earned approximately \$804.78 million in salaries and wages. There are approximately 532 public employees for every 10,000 Tennessee residents.

2004 Rank	26
Score	26.16
1999 Rank	19↓
Fiscal	☆☆☆☆☆
Regulatory	☆☆
Judicial	☆☆☆
Government Size	☆☆☆☆
Welfare	☆☆

EMPLOYMENT IN MAJOR BUSINESS SECTORS

In 2001, there were 129,659 private-sector firms operating in Tennessee. These firms employed a total of 2,378,510 workers and that year paid out \$70.72 billion in salaries and wages. Number of firms, number of employees, and annual payroll among the major sectors were reported as the following:

	Number of Firms	Number of Employees	Annual Payroll (Thousands)
Forestry, Fishing, Hunting, and Agriculture Support	342	1,522	\$35,243
Mining	231	4,096	\$152,697
Construction	10,869	126,821	\$4,196,537
Manufacturing	7,013	448,948	\$15,236,730
Transportation and Warehousing	4,266	110,707	\$3,842,129
Wholesale Trade	7,823	130,439	\$5,172,732,
Finance and Insurance	8,549	107,781	\$4,919,050
Other Services	14,497	115,301	\$2,135,243

UNEMPLOYMENT RATE

In 2003, 5.03 percent of the civilian labor force was unemployed, 6.51 percent less than the national average. Tennessee has the 33rd-highest unemployment rate in the United States.

TEXAS

Texas is located in the West South Central region of the Southern United States. The second-largest state, it occupies 267,277 square miles.

POPULATION

As of 2002, Texas was the second most populous state with 21.78 million people, 7.55 percent of the national total. From 1990 to 2000, the population increased by 22.8 percent. Eighty-five percent of Texans reside in metropolitan areas. The net domestic migration during 1995 to 2000 was 148,240 persons. There are approximately 79.6 persons per square mile. Texas ranks 28th in population density.

2004 Rank	17
Score	23.52
1999 Rank	8 ↓
Fiscal	☆☆☆☆
Regulatory	☆☆
Judicial	☆☆☆☆
Government Size	☆☆☆☆
Welfare	☆☆☆☆☆

PERSONAL INCOME PER CAPITA

The personal income per capita in Texas was \$28,551, 30th highest in the nation and 7.72 percent below the national average. Between 1996 and 2002, personal income per capita in Texas grew by 28.12 percent.

GROSS STATE PRODUCT

As of 2001, Texas had a gross state product of \$763.87 billion, 7.54 percent of the national total and third largest of all 50 states. The change in Texas's gross state product between 1995 and 2001 was 32.38 percent.

PUBLIC EMPLOYMENT

As of March 2001, there were 1,209,448 full-time government employed workers in Texas. That year, Texas public employees earned approximately \$3.31 billion in salaries and wages. For every 10,000 Texas residents there are approximately 567 public employees.

EMPLOYMENT IN MAJOR BUSINESS SECTORS

In 2001, there were 473,868 private-sector firms operating in Texas. These firms employed a total of 8,161,321 workers and paid out \$282.32 billion that year in salaries and wages. Number of firms, number of employees, and annual payroll among the major sectors were reported as the following:

	Number of Firms	Number of Employees	Annual Payroll (Thousands)
Forestry, Fishing, Hunting, and Agriculture Support	1,325	8,871	\$221,794
Mining	6,150	115,834	\$6,912,539
Construction	37,749	523,117	\$18,216,111
Manufacturing	21,370	948,284	\$37,287,927
Transportation and Warehousing	13,976	311,940	\$12,245,878
Wholesale Trade	32,174	456,666	\$20,538,348
Finance and Insurance	30,445	407,005	\$19,728,377
Other Services	48,108	399,595	\$7,799,255

UNEMPLOYMENT RATE

In 2003, 6.59 percent of the civilian labor force was unemployed, 22.5 percent greater than the national average. Texas has the sixth-highest unemployment rate in the United States.

UTAH

Utah is located in the Mountain region of the Western United States. With 84,904 square miles, it is the 13th-largest state.

POPULATION

As of 2002, Utah's 2.32 million people represent 0.8 percent of the total U.S. population. Utah is the 34th most populous state and grew 29.6 percent from 1990 to 2000. Seventy-seven percent of the population resides in metropolitan areas. The net domestic migration during 1995 to 2000 was 25,296 persons. There are approximately 27.2 persons per square mile. Utah ranks 41st in population density.

PERSONAL INCOME PER CAPITA

The personal income per capita in Utah was \$24,306, the 46th highest in the nation and 21.44 percent below the national average. Per capita income grew 23.79 percent between 1996 and 2002.

GROSS STATE PRODUCT

As of 2001, Utah had a gross state product of \$70.41 billion, ranking 33rd among the states and 0.69 percent of the national total. The percentage change in gross state product between 1995 and 2001 was 36.13.

PUBLIC EMPLOYMENT

As of March 2001, there were 126,274 full-time government employed workers in Utah. That year, Utah public employees earned approximately \$355.04 million in salaries and wages. There are approximately 556 public employees for every 10,000 Utah residents.

2004 Rank	5
Score	19.35
1999 Rank	3 ↓
Fiscal	☆☆☆☆
Regulatory	☆☆☆☆☆
Judicial	☆
Government Size	☆☆
Welfare	☆☆☆☆☆

EMPLOYMENT IN MAJOR BUSINESS SECTORS

In 2001, there were 56,851 private-sector firms operating in Utah. These firms employed a total of 914,829 workers and paid out \$26.06 billion that year in salaries and wages. Number of firms, number of employees, and annual payroll among the major sectors were reported as the following:

	Number of Firms	Number of Employees	Annual Payroll (Thousands)
Forestry, Fishing, Hunting, and Agriculture Support	58	233	\$7,177
Mining	295	7,996	\$378,273
Construction	8,251	61,911	\$2,029,819
Manufacturing	3,001	120,445	\$4,241,127
Transportation and Warehousing	1,467	38,239	\$1,295,264
Wholesale Trade	3,310	44,014	\$1,670,164
Finance and Insurance	4,106	44,759	\$1,693,531
Other Services	4,001	43,390	\$1,023,908

UNEMPLOYMENT RATE

In 2003, 5.3 percent of the civilian labor force was unemployed. This figure is 1.49 percent less than the national average. Utah has the 28th-highest unemployment rate in the United States.

VERMONT

Vermont is located in the New England region of the Northeastern United States. It occupies 9,615 square miles, the 43rd-largest state in the nation.

POPULATION

As of 2002, Vermont had 0.62 million people, 0.21 percent of the national total, making it the 49th most populous state. From 1990 to 2000, the population increased by 8.2 percent. Twenty-eight percent of the population resides in metropolitan areas. The net domestic migration during 1995 to 2000 was 2,254 persons. There are approximately 65.8 persons per square mile. Vermont ranks 30th in population density.

PERSONAL INCOME PER CAPITA

The personal income per capita in Vermont was \$29,567, 24th highest in the nation and 4.44 percent below the national average. Personal income per capita in Vermont grew by 33.81 percent between 1996 and 2002.

GROSS STATE PRODUCT

As of 2001, Vermont's gross state product of \$19.15 billion represented 0.19 percent of the national total. Vermont has the 49th-largest gross state product. The change between 1995 and 2001 was 27.7 percent.

PUBLIC EMPLOYMENT

As of March 2001, there were 36,968 full-time government employed workers in Vermont. That year, Vermont public employees earned approximately \$104.25 million in salaries and wages. There are approximately 603 public employees for every 10,000 Vermont residents.

2004 Rank	36
Score	28.04
1999 Rank	34 ↓
Fiscal	☆☆
Regulatory	☆☆☆☆☆
Judicial	☆
Government Size	☆☆
Welfare	☆

EMPLOYMENT IN MAJOR BUSINESS SECTORS

In 2001, there were 21,449 private-sector firms operating in Vermont. These firms employed a total of 260,227 workers and that year paid out \$7.29 billion in salaries and wages. Number of firms, number of employees, and annual payroll among the major sectors were reported as the following:

	Number of Firms	Number of Employees	Annual Payroll (Thousands)
Forestry, Fishing, Hunting, and Agriculture Support	145	517	\$14,118
Mining	63	500-999	NA
Construction	2,664	14,093	\$510,753
Manufacturing	1,180	48,374	\$1,825,379
Transportation and Warehousing	524	5,170	\$132,737
Wholesale Trade	876	11,077	\$413,855
Finance and Insurance	933	10,167	\$422,066
Other Services	2,051	9,797	\$187,887

UNEMPLOYMENT RATE

In 2003, 4.09 percent of the civilian labor force was unemployed, 23.98 percent less than the national average. Vermont has the 44th-highest unemployment rate in the United States.

VIRGINIA

Virginia is located in the Atlantic region of the Southern United States. It occupies 42,326 square miles, the 35th-largest state in the nation.

POPULATION

As of 2002, Virginia had 7.29 million people, 2.53 percent of the total U.S. population. Virginia is the 12th most populous state and grew 14.4 percent from 1990 to 2000. Seventy-eight percent of Virginians reside in metropolitan areas. The net domestic migration during 1995 to 2000 was 75,730 persons. There are approximately 178.8 persons per square mile, ranking Virginia 14th in population density.

PERSONAL INCOME PER CAPITA

The personal income per capita in Virginia was \$32,922 in 2002, 11th highest in the nation and 6.4 percent above the national average. Between 1996 and 2002, the personal per capita income grew by 29.81 percent.

GROSS STATE PRODUCT

As of 2001, Virginia had a gross state product of \$273.07 billion, 2.69 percent of the national total. Virginia has the 13th-largest gross state product of all 50 states, with a change of 25.48 percent between 1995 and 2001.

PUBLIC EMPLOYMENT

As of March 2001, there were 397,420 full-time government employed workers in Virginia. That year, Virginia public employees earned approximately \$1.18 billion in salaries and wages. For every 10,000 Virginia residents there are approximately 553 public employees.

2004 Rank	3
Score	18.86
1999 Rank	2 ↓
Fiscal	☆☆☆☆☆
Regulatory	☆☆☆☆
Judicial	☆☆☆
Government Size	☆☆☆☆☆
Welfare	☆☆☆☆☆

EMPLOYMENT IN MAJOR BUSINESS SECTORS

In 2001, there were 176,532 private-sector firms operating in Virginia. These firms employed a total of 2,943,864 workers and paid out \$102.54 billion that year in salaries and wages. Number of firms, number of employees, and annual payroll among the major sectors were reported as the following:

	Number of Firms	Number of Employees	Annual Payroll (Thousands)
Forestry, Fishing, Hunting, and Agriculture Support	766	3,718	\$90,618
Mining	387	11,212	\$481,804
Construction	20,370	199,037	\$6,730,907
Manufacturing	5,804	343,849	\$12,574,142
Transportation and Warehousing	4,843	79,971	\$2,883,208
Wholesale Trade	7,756	110,988	\$4,798,823
Finance and Insurance	10,057	165,930	\$7,633,277
Other Services	20,000	155,888	\$3,887,164

UNEMPLOYMENT RATE

In 2003, 3.97 percent of the civilian labor force was unemployed, 26.21 percent less than the national average. Virginia has the 46th-highest unemployment rate.

WASHINGTON

Washington is located in the Pacific region of the Western United States. The 19th-largest state, it occupies 70,637 square miles.

POPULATION

As of 2002, Washington had a population of 6.07 million, 2.1 percent of the nation’s total and 15th among the states. From 1990 to 2000, the population increased by 21.1 percent. Eighty-three percent of Washingtonians reside in metropolitan areas. The net domestic migration during 1995 to 2000 was 75,330 persons. There are approximately 88.6 persons per square mile. Washington ranks 25th in population density.

PERSONAL INCOME PER CAPITA

The personal income per capita in Washington was \$32,677, the 13th highest in the nation and 5.61 percent above the national average. Between 1996 and 2002, personal income per capita grew by 30.57 percent.

GROSS STATE PRODUCT

As of 2001, Washington had a gross state product of \$222.95 billion, 2.2 percent of the national total and 14th-largest among the 50 states. The percentage change in gross state product between 1995 and 2001 was 31.49.

PUBLIC EMPLOYMENT

As of March 2001, there were 306,955 full-time government employed workers in Washington. That year, Washington public employees earned approximately \$1.1 billion in salaries and wages. There are approximately 513 public employees for every 10,000 Washington residents.

2004 Rank	31
Score	27.28
1999 Rank	40 ↑
Fiscal	☆☆
Regulatory	☆☆☆☆
Judicial	☆☆☆☆
Government Size	☆☆
Welfare	☆☆☆

EMPLOYMENT IN MAJOR BUSINESS SECTORS

In 2001, there were 164,072 private-sector firms operating in Washington. These firms employed a total of 2,294,285 workers and paid out \$86.53 billion that year in salaries and wages. Number of firms, number of employees, and annual payroll among the major sectors were reported as the following:

	Number of Firms	Number of Employees	Annual Payroll (Thousands)
Forestry, Fishing, Hunting, and Agriculture Support	1,711	15,345	\$518,531
Mining	191	2,964	\$129,936
Construction	20,982	153,098	\$6,182,328
Manufacturing	7,565	316,227	\$14,457,831
Transportation and Warehousing	4,174	79,358	\$3,004,941
Wholesale Trade	9,771	125,307	\$5,518,287
Finance and Insurance	9,081	101,117	\$5,078,688
Other Services	15,223	106,790	\$2,332,791

UNEMPLOYMENT RATE

In 2003, 7.32 percent of the civilian labor force was unemployed, 36.06 percent greater than the national average. Washington has the third-highest rate of unemployment in the United States.

WEST VIRGINIA

West Virginia is located in the Atlantic region of the Southern United States. It occupies 24,231 square miles, the 41st-largest state.

POPULATION

As of 2002, West Virginia, the 37th most populous state, had 1.81 million people, 0.62 percent of the national total. From 1990 to 2000, the population increased by 0.8 percent. Forty-two percent of West Virginians reside in metropolitan areas. The net domestic migration during 1995 to 2000 was -10,754 persons. There are approximately 75.1 persons per square mile. West Virginia ranks 29th in population density.

2004 Rank	32
Score	27.73
1999 Rank	32
Fiscal	☆☆☆
Regulatory	☆☆
Judicial	☆☆
Government Size	☆☆
Welfare	☆☆

PERSONAL INCOME PER CAPITA

The personal income per capita in West Virginia was \$23,688, 48th highest in the nation and 23.44 percent below the national average. Between 1996 and 2002, personal income per capita grew by 27.53 percent.

GROSS STATE PRODUCT

As of 2001, West Virginia had a gross state product of \$42.37 billion, 40th among the 50 states and 0.42 percent of the national total. The percentage change in gross state product between 1995 and 2001 was 6.68.

PUBLIC EMPLOYMENT

As of March 2001, there were 96,534 full-time government employed workers in West Virginia. That year, West Virginia public employees earned approximately \$251.07 million in salaries and wages. There are approximately 536 public employees for every 10,000 West Virginia residents.

EMPLOYMENT IN MAJOR BUSINESS SECTORS

In 2001, there were 40,439 private-sector firms operating in West Virginia. These firms employed a total of 555,613 workers and paid out \$14.48 billion that year in salaries and wages. Number of firms, number of employees, and annual payroll among the major sectors were reported as the following:

	Number of Firms	Number of Employees	Annual Payroll (Thousands)
Forestry, Fishing, Hunting, and Agriculture Support	364	1,000-2,499	NA
Mining	653	19,956	\$1,014,970
Construction	4,286	27,540	\$853,733
Manufacturing	1,471	72,454	\$2,628,263
Transportation and Warehousing	1,499	13,732	\$428,648
Wholesale Trade	1,800	21,631	\$698,411
Finance and Insurance	2,056	21,788	\$631,429
Other Services	4,961	27,924	\$451,929

UNEMPLOYMENT RATE

In 2003, 6.06 percent of the civilian labor force was unemployed, 12.64 percent greater than the national average. West Virginia has the nation's 13th-highest unemployment rate.

WISCONSIN

Wisconsin is located in the East North Central region of the Midwestern United States. It occupies 65,499 square miles, the 22nd-largest state.

POPULATION

As of 2002, Wisconsin had 5.44 million people, 1.89 percent of the U.S. total. Wisconsin is the 20th most populous state and grew 9.6 percent from 1990 to 2000. Sixty-eight percent of Wisconsin’s population resides in metropolitan areas. The net domestic migration during 1995 to 2000 was 7,282 persons. There are approximately 98.8 persons per square mile. Wisconsin ranks 24th in population density.

PERSONAL INCOME PER CAPITA

The personal income per capita in Wisconsin was \$29,923, the 21st highest in the nation and 3.29 percent below the national average. Per-capita income in Wisconsin grew by 28.73 percent between 1996 and 2002.

GROSS STATE PRODUCT

As of 2001, Wisconsin had a gross state product of \$177.35 billion, 1.75 percent of the national total. Wisconsin has the 20th-largest gross state product, with a change of 23.77 percent between 1995 and 2001.

PUBLIC EMPLOYMENT

As of March 2001, there were 288,252 full-time government employed workers in Wisconsin. That year, Wisconsin public employees earned approximately \$934.54 million in salaries and wages. For every 10,000 Wisconsin residents, there are approximately 534 public employees.

2004 Rank	38
Score	28.75
1999 Rank	37 ↓
Fiscal	★
Regulatory	★★★
Judicial	★★★★★
Government Size	★★
Welfare	★★★★

EMPLOYMENT IN MAJOR BUSINESS SECTORS

In 2001, there were 140,540 private-sector firms operating in Wisconsin. These firms employed a total of 2,400,575 workers and that year paid out \$74.31 billion in salaries and wages. Number of firms, number of employees, and annual payroll among the major sectors were reported as the following:

	Number of Firms	Number of Employees	Annual Payroll (Thousands)
Forestry, Fishing, Hunting, and Agriculture Support	611	3,181	\$88,758
Mining	169	2,464	\$127,863
Construction	16,059	119,934	\$5,165,921
Manufacturing	9,846	543,531	\$20,145,168
Transportation and Warehousing	5,157	79,075	\$2,388,980
Wholesale Trade	7,832	119,769	\$4,706,617
Finance and Insurance	8,467	132,936	\$5,754,624
Other Services	15,024	112,711	\$2,056,431

UNEMPLOYMENT RATE

In 2003, 5.53 percent of the civilian labor force was unemployed, 2.79 percent less than the national average. Wisconsin has the 23rd-highest rate of unemployment in the nation.

WYOMING

Wyoming is located in the Mountain region of the Western United States. It occupies 97,818 square miles, the ninth-largest state in the nation.

POPULATION

As of 2002, Wyoming had 0.50 million people, 0.17 percent of the total population, making it the least-populous state. From 1990 to 2000, the population grew by 8.9 percent. Thirty percent of the population resides in metropolitan areas. The net domestic migration from 1995 to 2000 was -12,527 persons. There are approximately five persons per square mile, ranking Wyoming 49th in population density.

PERSONAL INCOME PER CAPITA

The personal income per capita in Wyoming was \$30,570, 17th highest in the nation and 1.17 percent below the national average. Between 1996 and 2002, personal income per capita in Wyoming grew by 40.32 percent.

GROSS STATE PRODUCT

As of 2001, Wyoming had a gross state product of \$20.42 billion, representing 0.20 percent of the national total and ranking 48th among the 50 states. The change in gross state product between 1995 and 2001 was 16.89 percent.

PUBLIC EMPLOYMENT

As of March 2001, there were 40,449 full-time government employed workers in Wyoming. That year, Wyoming public employees earned approximately \$105.48 million in salaries and wages. There are approximately 819 public employees for every 10,000 Wyoming residents.

2004 Rank	9
Score	21.24
1999 Rank	4 ↓
Fiscal	☆☆
Regulatory	☆☆
Judicial	☆
Government Size	☆☆
Welfare	☆☆☆☆☆

EMPLOYMENT IN MAJOR BUSINESS SECTORS

In 2001, there were 18,453 private-sector firms operating in Wyoming. These firms employed a total of 178,299 workers and paid out \$4.92 billion that year in salaries and wages. Number of firms, number of employees, and annual payroll among the major sectors were reported as the following:

	Number of Firms	Number of Employees	Annual Payroll (Thousands)
Forestry, Fishing, Hunting, and Agriculture Support	86	100-249	NA
Mining	704	17,495	\$926,493
Construction	2,458	14,439	\$482,633
Manufacturing	563	9,282	\$320,586
Transportation and Warehousing	671	5,656	\$189,606
Wholesale Trade	817	6,801	\$260,445
Finance and Insurance	826	6,918	\$225,313
Other Services	1,762	8,406	\$159,216

UNEMPLOYMENT RATE

In 2003, 4.4 percent of the civilian labor force was unemployed, 18.2 percent less than the national average. Wyoming has the 40th-highest unemployment rate in the United States.

APPENDIX A: VARIABLES AND DATA SOURCES

The indicators are listed by sector. The sources are identified at the end of this appendix. The indicators marked with an asterisk (*) are used in data set 3, which was the basis for the final index (see appendix B for more details on the data sets).

Fiscal Sector	Source
1. Top Capital Gains Tax Rate on Individuals 2003	1
2. Sales, Gross Receipts and Excise Taxes as a Percent of Personal Income 1999-2000	1
3. Does State Levy Estate, Inheritance, and/or Gift Taxes beyond the Federal Pick-up Tax? 2003	1
4. Unemployment Tax (Minimum State Tax Rate Applied to State Wage Base as a Share of State Average Annual Pay) 2002	1
5. Health Care Cost Index (Per Capita Personal Health Care Spending Relative to the U.S. Average) 1998	1
6. Electricity Utility Costs (Index of State's Average Revenue per Kilowatt-hour for Electricity Utilities) 2003	1
7. Tax Freedom Day 2003: The Day When the Average Individual Stops Working to Pay Taxes*	2
8. State and Local Tax Revenue Per Capita 2000	3
9. Per Capita State Tax Revenue 2002*	3
10. State and Local Taxes as a Percent of Personal Income 2000	3
11. Individual Income Tax Per Capita 2000*	6
12. Per Capita State and Local Government Property Tax Revenue 2000*	7
13. Average State Tax (\$) Per Acre of Agricultural Real Estate 1995	9
14. Property Taxes Per Capita 1999	6 (2002 version)
15. Property Taxes as a Percentage of Personal Income 2000	6
16. Tax Burden (\$) on High Income Family 2001*	6
17. Highest Personal Income Tax Rate (%) 2002	6
18. Lowest Individual Income Tax Rate (%) 2003*	4
19. Highest Individual Income Tax Rate (%) 2003*	4
20. Lowest Corporate Income Tax Rate (%) 2003*	4
21. Highest Corporate Income Tax Rate (%) 2003*	4
22. Per Capita State and Local Government Sales Tax Revenue 2000*	7
23. Per Capita State Government General Sales and Gross Receipts Tax Revenue 2002	8
24. Per Capita State Government Insurance Premium Tax Revenue 2002	8
25. State General Sales and Gross Receipts Tax Rate (%) as of 01/2002*	10 (2002, vol. 34, 287)
26. Per Capita State Government Public Utilities Sales Tax Revenue 2002	8
27. Per Capita State Government Motor Fuels Sales Tax Revenue 2002	8
28. State Excise Gas Tax Rate (cents per gallon) as of 01/2002*	10 (2002, vol. 34, 287)
29. State Excise Diesel Tax Rate (cents per gallon) as of 01/2003*	10 (2003, vol. 35, 348)
30. Per Capita State Government Tobacco Products Tax Revenue 2002*	8
31. State Excise Tax Per Pack of Cigarettes (cents) 2003*	3
32. State Distilled Spirits Excise Tax Rate (dollars per gallon) as of 01/2003*	10 (2003, vol. 35, 348)
33. Per Capita State Government Alcoholic Beverage Sales Tax Revenue 2002*	8
34. Per Capita State Government Motor Vehicle and Operators License Tax Revenue 2002*	8
35. Per Capita State Government Total License Taxes 2002*	8
36. Per Capita State Government Corporation License Tax Revenue 2002*	8
37. Per Capita State Government Hunting and Fishing License Tax Revenue 2002*	8
38. Per Capita State Government Corporation Net Income Tax Revenue 2002*	8
39. Per Capita State Government Occupancy and Business Tax Revenue 2002*	8
40. Per Capita State Government Death and Gift Tax Revenue 2002*	8
41. Per Capita State Government Severance Tax Revenue 2002*	8
42. Local Expenditures as Percent of Total State and Local Expenditures 2000	7
43. Local Revenue as Percent of State and Local Revenue 2000	7
44. Difference Between Per Capita State & Local Revenue and State & Local Expenditure 2000*	7
45. Per Capita State and Local Government Debt Outstanding 2000*	7

46. Standard & Poor's State Bond Ratings 2001	11
47. Does State Have Tax Exemptions for Fertilizer, Seed, and Feed?*	5
48. Does State Have Tax Exemptions for Insecticides and Pesticides?*	5
49. Does State Have Tax Exemptions for Grocery Food?*	5
50. Does State Have Tax Exemptions for Meals?*	5
51. Does State Have Tax Exemptions for Custom Software?*	5

Regulatory Sector

Source

52. Licensing Requirements for the Following Non-health Professions: 2000*	10 (2001, vol. 33, 378)
A. CPA	
B. Architect	
C. Auctioneer	
D. Barber	
E. Cosmetologist	
F. Embalmer	
G. Prof Engineer	
H. Funeral Director	
I. Insurance Agent	
J. Insurance Broker	
K. Landscape Architect	
L. Polygraph Examiner	
M. Real Estate Agent	
N. Real Estate Broker	
O. Surveyor	
53. Licensing Requirements for the Following Health Professions: 2000*	10 (2001, vol. 33, 379)
A. Acupuncturist	
B. Chiropractor	
C. Prof Counselor	
D. Alcoholism Counselor	
E. Drug Counselor	
F. Pastoral Counselor	
G. Substance Abuse Counselor	
H. Dentist	
I. Dental Assistant	
J. Dental Hygienist	
K. Denturist	
L. Dietitian	
M. Emergency Medical Technician	
N. Hearing Aid Dealer and Fitter	
O. Homeopath	
P. Massage Therapist	
Q. Licensed Practical Nurse	
R. Nurse Midwife	
S. Nurse Practitioner	
T. Registered Nurse	
U. Nursing Home Admin	
V. Occupational Therapist	
W. Occupational Therapy Assistant	
X. Optician	
Y. Optometrist	
Z. Osteopath	
AA. Pharmacist	
BB. Physical Therapist	
CC. Physical Therapist Assistant	
DD. Physician	

EE. Physician Assistant	
FF. Podiatrist	
GG. Psychologist	
HH. Radiological Technologist	
II. Radiation Therapist	
JJ. Respiratory Therapist	
KK. Sanitarian	
LL. Social Worker	
MM. Speech Pathologist	
NN. Marriage and Family Therapist	
OO. Veterinarian	
PP. Veterinary Tech	
54. Continuing Education Requirements for Selected Professions: 1999*	10 (2001, vol. 33, 385)
A. Architects	
B. CPA	
C. Dentist	
D. Prof Engineer	
E. Lawyers	
F. Nurses	
G. Nursing Home Admin	
H. Optometry	
I. Pharmacy	
J. Physical Therapist	
K. Physician	
L. Psychology	
M. Real Estate	
N. Social Work	
O. Vet Medicine	
55. Percent Land Owned by Federal Government 2000*	6
56. "Buy American" Laws Affecting Public Procurement as of 1997	10 (2001, vol. 33, 358)
57. Preference to Small Business Affecting Public Procurement as of 1997*	10 (2001, vol. 33, 358)
58. Preference to Recycled Plastic Affecting Public Procurement as of 1997*	10 (2001, vol. 33, 358)
59. Preference to Recycled Paper Affecting Public Procurement as of 1997*	10 (2001, vol. 33, 358)
60. Preference Other Products with Recycled Content Affecting Public Procurement as of 1997*	10 (2001, vol. 33, 358)
61. Preference to Other Products or Businesses Affecting Public Procurement as of 1997*	10 (2001, vol. 33, 358)
62. Purchases of Recycled Products Required by Law as of 1997*	10 (2001, vol. 33, 359)
63. Does State Purchase Recycled Oil (1997)?*	10 (2001, vol. 33, 359)
64. Does State Purchase Alternative Fuel (1997)?*	10 (2001, vol. 33, 359)
65. Does State Purchase Alternative Fuel Vehicles (1997)?*	10 (2001, vol. 33, 359)
66. Does State Purchase Soybean Ink (1997)?*	10 (2001, vol. 33, 359)
67. Does State Restrict Purchases of Foam Cups and Plates (1997)?*	10 (2001, vol. 33, 359)
68. Does State Restrict Purchases of CFC Products (1997)?*	10 (2001, vol. 33, 359)
69. States With Right To Work Laws as of 01/03*	14
70. States With Minimum Wage Laws as of 06/03*	14
71. States With Prevailing Wage Laws as of 06/03*	14
72. Charter School Legislation Rankings 2002*	12
73. Is Public School Choice Permitted?*	12
74. Private-Sector Funding of Scholarship Programs in Some Major Cities as of August 1999*	12
75. Index of State Entry and Rate Regulation of Trucking Industry	15
76. Semi Trailer Lengths Permitted on Interstate and Designated Highways 1994	15
77. Compulsory Workers Compensation Legislation*	13
78. Workers Compensation Waivers Permitted*	13
79. Must Employer Provide Insurance through a State Fund?*	13
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Source

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108. Compensation of Judges—Courts of Last Resort 2002*	10 (2003, vol. 35, 251)
109. Terms of Judges—General Trial Courts 2001*	10 (2003, vol. 35, 243)
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Note: The indicators marked with an asterisk (*) are used in data set 3, which was the basis for the final index. See appendix B for more details on the data sets.

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APPENDIX B: DATA SETS

Appendix B describes the data sets and the methods used to parse and reduce redundancy. The parsing techniques start with data set 1, and then follow with four others labeled 2 through 5 below.

Data Set 1

Contains all 143 economic freedom indicators. Occupational licensing, education-requirement indicators for each profession, and state legislation about environmental health are treated as separate indicators rather than compiled into three indicators. This gives a total of 219 indicators.

Data Set 2

Contains 127 economic freedom indicators. Selected indicators from data set 1 were eliminated because of redundancy. Also, occupational licensing and education-requirement indicators for each profession are averaged into three indicators instead of considered separately on their own.

The indicators not included are: 1-6, 8, 14, 17, 22, 89-97, 133, 135, and 136.

The occupational licensing and education indicators (52a-o, 53a-pp, and 54a-o) are averaged into 52avg, 53avg, and 54avg. In addition to pairing down the number of indicators, the indicators are sorted into five sectors: fiscal, regulatory, judicial, government size, and welfare spending.

The fiscal sector contains 41 indicators: 7, 9-13, 15, 16, 18-21, 23-51.

The regulatory sector contains 50 indicators: 52avg, 53avg, 54avg, 55-88, and 98-104.

The judicial sector contains 22 indicators: 105-126.

The government-size sector contains six indicators: 127-132.

The welfare-spending sector contains eight indicators: 134 and 137-143.

Data Set 3

Data set 3 is divided into the same sectors as data set 2. There are fewer indicators used, however, in data set 3 (47 indicators). Some of the indicators are averages of groups of indicators that are closely related.

The new indicators for the fiscal sector are created as follows: Indinc is an indicator that deals with personal income taxes. It is the average of indicators 11, 18, and 19. Saltax is an indicator of sales taxes. It is the average of indicators 22 and 25. Exctax is an indicator of excise taxes. It is the average of indicators 28, 29, 30, 31, 32, and 33. Lictax deals with license taxes. It is the average of indicators 34, 35, 36, 37, and 39. Corp is concerned with corporate taxes. It is the average of indicators 20, 21, and 38. Debt captures state debt. It is the average of indicators 44 and 45. TaxeAvg is about tax exemptions. It is the average of indicators 47-51. Along with these new indicators, indicators 7, 9, 12, 16, 40, and 41 form the fiscal sector. So the fiscal sector has a total of 13 indicators, but it actually uses 32 indicators.

The new indicators for the regulatory sector are created as follows: Purlaw is an indicator that captures purchasing regulations for state and local government agencies. It is an average of indicators 56 through 68. Lableg is an indicator of labor legislation. It is constructed by averaging indicators 78 through 84 to get the variable wclleg. Then the average of indicators 69, 70, 71, 77, and wclleg is taken to get lableg. Schleg is an indicator of public school regulation. It is constructed by averaging indicators 72, 73, 74, and 104. SBreg is concerned with state seat belt laws. It is an average of indicators 98 and 99. MAreg deals with state provisions about the minimum age for driver's licenses. It is the average of indicators 100 and 101. EnviLeg is the average of indicators about state legislation on environmental health, i.e., indicators from 103a to 103h. Along with the new indicators, the old indicators 52avg, 53avg, 54avg, 55, 85-88, and 102 are used in the regulatory sector. So the regulatory sector is constructed with 15 indicators, but actually uses 42 indicators.

The judicial sector uses five new indicators: AvgJS captures judges' compensation. It is the average of indicators 107 and 108. AvgJT is the average of indicators about judges' terms, i.e., indicators 109 and 110.

AvgJSE deals with judges' selection method. It is the average of indicators 111 and 112. Tort captures efforts to reform the tort law in the states. It is the average of indicators 114 to 123. MLRAvg copes with medical-liability reform indicators. It is the average of indicators 124, 125, and 126. These five new indicators and indicators 105, 106, and 113 are averaged to construct the score for the judicial sector. So the judicial sector is constructed with eight indicators, but actually uses 22 indicators.

Two new indicators are formed for the government-size sector: Govrep captures the amount of representation citizens in each state have in their state government. It is the average of indicators 131 and 132. Govemp captures the size of the government workforce. It is the average of indicators 129 and 130. The score for the government-size sector is determined by averaging govrep, govemp, and indicator 127. Five indicators are used in all to produce three final indicators.

No new indicators were constructed for the welfare-spending sector. It is constructed the same as in data set 2, by averaging indicators 134, and 137-143, yielding eight indicators.

Data Set 4

Data set 4 is much the same as data set 2 with one important difference. Where there were suitable alternative indicators, indicators of the magnitude of tax and general revenues were replaced. This was a response to the assertion made throughout the literature that tax rates and government expenditures are better measurements of the loss of economic freedom than are revenues.

Using data set 1 as a reference, the indicators not included are as follows: 8, 9, 11, 12, 14, 17, 22-24, 27, 30, 33, 38, 43, 89-97, 131, 133, and 134.

The fiscal sector was constructed with 35 indicators: 1-7, 10, 13, 15, 16, 18-21, 25, 26, 28, 29, 31, 32, 34-37, 39-42, 44-46, 51 and two new indicators about tax exemptions: AgriAvg (average of indicators 47 and 48, dealing

with tax exemptions for agricultural products) and FoodAvg (average of 49 and 50, dealing with tax exemptions for food).

The regulatory sector is the same as in data set 2, with 50 indicators.

The judicial sector uses three new indicators. They are AvgJS (average of indicators 106 and 108), AvgJT (average of 109 and 110), and AvgJSE (average of 111 and 112). Besides these three new indicators, the old indicators 105, 106, 113-26 are included, so there are 19 indicators in judicial sector.

The government-size sector uses the same six indicators as in data set 2.

The welfare-spending sector uses the same eight indicators as in data set 2.

Data Set 5

Data set 5 is much the same as data set 3, with the same types of modifications found in data set 4.

The new indicators are all the same as in data set 3 except for the following: Indtax is the average of indicators 18 and 19. Saletax replaces indicator 22 with indicator 2. Utiltax, which captures utility taxes, is the average of indicators 6 and 26. Exctax is the average of indicators 28, 29, 31, and 32. Corp is the average of indicators 20 and 21. Dgtax, which captures death and gift taxes, is the average of indicators 3 and 40. All of the new indicators are combined with indicators 1, 4, 5, 7, 10, 13, 15, 16, 41, and 45 to calculate the fiscal-sector score.

All the other sectors, and new indicators within the sectors, are the same as in data set 3.

APPENDIX C: GLOBAL ECONOMIC SOFTWARE CD-ROM DATABASE

U.S. Economic Freedom Index: 2004 Report – Software Database

Introduction

They might be lies, or damned lies, but working with statistics manually is enough to make anyone lie down!

The *U.S. Economic Freedom Index: 2004 Report*, by the Pacific Research Institute, includes nearly **15,000 individual statistics**. These are the data points for each state, for each regulation or tax policy, and for each index of economic freedom. Working with such a large volume of numbers and trying to spot meaningful trends is almost impossible without the aid of a computer; therefore, all of this data is **available in a new software application** from Global Economic Software, Ltd: *U.S. Economic Freedom Index: 2004 Report – Software Database*.

The database **includes over 200 statistics** of government activity for each of the 50 U.S. states including tax rates; state spending; regulation of industries including occupational licensing and environmental regulations; tort reform; right-to-work and prevailing-wage laws; income redistribution; state purchasing rules; number of government agencies; and many “outcome” variables such as migration and unemployment levels.

The software will assist anyone wishing to do serious analysis of U.S. state policy and its impact on economic freedom.

Software Features

The software allows the user to pick any statistic for any state and bring this information into a spreadsheet-like grid. Different states can be compared and rankings created for every statistic. Another feature is the ability to aggregate states into groups (see next page). This is useful for working with geographic regions such as the Midwest or the Southern states.

Users can also define their own state groupings, either by picking individual states, or by searching on common economic values such as income levels or tax rates. Statistical patterns across groups can then be identified.

	INDEX	POPULATION	P03	P15
West	27.9	65,652,316	4.92%	37
Mid-West	27.9	65,141,893	3.28%	30
Southern	28.2	102,776,527	4.25%	20
North East	30.7	54,227,064	3.83%	48

Banding / Charting

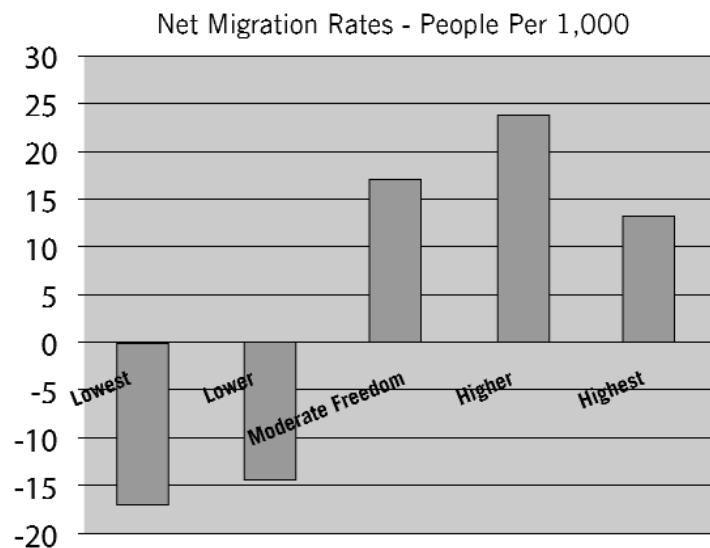
Another useful method of grouping is to have the software split the states into 20-percent blocks (see below). These quintile groupings are excellent for charting. XY scattergram charts are also available for correlating one statistic against another.

Export / Import Features

Full export capabilities exist, either to a data file or straight into Excel, which are useful for additional data crunching. The software also allows external data to be imported; statistics can then be compared against economic-freedom rankings.

How Can I Buy the Software?

The software is available at www.globaleconomicsoftware.com and sells for \$50. For further information, visit the website or email info@globaleconomicsoftware.com.



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