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Measuring Economic Freedom Closer to Home

A Tool to Study Metro Areas' Growth in Population, Output and Jobs

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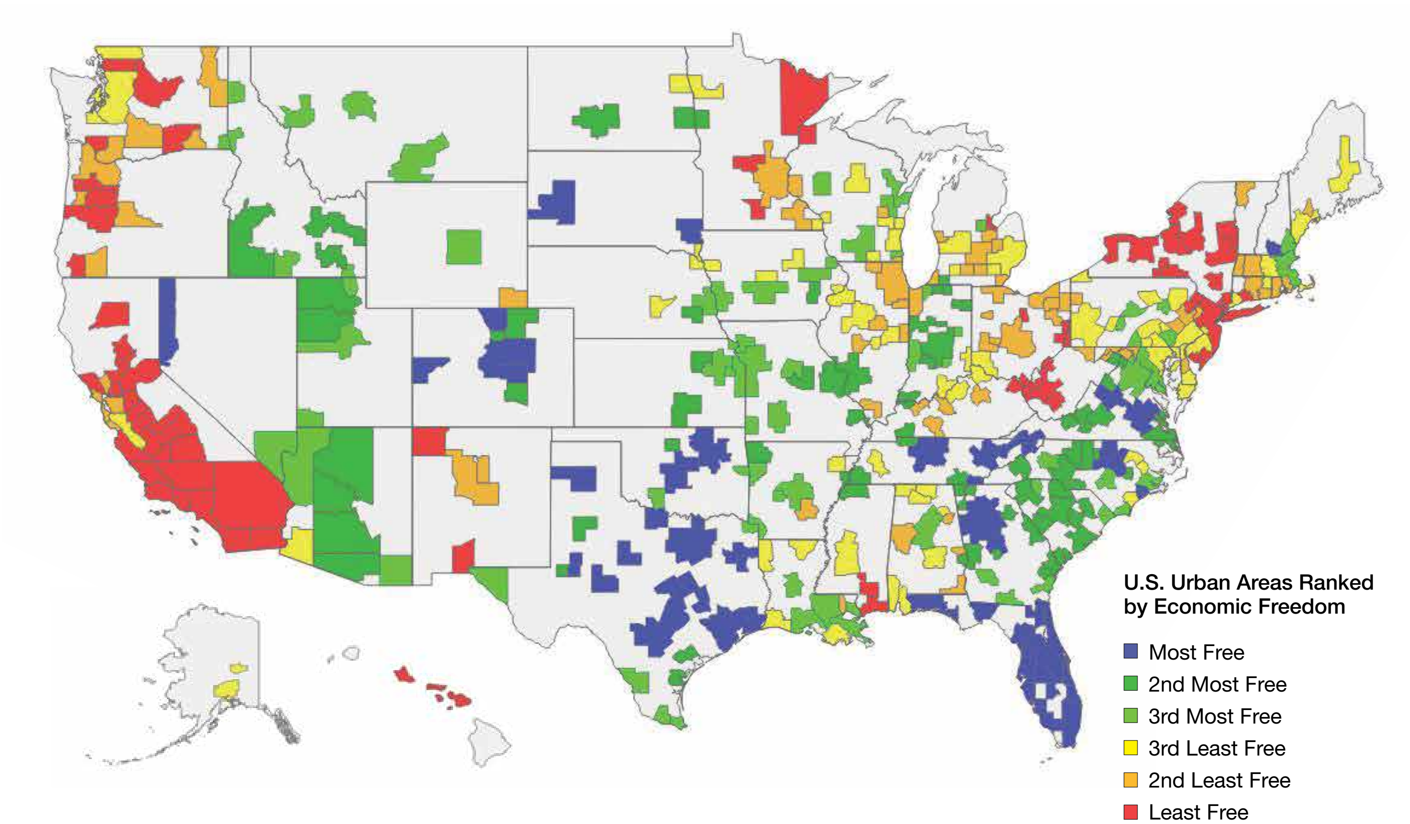

Measuring Economic Freedom Closer to Home

A Tool to Study Metro Areas' Growth in Population, Output and Jobs

By Dean Stansel

Some places are richer and others are poorer – that's the way of the world. The dichotomy isn't static. Poorer places can sometimes find their way to growth and progress, and richer ones can sometimes lapse into stagnation and even decline – that, too, is the way of the world.

The factors contributing to economies' waxing and waning have been a topic of endless debate between advocates of a more dynamic private sector and activists favoring a more expansive public sector. Economics can't properly resolve this debate's moral and philosophical aspects, but it can generate and evaluate empirical evidence on how well opposing economic systems perform.

An important tool in this inquiry is the measurement of economic freedom – a specialty of the Bridwell Institute.

Discussions on economic freedom probably began in earnest with the publication of Adam Smith's *Wealth of Nations* in 1776, but measurement is a relatively recent innovation. About 35 years ago, Nobel Laureate economists Milton Friedman, Gary Becker and Douglas North joined a host of other economists and public policy experts in launching an effort to quantify economic freedom for individual nations.

About 10 years later, it resulted in the first *Economic Freedom of the World (EFW)* report, a data-driven assessment of the health of free enterprise in the

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United States and other nations *(see page 18)*. Research has found greater economic freedom correlates with faster growth, more job creation and many other positive outcomes.

A decade after *EFW's* debut, economists developed the *Economic Freedom of North America (EFNA)* index, focused on the U.S. and Mexican states and Canadian provinces *(see page 21)*. *EFNA* finds the same patterns as *EFW* – states with higher index scores grow faster and create more jobs than the states with lower scores. Texas and Florida, for example, have less-burdensome economic policies and much greater economic freedom than New York and California.

The Metropolitan Area Economic Freedom index, which I first produced in 2013, follows in the footsteps of *EFW* and *EFNA*. The ranking of U.S. metropolitan statistical areas (MSAs) on economic freedom adds nuance because it measures differences *within* states. The San Jose metro area, for example, has substantially higher economic freedom than Los Angeles. The same is true for Nashville compared to Memphis.

In this essay, I update the index for all 383 officially designated U.S. MSAs – from New York City's sprawling megapolis of 20 million people down to Rapid City, S.D, the nation's smallest MSA, with a population of just 51,000. After describing the updated version, I will provide an overview of the results and give the updated index a test run in evaluating economic performance.

EXHIBIT 1

Areas and Components of U.S. Metro Economic Freedom Index

1.	**Government Spending**
1A.	General Consumption Expenditure as a Percentage of Personal Income
1B.	Transfers and Subsidies as a Percentage of Personal Income
1C.	Insurance and Retirement Payments as a Percentage of Personal Income
2.	**Taxation**
2A.	Income and Payroll Tax Revenue as a Percentage of Personal Income
2B.	Sales Tax Revenue as a Percentage of Personal Income
2C.	Revenue from Property Tax and Other Taxes as a Percentage of Personal Income
3.	**Labor Market Freedom**
3A.	Minimum Wage (full-time income as a percentage of per capita personal income)
3B.	Government Employment as Percentage of Total State Employment
3C.	Private Union Density (private union members as a percentage of total employment)

Stimulating Research

America's diverse, dynamic and dispersed metropolitan areas are a mighty economic force. They're home to about 86 percent of the country's population and provide about 88 percent of its jobs and about 90 percent of its output (GDP). Knowing more about how economic freedom shapes urban areas' growth and prosperity could lay the foundation for better economic policies and outcomes.

The updated metro index applies the same methodology and data sets as the previous versions – so researchers should be familiar with it. Adapting the design of the *EFNA* model, the index combines

EXHIBIT 2

Ten Most-Free Larger MSAs

Rank*	Metropolitan Statistical Area	2017 Score
1	Jacksonville, FL	8.11
1	Tampa-St. Petersburg-Clearwater, FL	8.11
3	Nashville-Davidson-Murfreesboro-Franklin, TN	7.98
4	Miami-Fort Lauderdale-West Palm Beach, FL	7.95
5	Dallas-Fort Worth-Arlington, TX	7.92
6	Houston-The Woodlands-Sugar Land, TX	7.89
7	Orlando-Kissimmee-Sanford, FL	7.85
8	Austin-Round Rock, TX	7.83
9	Richmond, VA	7.82
10	Atlanta-Sandy Springs-Roswell, GA	7.67

Least-Free Larger MSAs

Rank*	Metropolitan Statistical Area	2017 Score
53	Riverside-San Bernardino-Ontario, CA	4.68
52	New York-Newark-Jersey City, NY-NJ-PA	4.89
51	Rochester, NY	5.06
50	Buffalo-Cheektowaga-Niagara Falls, NY	5.12
49	Los Angeles-Long Beach-Anaheim, CA	5.35
48	Sacramento--Roseville--Arden-Arcadee, CA	5.51
47	San Diego-Carlsbad, CA	5.63
46	Cleveland-Elyria, OH	5.68
44	Providence-Warwick-Pawtucket, RI	5.69
44	Portland-Vancouver-Hillsboro, OR-WA	5.69

*Among the 53 areas with 2017 populations of 1 million or higher.

three broad areas associated with economic freedom.

Government spending measures the public sector's share of the local economy. Taxation assesses the burdens local authorities impose on the private sector. Labor market freedom addresses interference with voluntary transactions between employers and workers. Three variables measure each area across MSAs (Exhibit 1).

The spending, taxation and labor regulation areas are equally weighted in calculating each MSA's index on a scale of 1 to 10. Higher scores indicate places with greater economic freedom; lower ones identify places with less economic freedom.

An index requires consistent, reliable and relevant measurement. Key data for the metro index come from U.S. Census Bureau's *Census of Governments*, the best – in fact, only – source of detailed information on taxes, spending, debt and employment for 90,000 individual local governments.

The *Census of Governments* comes out at five-year intervals, and the report's latest statistics were collected in 2017. Data of this vintage aren't ideal, particularly in light of the disruptions caused in 2020 and beyond by the COVID-19 pandemic. The data may miss current events, but economic attitudes on the balance between an economies' private and public spheres rarely undergo sudden reversals. *EFW*'s freest nations and *EFNA*'s freest states are remarkably consistent over time.

MSAs are home to about 86 percent of the country's population and provide about 88 percent of its jobs.

The first version of the metro index used 2002 data. The second iteration leapt forward to 2012 and added historical data back to 1972. The 2017 data in this third version will remain the best we have until the Census Bureau releases the results of its 2022 survey in two years.

In its first decade, the metro index stimulated a substantial amount of research. Jamie Bologna-Pavlik, then at West Virginia University and now at Texas Tech, was the first to use it in an econometric study. She found a small but statistically significant positive relationship between metro economic freedom and entrepreneurial activity, measured by establishment births and percentage changes in total nonfarm proprietors' employment.

For an annual report essay in 2015, my Bridwell Institute colleagues Michael Cox and Richard Alm wrote "The Wealth of Cities," which showed the most economically free MSAs outperformed less-free urban areas in growth, jobs and unemployment as well as real wages, income inequality and population gains.

In 2020, the *Southern Economic Journal* published a study I did with three co-authors that found freer MSAs attract more domestic migrants. A 10 percent gain in economic freedom was associated with a 27 percent increase in MSA-level in-migration of population.

More recently, Louisiana-Lafayette economist Justin Callais and Bologna-Pavlik found higher metro economic freedom was associated with lower unemployment rates, more employment per 100 persons and higher per capita income. In addition, increases in economic freedom in the years leading up to the

EXHIBIT 3

Ten Most-Free Smaller MSAs

Rank*	Metropolitan Statistical Area	2017 Score
1	Naples-Immokalee-Marco Island, FL	8.75
2	Sebastian-Vero Beach, FL	8.68
3	The Villages, FL	8.52
4	Midland, TX	8.50
5	Pensacola-Ferry Pass-Brent, FL	8.22
6	Crestview-Fort Walton Beach-Destin, FL	8.19
7	Port St. Lucie, FLL	8.17
8	Tyler, TX	8.13
9	Homosassa Springs, FL	8.08
10	North Port-Sarasota-Bradenton, FL	8.07

Least-Free Smaller MSAs

Rank*	Metropolitan Statistical Area	2017 Score
330	El Centro, CA	3.31
329	Bakersfield, CA	3.92
328	Visalia-Porterville, CA	4.17
327	Merced, CA	4.18
326	Binghamton, NY	4.24
325	Kingston, NY	4.31
324	Glens Falls, NY	4.58
323	Kahului-Wailuku-Lahaina, HI	4.65
322	Ocean City, NJ	4.72
321	Stockton-Lodi, CA	4.76

*Among the 330 areas with 2017 populations of less than 1 million.

Great Recession were associated with quicker recoveries in MSAs, measured by unemployment rates and incomes.

This essay marks the updated index's official debut. However, with the Mackinac Center's Michael LaFaive, I recently used it to examine the relationship between metro economic freedom and labor market outcomes. We found MSAs with the highest economic freedom had 10 times faster population growth and two and a half times faster employment growth than those with the lowest freedom. The least-free MSAs had an unemployment rate a third higher.

Ranking the MSAs

Nobody ever mistook Rapid City for New York. The chasm between the two symbolizes the important population-driven differences separating the larger and smaller MSAs. For ranking purposes, I've divided the metro index into two groups – the 53 with 2017 populations of 1 million or higher and the 330 with populations below 1 million.

In the jumbo class, Jacksonville, Tampa-St. Petersburg, Nashville, Miami-Ft. Lauderdale-West Palm Beach and Dallas-Fort Worth had the highest economic freedom scores (Exhibit 2). What's striking in moving down the Top 10 is the dominance of two states – Florida with four entrants and Texas with three. Tennessee, Virginia and Georgia had one each.

Turning to the ranking's tail end, the bottom three larger MSAs were Riverside-San Bernardino-Ontario, New York City and Rochester. As with the Top 10, the lowest economic freedom scores clustered in two states – four in California and three in New York. Ohio, Rhode Island and Oregon had one each.

What's striking in moving down the Top 10 is the dominance of two states – Florida with four entrants and Texas with three.

The *EFNA* rankings suggest the metro index's findings aren't a fluke. Florida and Texas have consistently ranked among the most economically free states, while California and New York have been perennials among the least-free states.

Exhibit 4 presents the top- and bottom-ranked MSAs in the 10 states with the largest populations. The difference between top and bottom performers is particularly large in California. On its border with Mexico sits El Centro, the nation's least-free MSA with a score of 3.82 out of 10. Northern California's San Jose area – a.k.a. Silicon Valley – earned a metro index score of 6.25. The economic freedom gap between El Centro and San Jose is 2.94, the largest among the 10 big states.

Texas was next at 1.93, followed by Michigan at 1.37, Pennsylvania at 1.29, then Florida and North Carolina at 1.27. The four other big states had an average economic freedom gap of 0.78, with Illinois and Ohio having the least difference between leaders and laggards.

San Jose may well be California's economic freedom bright spot, but the area still scores below the *least-free* areas in four of the states in Exhibit 4 – Florida (Tallahassee at 7.49), Georgia (Albany at

EXHIBIT 4

Most-Free and Least-Free MSAs in 10 Most Populous States

Metropolitan Statistical Area	State	2017 Score	Rank	2017 Population
San Jose-Sunnyvale-Santa Clara, CA	California	6.25	241	1,992,441
El Centro, CA	California	3.31	383	181,250
Naples-Immokalee-Marco Island, FL	Florida	8.75	1	373,286
Tallahassee, FL	Florida	7.49	62	383,390
Atlanta-Sandy Springs-Roswell, GA	Georgia	7.67	39	5,876,763
Albany, GA	Georgia	6.78	156	6151,354
Decatur, IL	Illinois	6.19	251	105,474
Chicago-Naperville-Elgin, IL-IN-WI	Illinois	5.81	302	9,513,947
Midland, MI	Michigan	6.59	188	583,442
Bay City, MI	Michigan	5.22	351	8104,085
Albany-Schenectady-Troy, NY	New York	5.48	341	382,423
Binghamton, NY	New York	4.24	379	241,914
Durham-Chapel Hill, NC	North Carolina	7.61	45	566,750
Greenville, NC	North Carolina	6.34	228	178,661
Cincinnati-Middleton, OH-KY-IN	Ohio	6.20	248	2,182,409
Mansfield, OH	Ohio	5.60	324	120,500
State College, PA	Pennsylvania	6.79	154	162,549
East Stroudsburg, PA	Pennsylvania	5.50	340	168,033
Midland, TX	Texas	8.50	4	170,943
Laredo, TX	Texas	6.57	191	273,378

EXHIBIT 5

Top Gainers and Losers in MSA Economic Freedom – 2012 to 2017

Larger Metropolitan Areas*

Ten Largest Increases			Ten Largest Decreases		
Rank*	Metropolitan Statistical Area	2012-17 Change	Rank*	Metropolitan Statistical Area	2012-17 Change
1	Denver-Aurora-Lakewood, CO	8.3%	53	Los Angeles-Long Beach-Anaheim, CA	-10.3%
2	St. Louis, MO-IL	7.5%	52	New York-Newark-Jersey City, NY-NJ-PA	-8.8%
3	Atlanta-Sandy Springs-Roswell, GA	6.8%	51	San Diego-Carlsbad, CA	-8.3%
4	Charlotte-Concord-Gastonia, NC-SC	6.4%	50	Hartford-West Hartford-East Hartford, CT	-7.9%
5	Raleigh, NC	6.3%	49	Riverside-San Bernardino-Ontario, CA	-7.8%
6	Las Vegas-Henderson-Paradise, NV	5.9%	48	Washington-Arlington-Alexandria, DC-VA-MD-WV	-7.5%
7	Indianapolis-Carmel-Anderson, IN	5.6%	47	San Francisco-Oakland-Fremont, CA	-7.0%
8	Orlando-Kissimmee-Sanford, FL	4.9%	46	Baltimore-Columbia-Towson, MD	-6.4%
9	Salt Lake City, UT	4.5%	45	Sacramento--Roseville--Arden-Arcadee, CA	-5.6%
10	Louisville-Jefferson County, KY-IN	4.3%	44	Minneapolis-St. Paul-Bloomington, MN-WI	-5.5%

*The 53 areas with 2017 populations of 1 million or higher.

Smaller Metropolitan Areas*

Rank*	Metropolitan Statistical Area	2012-17 Change	Rank*	Metropolitan Statistical Area	2012-17 Change
1	Rome, GA	19.7%	330	Bakersfield, CA	-20.2%
2	Reno, NV	15.2%	329	El Centro, CA	-18.8%
3	Myrtle Beach-Conway-North Myrtle Beach, SC-NC	14.7%	328	Santa Maria-Santa Barbara, CA	-13.8%
4	Rocky Mount, NC	13.9%	327	Kahului-Wailuku-Lahaina, HI	-11.3%
5	Kokomo, IN	13.8%	326	Merced, CA	-10.2%
6	Pueblo, CO	13.0%	325	Mankato-North Mankato, MN	-10.0%
7	Fort Collins-Loveland, CO	12.7%	324	Pittsfield, MA	-9.9%
8	Sumter, SC	12.2%	322	Cumberland, MD-WV	-9.4%
9	Brunswick, GA	11.7%	322	Watertown-Fort Drum, NY	-9.4%
10	Hilton Head Island-Bluffton-Beaufort, SC	11.6%	321	Grand Island, NE	-9.2%

*The 330 areas with 2017 populations of less than 1 million.

6.78), Texas (Laredo at 6.57) and North Carolina (Greenville at 6.34). In fact, the *most-free* urban area in 39 states has less freedom than Florida's *least-free* MSA (Tallahassee).

From 2012 to 2017

The new data's five-year leap forward in time allows us to make good on the opening paragraph's observation that the pecking order of richer and poorer isn't static. So which MSAs had the biggest and smallest changes in metro economic freedom between 2012 and 2017?

Once again, I'll divide the MSAs into two groups – the 53 with populations above 1 million and the 330 below it. For the major metros, 28 gained economic freedom and 23 lost economic freedom. Two remained unchanged. The tally for the smaller MSAs was 179 up, 147 down, and four unchanged.

Among the larger urban areas, the biggest percentage gains were in Denver-Aurora-Lakewood, St. Louis, Atlanta, Charlotte and Raleigh, (Exhibit 5). The biggest decline was more than 10 percent in Los Angeles-Long Beach-Anaheim, followed by New York, San Diego, Hartford and Riverside.

Let's look back at Exhibit 2 on larger MSA's economic freedom scores. Texas and Florida dominated the most-free Top 10, but only one of the two states' MSAs made the top gainers' list: Orlando, with

EXHIBIT 6A

Economic Freedom and Income Growth

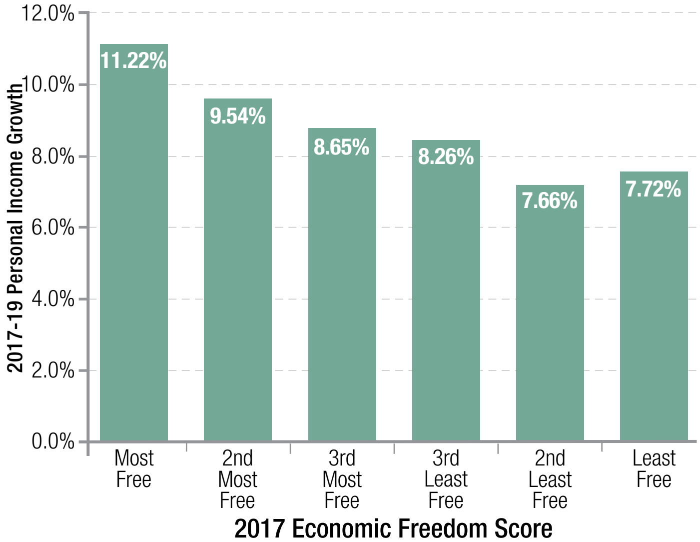


EXHIBIT 6B

Economic Freedom and Employment Growth

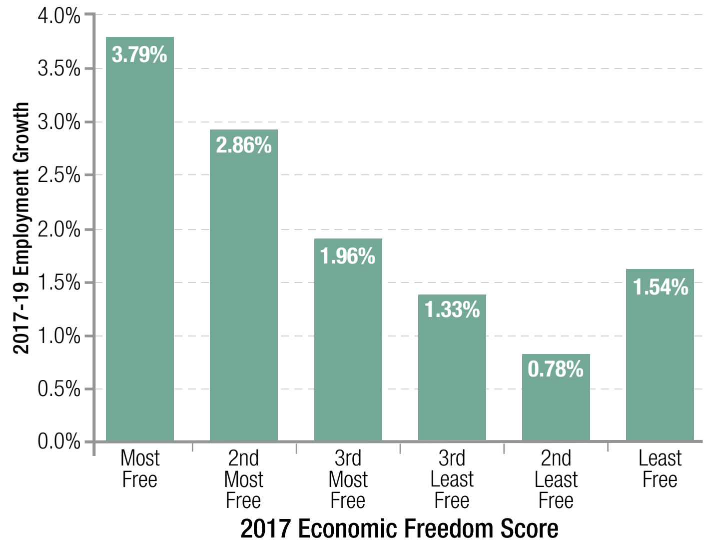


EXHIBIT 6C

Economic Freedom and Unemployment Rate

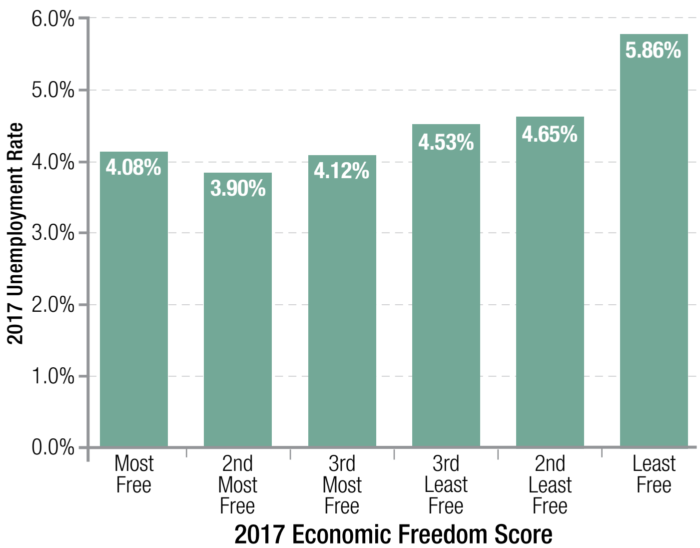
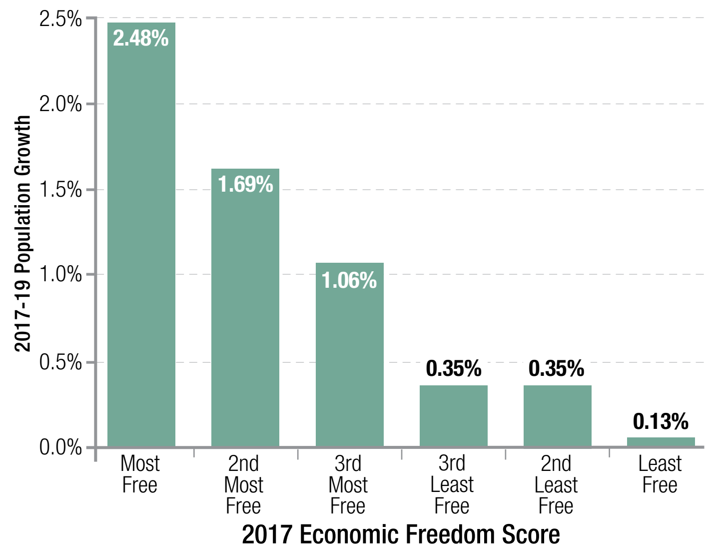


EXHIBIT 6D

Economic Freedom and Population Growth



the eighth largest increase. Nearest to the top in Texas was Austin at 20th. By contrast, California and New York are well-represented among both larger MSAs with the lowest economic freedom and the biggest erosions from 2012 to 2017.

Places with high economic freedom don't have much room to rise; places with low economic freedom risk losing what little they have.

For the smaller MSAs, no state dominated the Top 10 gainers. Georgia, North Carolina, Colorado, and South Carolina tied with two entries. In addition, every one of the Top 10 smaller MSAs had double-digit increases in economic freedom, led by almost 20 percent for Rome, Ga., an urban area of 97,459 people (2017) northwest of Atlanta. By comparison, the best showing among the big MSAs was Denver at 8.3 percent.

The Top 10 smaller MSAs also had larger declines in economic freedom. Four of them fell further than Los Angeles from 2012 to 2017. California MSAs took four of the spots in the Top 10. The southern California oil town of

Bakersfield had the dubious distinction of the largest decline in economic freedom among the 383 MSAs.

Economic Performance

To see how well the updated index works, I revisited the correlations between economic freedom and key indicators of urban areas' well-being – income, jobs, the unemployment rate and population.

I ranked the 383 MSAs by economic freedom in 2017 – from low to high, then simplified the analysis by creating six groupings of more or less equal size (383 does not divide equally by six, leaving five groups with 64 MSAs and one with 63.) A series of graphs presents the results.

Giving markets and the private sector a larger role stimulates economic activity by enhancing incentives to work, invest, innovate, and start businesses. Price signals direct resources toward efficiently producing what consumers value. Bigger government often reduces these incentives and distorts these signals, imposing a drag on economic activity.

In the 2017-19 period, the three MSA groups with the least economic freedom in 2017 saw two-year income growth of just under 8 percent, not adjusted for inflation (Exhibit 6A). They did well – the U.S. economy was in high gear. The freer MSAs did even better. Income growth got progressively faster until it topped 11 percent for the most-free group.

More opportunities for work contributed to the freer MSAs faster income growth. Where economic freedom was highest, employment growth exceeded 3.7 percent (Exhibit 6B). Net job creation slowed as economic freedom waned, bottoming out at less than 1 percent in the second least free category.

Slower job growth suggests higher unemployment in less free MSAs – and the data confirm it. Where economic freedom was weakest, the unemployment rate that year stood at just under 5.9 percent, well above the national average of 4.4 percent (Exhibit 6C). The three groups with the most economic freedom were all below the national average.

Higher incomes, more jobs, and less unemployment – people are likely to find that kind of economy attractive. Population growth was 2.48 percent for the most-free MSAs (Exhibit 6D). The next two groups added fewer new residents, but the three least-free groups did significantly worse, none achieving population growth of 0.5 percent.

These four indicators contrast the economic dynamism of high economic freedom with the relative sluggishness of low economic freedom. The results parallel the findings of *EFW* for nations and *EFNA* for states. They're also in line with earlier work on MSAs. Previous versions of the metro index found economic freedom was positively related to growth rates for income, jobs, and population, and negatively related to the unemployment rate.

The updated metro index provides the most up-to-date data for studying economic freedom's role in America's urban economies. I look forward to seeing how economists will use the updated metro index to investigate increasingly diverse issues and hope the work will steer urban America toward greater prosperity.

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