



FREE MINDS AND FREE MARKETS

On Taxes and Economic Freedom, Canadians Have It Worse Than Americans

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It's late February, a time of year when many Americans contemplate stacks of documents and receipts, dreading the moment when they'll have to square accounts with government extortionists. That this comes as the state grows increasingly intrusive and coercive adds insult to injury, since we pay the bill for this mistreatment. But it could be worse; we could be Canadian!

Same Inquisition, Different Dollar

"As tax season ramps into high gear in Canada, the average citizen is facing an unholy ream of paperwork so daunting that even the Canada Revenue Agency isn't entirely sure how it all works," Tristin Hopper wrote this week for the *National Post*. "An infamous 2017 Auditor General report found that CRA call centres 'gave wrong information to callers almost 30 per cent of the time.'"

Oh, OK. That doesn't sound much different from the experience here in the U.S., where the IRS hands out the wrong information maybe a quarter of the time. (Or more. Who knows?) But Canadians pay a high price tag for the privilege of spelling "call centre" with the "r" in front of the "e."

But a Higher Tax Bill North of the Border

"In December 2015, Canada's new Liberal government introduced changes to Canada's personal income tax system," Canada's Fraser Institute, a free-market think tank, noted in 2020. "Even before the changes, the country's combined federal and provincial top marginal tax rates compared unfavourably to those in the United States and other industrialized countries.... Nine Canadian provinces occupy the list of 10 jurisdictions with the highest top combined marginal income tax rates and all provinces are in the top 13 [across the U.S. and Canada]."

Umm. Ouch.

In truth, comparing tax burdens requires a deep dive because of differences in how taxes are applied, income brackets, deductions, and the like. Fans of big government always want to balance costs against "benefits" of government services, as if being mugged to support a state monopoly should be welcomed by those who'd rather shop among competitors or entirely forgo some services. Suffice it to say that comparisons of provincial and state tax burdens generally reveal a lighter touch south of the border.

Worse, though, the think tank finds *overall* economic freedom slipping across Canada.

Higher Taxes Reflect Less Freedom

"For the first time, every Canadian province ranks in the bottom half of jurisdictions in our annual rankings of economic freedom in North America," Fraser announced of its *Economic Freedom of North America 2023* report. "Alberta in the all-government index is once again the highest-ranking Canadian province but it has declined substantially. In the all-government index, Alberta is now tied for 31st place out of 50 U.S. states, 32 Mexican states, 10 Canadian provinces, and the US territory of Puerto Rico."

Economic freedom is defined as you'd expect, with economic activity involving "minimal government interference." As the report adds, "an index of economic freedom should measure the extent to which rightly acquired property is protected and individuals are engaged in voluntary transactions."

Fraser compares the states and provinces to each other within their countries, and also across Canada, Mexico, and the United States. For the purpose of comparing jurisdictions across three nations, the report looks at six areas of economic activity: government spending; taxes; labor market freedom; legal systems and property rights; sound money; and freedom to trade internationally.

The highest ranked jurisdiction is New Hampshire, followed in the first quartile by Florida and 20 other U.S. states. Alberta ranks at 31, between Missouri and Connecticut. British Columbia comes in at 45, with Ontario at 50 and Manitoba at 54. The last-ranked U.S. state is Delaware, at 53, though the territory of Puerto Rico ranks at 61. Quebec brings up the rear for Canada, at 56.

Economic freedom has very serious practical implications, beyond its important moral value.

Freedom Means Prosperity, Everywhere

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

By and large, more economic freedom correlates with more prosperity. That's greater wealth to tax, but also (hopefully) more to keep for ourselves.

It should be noted that differences in judgment and emphasis affect indices like this. *Economic Freedom of the World 2023*, published by Fraser and the Cato Institute, puts the United States at fifth place in global terms, with Canada at 10. The Heritage Foundation's *Index of Economic Freedom* puts Canada at 16 and the U.S. at 25. Both, though, record a huge hit to economic freedom from pandemic measures (with, perhaps, a slight recovery post-COVID).

"A decade of growth in economic freedom was erased in 2020," according to Cato and Fraser.

"Regrettably, the global average economic freedom score [in the latest report] has fallen from the previous year's 60.0 to 59.3—the lowest it has been over the past two decades," observes Heritage.

As noted above, that's unfortunate both for those who value liberty in and of itself, and for those who want the prosperity that comes with recognizing people's rights to engage in voluntary transactions, use their property as they wish, and pursue opportunity.

Most people do value freedom both in economics terms and in the form of civil liberties. Multiple polls show majorities of Americans emphasize protection for their rights over whatever excuses government officials cook up for restrictions—though, of course, they differ on details. Since details matter, it's worth being able to look at indices like *Economic Freedom of North America 2023* so we can pick places more or less to our liking. For assessments beyond dollars and cents, *Freedom in the 50 States* has a wider comparison of U.S. jurisdictions when it comes to liberty.

But if the main difference between Canada's federal tax inquisition and that in the United States is the larger size of the Canadian bill, and economic freedom suffers north of the border, Canadians can still lord it over some of our other neighbors. Mexico's highest-ranked states for economic freedom are Baja California and Chihuahua, sharing 62nd place.

That doesn't eliminate pain over taxes and intrusions, but it does offer some perspective when you know that somebody, somewhere, has it worse.