

The Determinants of Subnational Economic Freedom

An Analysis of Data for Seven Countries with Implications for Optimal Jurisdiction Size

by Russell S. Sobel

It is now well-established that countries, states, and provinces with better institutions, as measured by the indices published in the Fraser Institute's *Economic Freedom of the World* (EFW) and *Economic Freedom of North America* (EFNA), have greater prosperity, growth, and human well-being. While the empirical determinants of country-level EFW economic-freedom scores have been examined, there is little outside specific studies for the United States on the determinants of EFNA's subnational economic-freedom scores.

Using data from EFNA and several other reports modelled after EFNA for other countries, covering a total of 158 states and provinces in seven countries, this report examines which geographic and demographic factors have predictable influences on subnational levels of economic freedom.

Among the most interesting and robust findings is that there appears to be an "optimal" population size for subnational jurisdictions that maximizes overall economic freedom of around 9.5 million people. Beyond that point, overall institutional quality begins to decline, and this decay starts at even lower population levels for the economic freedom subcategory of taxation (Area 2).

In contrast, measures of coastal access or ease of exit seem to have little predictable influence on the levels of subnational economic freedom, unlike the results found at the country level. Geographic size (square area) also has

a less clear relationship, although beyond some point it does seem that economic freedom falls as the extent of a jurisdiction grows very large for states and provinces in North America. Latitude, age of a jurisdiction, and legal origins also matter, but mostly for subnational jurisdictions outside North America.



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