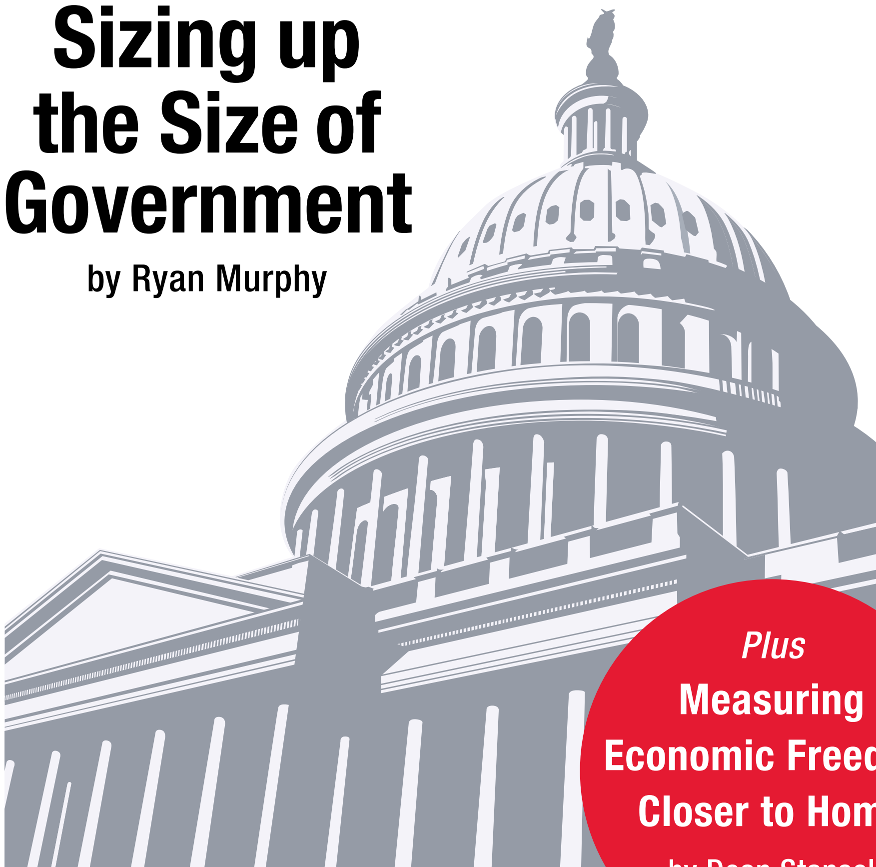
Bridwell Institute

2021-22 Annual Report

Sizing up the Size of Government

by Ryan Murphy



Plus

Measuring Economic Freedom Closer to Home

by Dean Stansel

Bridwell Institute for Economic Freedom

SMU Cox School of Business

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Background image presents an artists conception of the Brolin-Bridwell Hall, which will be the Bridwell Institute's home after completion of the SMU Cox reconstruction and expansion project in 2024.

Dean Myers

A Message from the Dean

For more than a decade, essays by Mike Cox and Rick Alm have been annual report staples for the Bridwell Institute and its predecessor, the O'Neil Center. Cox and Alm are still at the Cox School of Business, teaching and researching at the Bridwell Institute, but this year's publication showcases the institute's deep bench with essays from two other Bridwell economic researchers.

Ryan Murphy, who joined us in 2014, wrote "Sizing Up the Size of Government." The essay puts the United States into global perspective on the size of government, touching on how differences in wealth affect cross-country comparisons of public spending and social safety nets.

Murphy also discusses whether the U.S. government's expansion during the COVID-19 pandemic will be permanent and why the United States might not be happy with achieving a minimalist government.

Dean Stansel, who has been at SMU Cox since 2016, wrote "Measuring Economic Freedom Closer to Home." In 2012, he developed the first economic freedom index for U.S. metropolitan areas – all 380-plus of them. His essay reports on the index's recently completed update.

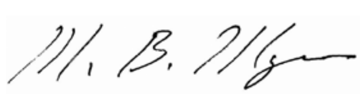
Stansel's new data deliver two clear messages: first, the dominance of Texas and Florida at the top of the rankings and, second, the benefits of economic freedom to local economies in helping to grow populations, incomes and jobs.

As SMU Cox dean, what's important to me about the two essays is they demonstrate the mission and expertise of the Bridwell Institute. Data-based measures of economic freedom, produced here at SMU Cox, are indispensable tools for research on how economic systems and institutions influence well-being.

The Bridwell Institute is the only university-based research group with demonstrated expertise in measuring economic freedom at all three levels of analysis – nations, states and metropolitan areas.

Murphy and Bridwell director Bob Lawson are two of the four co-authors of the *Economic Freedom of the World* report, taking primary responsibility for calculating indexes for 165 countries. Stansel is the lead author of the *Economic Freedom of North America* report, responsible for the U.S. states – and he tracks all the U.S. metropolitan areas on the side.

Don't let my focus on the importance of research discourage you. Murphy and Stansel have written a pair of thought-provoking essays that are easy to understand and relevant to business and society as a whole.



Matthew B. Myers
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Sizing up the Size of Government

From the *EFW*, Some Facts and Fictions for the U.S.

By Ryan H. Murphy

The United States and most other wealthy countries have free market economies when we consider property rights, the soundness of money, trade policy or regulation. Smaller government is often cited as another essential characteristic of capitalism, but few wealthy countries do very well in keeping the visible hand of government in check. In fact, the correlation between the size of government and these other measures of economic freedom is essentially zero.

This phenomenon is best exemplified by the Nordic countries – Iceland, Norway, Sweden, Finland and Denmark. They combine market economies with massive welfare states. At the other extreme are countries with small governments along with some of the trappings of market economies. But they're missing important pieces, particularly well-defined and enforced property rights. In this group are various countries in Latin America, Southeast Asia and Eastern Europe; if asked to name three, I'd point to Guatemala, the Philippines and Romania.

When it comes to size of government, data measuring economic freedom don't always tell us what we expect them to. In this essay, I offer some insights about the size of government and draw some comparisons between the United States and other countries.

The key takeaways are:

- If we don't account for wealth, the U.S. government is smaller than most countries in the world – but it hardly stands out. If we do account for wealth, the U.S. government ranks as the world's 10th smallest.
- Wealthy countries with governments much larger than that of the United States got that way by taxing the middle class and the upper middle class at much higher levels than the United States, not by taxing the wealthy. The Laffer curve holds.
- Data showing the U.S. social safety net is small relative to other wealthy countries primarily reflect the fact that most fellow Organization for Economic

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Cooperation and Development (OECD) countries are poorer, not that the United States skimps on social spending.

• The COVID-19 pandemic had an exceptionally large impact on U.S. transfers and subsidies in 2020, but other dimensions of the size of government were mostly untouched. This provides some basis for optimism regarding a return to previous norms on the level of government spending over the next several years.

• To become a small government superstar, the United States would need to become a "night watchman" state, with spending at the federal, state and local levels limited to a minimal military, the provision of law, order and justice and some amount of veteran's benefits. Minimal government isn't for the faint-hearted: Gored oxen will litter the way.

Measuring Government Size

Does the United States have a small or large government? The question may seem simple, but the answer is complicated. In looking at the size of government, a logical starting point is the parts of gross domestic product (GDP) directly taken up by the public sector – government consumption and government investment. But those data points don't capture all governments do in the economy.

They also tax some people and transfer money to others – think Social Security. When recipients spend the money, it shows up as private consumption or investment, so transfers are separate from GDP's direct government spending.

Government size isn't just a matter of spending. Governments can own a large part of the economy without much actual spending; this is true of Hong Kong, where the government technically owns most housing. To capture the true *burden* of government, it's also important to know levels of taxation because that is where larger government has its widest impacts on decisions to consume, produce, work and invest.

In fact, the correlation between the size of government and these other measures of economic freedom is essentially zero.

All these concepts are incorporated in the size of government measure used in the *Economic Freedom of the World (EFW)* project. The *EFW* index, compiled by James Gwartney, Bridwell director Robert Lawson, Joshua Hall and me, assesses economic freedom along five dimensions for 165 countries *(see page 18)*.

Using a scale from 0 to 10, with higher numbers always corresponding to greater economic freedom, *EFW* assigns higher scores to countries with smaller governments, better legal systems with greater protection of property rights, sounder money, freer trade and lighter regulatory burdens. The *EFW* project retroactively scored countries

EXHIBIT 1

How *EFW* Measures the Size of Government

Government Consumption as Percent of Total Consumption

Examples: Paying the salaries of schoolteachers and police officers
US Total: 17.08%
OECD Average: 26.27%
G7 Average: 24.98%

Transfers and Subsidies as Percent of GDP

Examples: Social Security, Temporary Assistance for Needy Families, Medicaid
US Total: 15.09%
OECD Average: 16.8%
G7 Average: 20.66%

Government Investment as Percent of Total Investment

Examples: Building roads, buying computers for schools, building a library
US Total: 15.26%
OECD Average: 16.33%
G7 Average: 14.71%

Top Marginal Tax Rate and Income Level at Which It Applies

US: 40%-53% (depending on where taxpayers live, applying to incomes above $200,000, depending on marital status and other factors)
US Rating: 5.00
OECD Average Rating: 4.70
G7 Average Rating: 3.79

State Ownership of Assets (Judged by Experts)

Examples: *Owning* roads or airports, owning land, holding stakes in companies
US Score: 9.31
OECD Average: 7.68
G7 Average: 8.25

Note: Data are for 2019

at five-year intervals from 1970 to 2000, with annual scores available since 2000.

Exhibit 1 provides thumbnails on the five components in the *EFW*'s size of government area. The methodology involves assigning a value between 0 to 10 to each, then calculating an average to generate an overall size of government score. We combine this number with data on the other areas of economic freedom to construct the overall *EFW* index.

I chose to include key 2019 data in Exhibit 1 to convey how the United States stood relative to other wealthy countries before COVID-19. Later, I will discuss how much the pandemic's first year impacted size of government measures in the United States.

This essay focuses primarily on the size of government measures. In the 2019 *EFW*, the United States scored 7.40 out of 10 on overall size of government – 52nd out of 165 countries. The U.S. government was smaller than the *EFW* average of 6.77 and the OECD average of 6.08 (Exhibit 2). The middle-of-the-pack ranking, however, suggests the United States doesn't stand out as a model of the small-government ethos often associated with economic freedom.

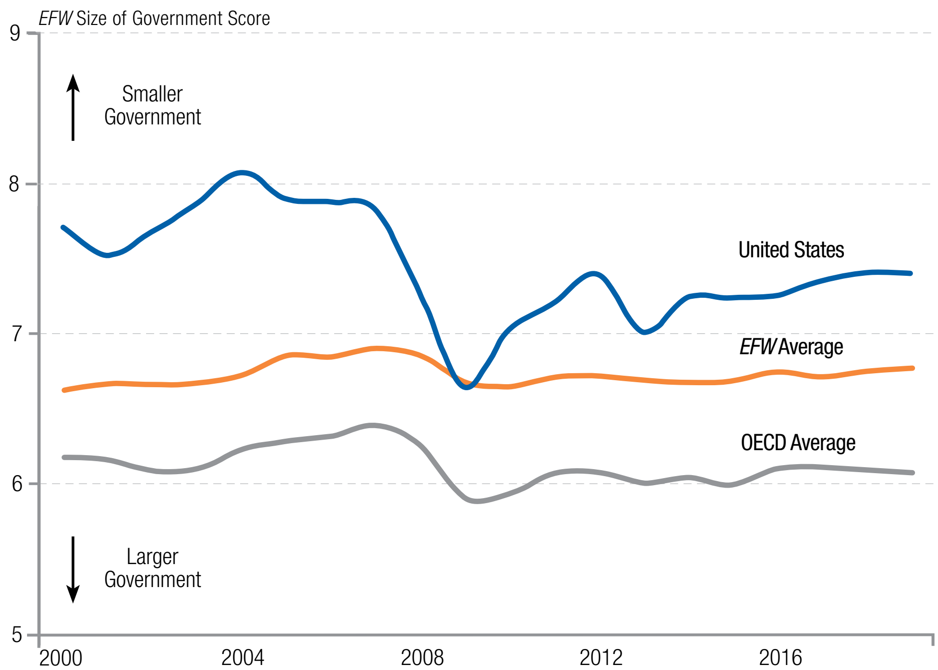
In his 2008 presidential address to the Southern Economic Association, Gwartney noted one of the first lessons of studying economic freedom: "Government spending as a share of the economy is not a very good measure of economic freedom or reliance on markets."

We don't find many exemplars of capitalism among the countries with the smallest governments. In 2019, the 10 countries with the highest *EFW* scores on size of government – the ones with the *smallest* governments – were Guatemala, Honduras, the Bahamas, the Dominican Republic, El Salvador, Chad, Sudan, Paraguay, Hong Kong and the Philippines.

In most of them, governments take

EXHIBIT 2

How U.S Compares on Size of Government



up only a small share of the economy because they are simply *incapable* of raising enough revenue through taxation or borrowing to significantly increase spending. The glaring exception is Hong Kong, which has limited itself along the other dimensions of government size so well that it ranked 9th, even after accounting for public ownership of the housing stock.

The Wealth Factor

As countries grow richer, they tend to increase government spending as a percent of GDP almost automatically – for any number of reasons, not only the result of expanding the capacity to collect taxes. German economist Adolph Wagner recognized this phenomenon in the 19th century, and it's now named after him: Wagner's law.

Wealthier countries increasing public spending prompts a different question: Given how wealthy the United States is, how large is its government?

I considered the question in a recent project and determined that Wagner's law applies to government consumption and transfers and subsidies, not the other dimensions of the size of government. I then statistically adjusted government consumption and transfers and subsidies to have no relationship one way or the other with economic performance. Finally, I used the statistically adjusted data to rerank countries on size of government.

The new Top 10 are the Bahamas, Guatemala, Hong Kong, the Dominican Republic, Switzerland, Honduras, El Salvador, Mexico and, in 10th place, the United States. Following the adjustment, the U.S. government ranks as one of the world's smallest.

More broadly, the ranking's upper quartile of 41 countries becomes a mixture of very weak states – Sudan, for instance, still ranks 15th; various middle-income countries in Latin America; and a handful of wealthy countries. In addition to Hong Kong, Switzerland and the United States, Singapore ranks 18th, Taiwan 25th, Cyprus 29th and Ireland 39th. Sprinkled throughout the top quartile are several wealthier-than-you-think countries – like Chile 16th, Mauritius 17th, Lithuania 21st and Panama 23rd.

Does the United States have a small or large government? The answer is … it depends. The United States has a small-ish government if you *don't* account for how wealthy it is, but it is very small – although not even the smallest among wealthy countries – if you *do* account for how wealthy it is.

In a similar way, wealth matters in ranking size of government for the large welfare states of Western and Northern Europe. If you don't adjust the government consumption and transfers and subsidies data, they rank among the largest governments in the world. After you make the adjustment, they are *toward* the bottom but not *at* the bottom. For example, Sweden ranks 140th with the wealth adjustment and 159th without it.

Funding the Welfare State

How do Sweden and other countries of Western and Northern Europe maintain such large governments? Don't they bump up against the constraint of the Laffer curve – the idea that, past a certain point, higher tax rates disincentivize work and investment so much that they actually lower tax revenue? Is there really that much more room to tax without hitting the upper bound implied by the Laffer curve?

The top marginal income tax rates in most of Europe are higher than the combined state and federal burden of 49.3 percent in California, the most heavily taxed U.S. state. But not that much higher – the Europeans understand the Laffer curve.

A country can grow government spending an awful lot if it taxes the heck out of everyone and everything – and that is what Western Europe does.

Instead of pushing their high marginal rates even higher, the Europeans raise additional revenue by applying top marginal rates to more people. Take Sweden. Its top rate is 52 percent, applied to incomes over 540,700 Swedish krona, or about $57,500.

Nothing approaching that rate applies in the United States until taxable income is *well* into six figures – more than $625,000 in California's case. What's more, European taxes are higher throughout the income distribution. All those under the $57,500 threshold in Sweden pay at least 32 percent – no matter what the income level.

Another way to raise more revenue is to cast a wider net – tax more things. Most European nations supplement their progressive income taxes with value-added taxes (VATs) that function more or less as national sales taxes. Like all taxes on consumption, VATs are regressive, meaning poorer taxpayers on average pay a higher percentage of their incomes than richer ones. Sweden's VAT is 25 percent. By comparison, California's sales tax, one of the nation's highest, runs from 7.25 percent to 10.75 percent, depending on where in the state taxpayers shop.

A country can grow government spending an awful lot if it taxes the heck out of everyone and everything – and that is what Western Europe does. No matter how poor you are, the marginal income tax you pay in Sweden is at least 32 percent, and you pay an extra 25 percent to the government when you want to buy something.

Sweden and its neighbors take all the money it taxes from the middle and upper middle classes and use it to fund their massive welfare states.

Safety Net Spending

We've already seen that the U.S. government is relatively small or, factoring in wealth, especially small. Does that imply the United States has a weak social safety net, compared to other wealthy countries? As with the size of government, it depends on how we look at it.

OECD data on social programs across countries, a mixture of spending (including transfers) on pensions, health, welfare and the like, show the United States allocated 18.7 percent of GDP to social spending, compared to the OECD average of 20 percent (all data are either 2019 or the most recently available). The OECD is essentially a club of rich countries, but a few are not *that* wealthy, such as Turkey, Mexico and Colombia. They bring down social spending's average in the OECD. Sweden spends 25.5 percent of GDP. France spends 30.1 percent.

Comparisons in terms of GDP percentages often make sense – it's how the *EFW* measures the size of government. For an alternative view, suppose we just ask how much is spent per person, only taking into account differences among countries in how much things cost. After making the appropriate purchasing power parity adjustment, U.S. social spending is $11,550 per person. The overall OECD is at $9,158 per person. The United States is now comfortably (26 percent) above average in social spending.

Calculating social spending as a percent of GDP involves a numerator (social spending) and denominator (GDP). The United States falling below average is treated as evidence the numerator is low. What it actually means is that the United States is wealthier than Europe – i.e., the denominator is large. The OECD reports GDP share and per person spending next to each other on its website – yet most reports just focus on the GDP data.

COVID and Economic Freedom

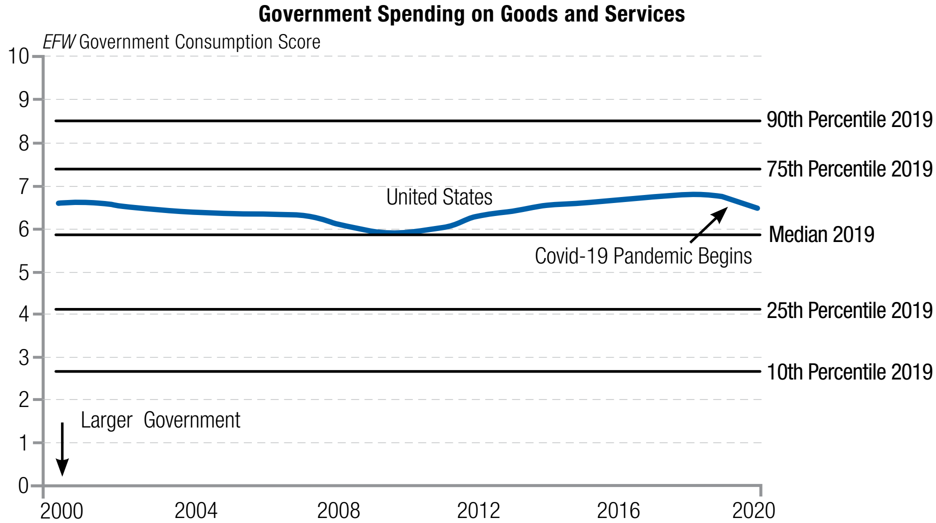
So far, I've restricted my comments to 2019 – normal times, pre-COVID. How did the drastic policy responses to the global pandemic affect the size of government? *EFW* data covering 2020, the pandemic's first year, won't be available until fall 2022, and efforts to fight the disease continued through 2021 and into 2022.

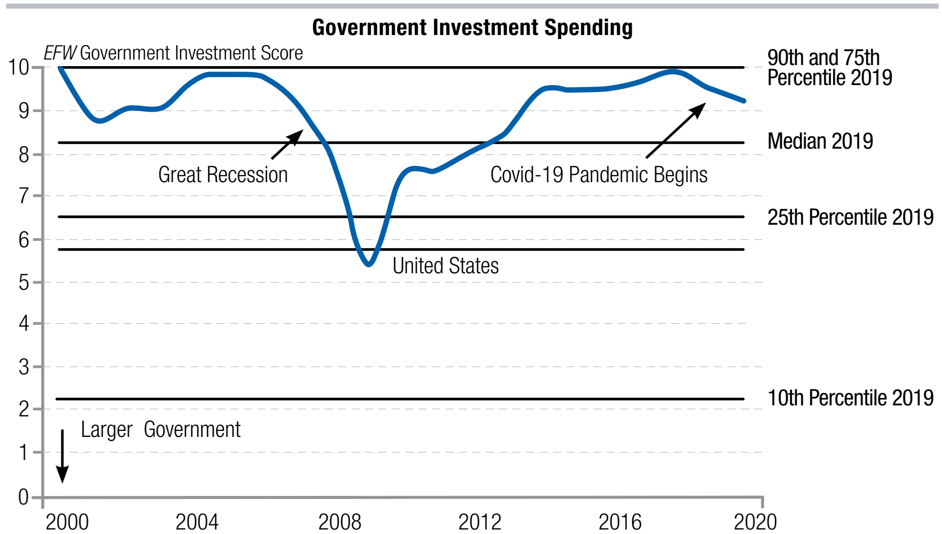
But we can already reach some tentative conclusions. The top U.S. marginal tax rates didn't change, and the experts who assess state ownership of assets saw no change for the United States. Increases in the size of government would appear in either government consumption or transfers and subsidies, depending on whether the policy response was to buy stuff for people (consumption) or just give them money directly (transfers). The United States mostly did the latter, but Exhibit 3 provides data on both, along with government investment.

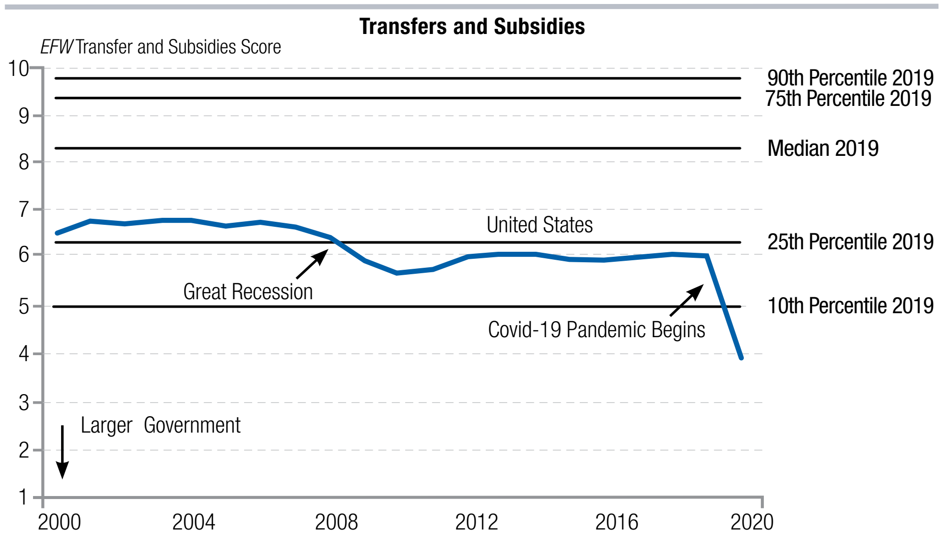
Government consumption and government investment worsened somewhat for the United States, but they remained within the historical data's normal variation. In fact, the United States saw a much sharper decline in scores in government investment

EXHIBIT 3

COVID-19's Impact on Size of Government







in response to the Great Recession a decade ago. Nothing to see here.

For transfers and subsidies, what happened in COVID's first year constituted a truly tectonic shift. On the 10-point scale, the index value fell from 6.02 to 3.93. Judged by the standards of the distribution of countries in 2019, the level of U.S. transfers and subsidies went from around the 25th percentile to well below the 10th percentile.

Other size of government data is changing minimally, so we can calculate the impact on the overall size of government just using the ballooning transfers and subsidies. They account for one-fifth of the size of government area, causing it to fall by (6.02 - 3.93) / 5 = 0.42 units. In the 2019 data, the U.S. size of government rating was 7.40, so this change alone reduces it to 6.98.

Before adjusting for Wagner's law, the U.S. ranking would fall from 52nd to 73rd. In the version that adjusts size of government for wealth, the ranking would decline from 10th to 32nd. (Both calculations are hypotheticals, simply meant to assess the effect on the United States. They assume no other countries changed their behavior, which they certainly did.)

COVID had a significant, visible impact on the size of government in the United States, and the effect on transfers and subsidies was larger for COVID than the Great Recession. Some COVID spending and lending channels remain open, and crises can lead to permanent increases in the size and scope of government. In the United States, however, most of the increases in transfers and subsidies have subsided or will likely subside soon.

Other enlargements to the size of government may result from future legislation, but the experience so far suggests a return to something close to previous values of the size of government as time goes on. The same more or less held for the Great Recession.

In the United States, the effect on transfers and subsidies was larger for COVID than the Great Recession.

A Perfect 10?

Suppose the post-COVID United States gets its *EFW* score back to where it was in 2019 – at 7.40 out of 10. For *EFW* junkies, I will explain what it would take for the United States to hypothetically get the rest of the way to a perfect 10.

For a 10 on any of the measures, the cutoffs used to scale the data don't require countries to literally have no government – but they do need to get somewhere close. Let's start with the most difficult choices: government consumption and transfers and subsidies.

A country receives a 10 if government accounts for less than 6 percent of consumption spending, which corresponds to just under 5 percent of GDP for the United States.

At current spending levels, available revenues would cover the absolute bare bones of government – national defense at around 3.5 percent of GDP and the legal system at around 1.5 percent of GDP. There'd be no money left for public education – by itself, K-12 education is over 3 percent of GDP. Funding parks or even sewage or sanitation would require cuts in spending on the bigger ticket items of the military and legal system.

Countries that spend 0.5 percent of GDP or less on transfers and subsidies receive a perfect 10. All major transfer programs – including Social Security, Medicare and Medicaid – would need to be cut entirely to reach this threshold. (Social Security counts as a transfer even though Americans "paid into the system" through payroll taxes. The program's funding is an elaborate accounting shell game, with benefits paid by current payroll taxes and the government paying itself interest on Treasury bills.)

Of all the transfer programs, I suspect American voters would prioritize veterans' benefits. The Department of Veterans Affairs budget has been roughly 1 percent of GDP in recent years. With some strenuous belt-tightening, veterans' benefits might be reduced to less than 0.5 percent of GDP. A perfect 10 would still require eliminating every other entitlement, subsidy and form of welfare in the United States.

How about some good news? The United States is close to a 10 in government investment. *EFW* only requires getting down to 15 percent of total investment, and some wealthy countries actually score a 10 already. Barring huge new U.S. spending on public infrastructure, the increased private investment caused by other government cuts would almost certainly allow the United States to fund the public investments we already do without going over 15 percent.

Like government investment, income taxes offer a relatively short path to a perfect 10, requiring only a top marginal rate of 20 percent or less. The drastic cuts to government consumption and transfers and subsidies mean that the United States would likely be able to: (1) eliminate income taxes on the lower half of households; (2) tax incomes over, say, $50,000 at 20 percent; and (3) eliminate all other taxes. (This would include state and local taxes, with the federal income tax funding all levels of government.) It's likely this imagined tax system would be even more progressive than the current system.

The final piece is state ownership of assets. Our data source, determined by a panel of experts, is somewhat opaque, and I can't quantify what it would take to sway the panel. By eliminating public schools, say, we would presumably also be privatizing a large segment of the country's capital stock (i.e., the physical schools). This would do as much as anything to increase the private sector's ownership of U.S. assets, so further action may not be needed.

The index is a descriptive tool assessing the relative freedom of economic institutions.

Wagner's law exists for a reason. When a society grows wealthier, its citizens expect government to perform an expanding number of functions. Going for a perfect 10 would force the United States to try "repealing" Wagner's law and get rid of most government programs. I will not sugarcoat the pain and sacrifices that would be needed, and I will not blame anyone for wishing to get off the train before the United States reaches 10.

EFW isn't rooting for a perfect 10 for any of its 165 countries. The index is a descriptive tool assessing the relative freedom of economic institutions. Countries are left to decide for themselves what's best for their wealth and welfare, and what they decide may come short of a perfect 10 in the size of government. All I've done is describe what the United States would face in the quest for the extreme.

Notes and References

The Economic Freedom of the World Report and a full data set is available at the Fraser Institute's website. https://www.fraserinstitute.org/studies/economic-freedom-of-the-world-2022-annual-report.

The methodology that adjusts countries upwards or downwards to account for Wagner's law is discussed in greater detail in Ryan H. Murphy. 2022. "Breaking Wagner's Law: Which Countries Have the Most Limited Government?" *Public Finance Review* 50, no. 4: 484-509.

Concerning the upper limits of the size of government, see Steven Karceski and Edgar Kiser. 2020. "Is There a Limit to the Size of the State? The Scope Conditions of Wagner's Law." *Journal of Institutional Economics* 16, no. 2: 217-232.

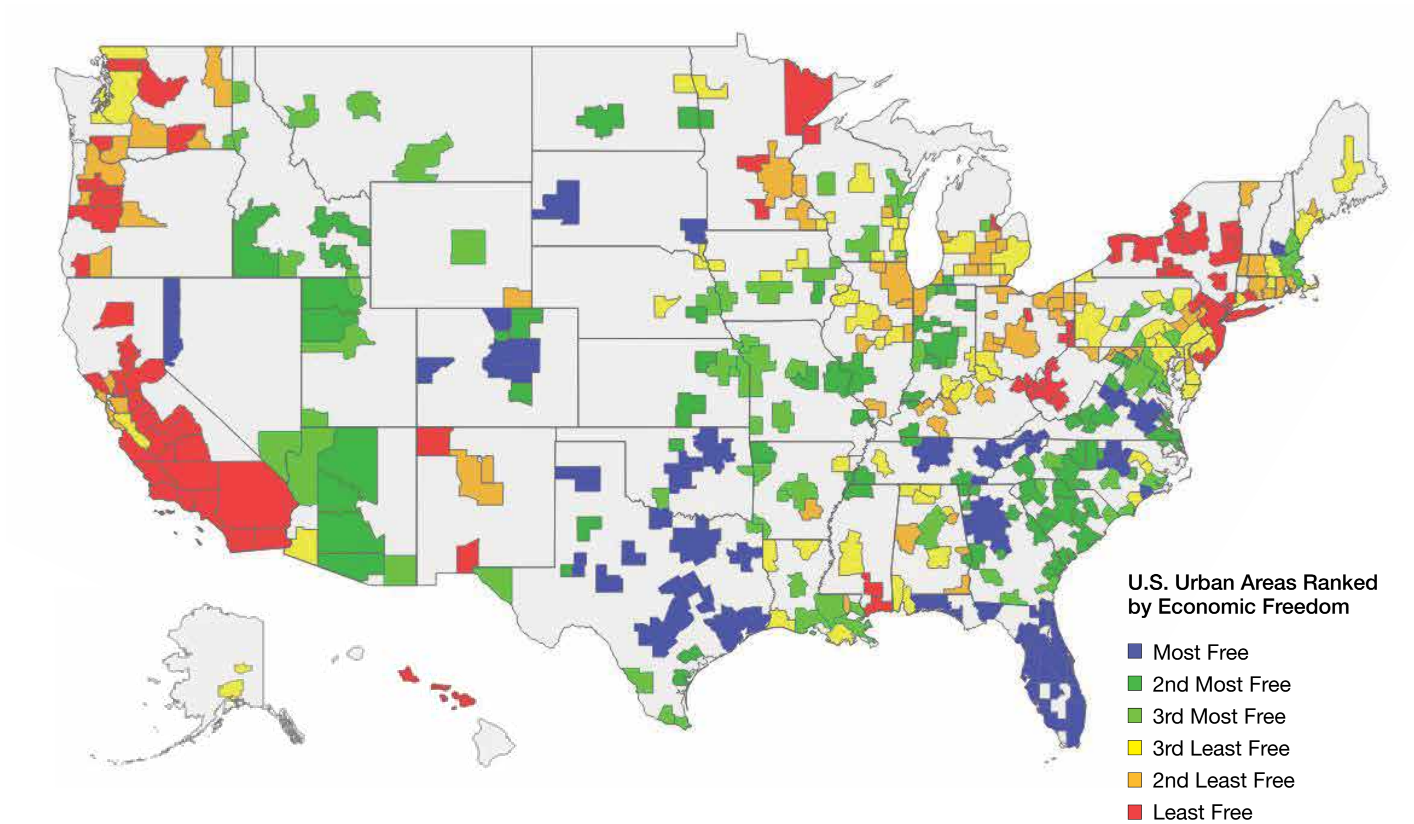
Concerning Sweden's historical experience with the welfare state, see Johan Norberg. 2020. "Sweden's Lessons for America." *Cato Policy Report* 42, no. 1.

Concerning the potential for crises to cause permanent increases in the size of government, see Robert Higgs. 1987. *Crisis and Leviathan: Critical Episodes in the Growth of American Government*. Oxford: Oxford University Press.

Concerning levels of public spending on the legal system and national defense, see James Gwartney, Randall Holcombe and Robert Lawson. 1998. "The Scope of Government and the Wealth of Nations." *Cato Journal* 18, no. 2: 163-190.

Concerning public spending on education, see https://nces.ed.gov/programs/digest/d16/tables/dt16_236.15.asp.

Concerning the relationship between government investment and the quality of governance, see Philip Keefer and Stephen Knack. 2007. "Boondoggles, Rent-Seeking, and Political Checks and Balances." *Review of Economics and Statistics* 89, no. 3: 566-572.



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

Dean Stansel is research associate professor in the Bridwell Institute and lead author of the Economic Freedom of North America *report.*

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.

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.

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

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

Rank*	Metropolitan Statistical Area	2012-17 Change
1	Denver-Aurora-Lakewood, CO	8.3%
2	St. Louis, MO-IL	7.5%
3	Atlanta-Sandy Springs-Roswell, GA	6.8%
4	Charlotte-Concord-Gastonia, NC-SC	6.4%
5	Raleigh, NC	6.3%
6	Las Vegas-Henderson-Paradise, NV	5.9%
7	Indianapolis-Carmel-Anderson, IN	5.6%
8	Orlando-Kissimmee-Sanford, FL	4.9%
9	Salt Lake City, UT	4.5%
10	Louisville-Jefferson County, KY-IN	4.3%

Ten Largest Decreases

Rank*	Metropolitan Statistical Area	2012-17 Change
53	Los Angeles-Long Beach-Anaheim, CA	-10.3%
52	New York-Newark-Jersey City, NY-NJ-PA	-8.8%
51	San Diego-Carlsbad, CA	-8.3%
50	Hartford-West Hartford-East Hartford, CT	-7.9%
49	Riverside-San Bernardino-Ontario, CA	-7.8%
48	Washington-Arlington-Alexandria, DC-VA-MD-WV	-7.5%
47	San Francisco-Oakland-Fremont, CA	-7.0%
46	Baltimore-Columbia-Towson, MD	-6.4%
45	Sacramento--Roseville--Arden-Arcadee, CA	-5.6%
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
1	Rome, GA	19.7%
2	Reno, NV	15.2%
3	Myrtle Beach-Conway-North Myrtle Beach, SC-NC	14.7%
4	Rocky Mount, NC	13.9%
5	Kokomo, IN	13.8%
6	Pueblo, CO	13.0%
7	Fort Collins-Loveland, CO	12.7%
8	Sumter, SC	12.2%
9	Brunswick, GA	11.7%
10	Hilton Head Island-Bluffton-Beaufort, SC	11.6%

Rank*	Metropolitan Statistical Area	2012-17 Change
330	Bakersfield, CA	-20.2%
329	El Centro, CA	-18.8%
328	Santa Maria-Santa Barbara, CA	-13.8%
327	Kahului-Wailuku-Lahaina, HI	-11.3%
326	Merced, CA	-10.2%
325	Mankato-North Mankato, MN	-10.0%
324	Pittsfield, MA	-9.9%
322	Cumberland, MD-WV	-9.4%
322	Watertown-Fort Drum, NY	-9.4%
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

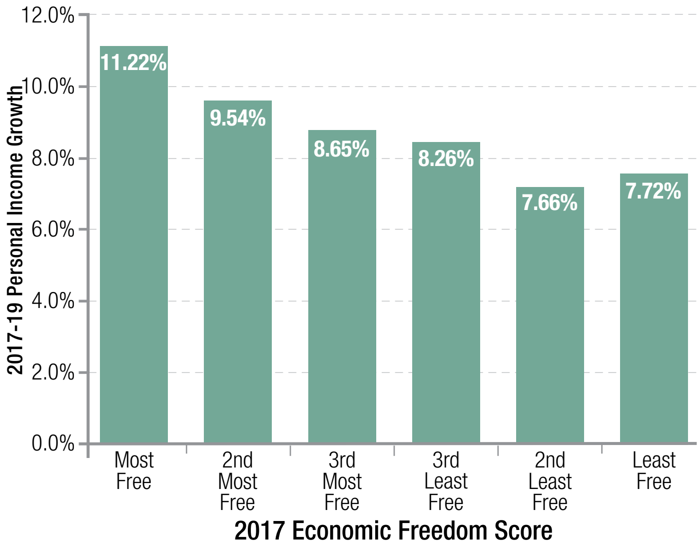


EXHIBIT 6B

Economic Freedom and Employment Growth

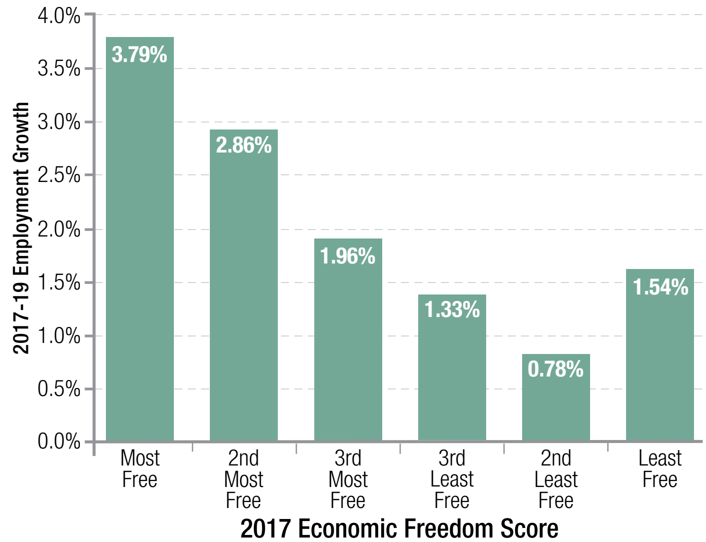


EXHIBIT 6C

Economic Freedom and Unemployment Rate

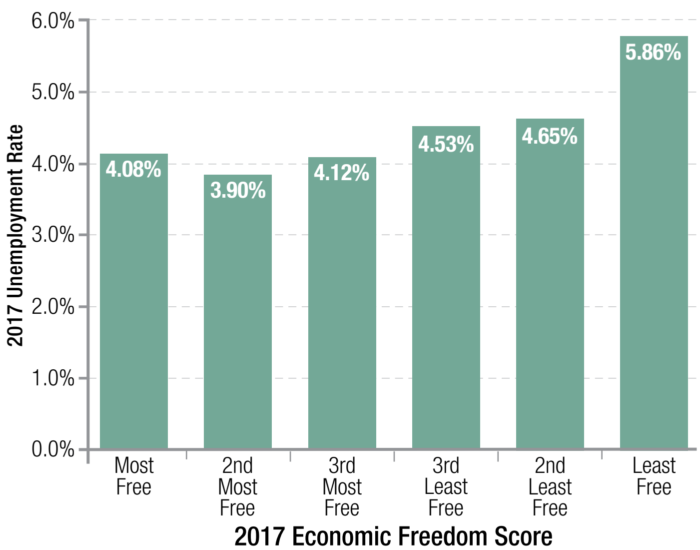
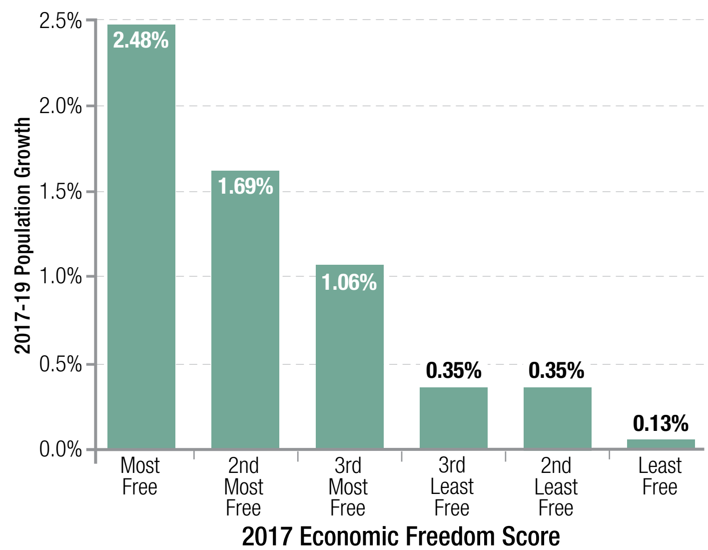


EXHIBIT 6D

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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Bridwell Institute

2021-22 Annual Report

Year in Review

Last year, a new name.

This year, a new address.

The Bridwell Institute packed up everything of value in January 2021 and moved from its long-time quarters in the SMU Cox's Crow Building to a shared, 10th floor suite in Expressway Tower, a mirrored-glass, SMU-owned edifice just across Central Expressway in what the university has dubbed its East Campus.

SMU Cox describes the relocation as temporary, but the Bridwell Institute's sojourn will last more than two years. The return to the main campus won't come until the summer of 2024, with the completion of a $140 million reconstruction and expansion of the school's three buildings on Bishop Boulevard.

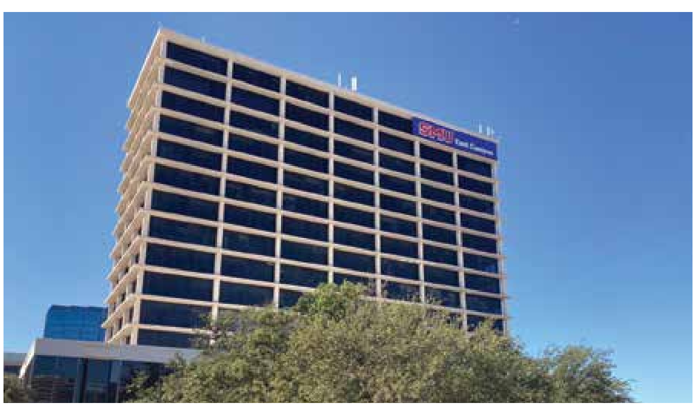
"We miss the comradery and convenience of being in the SMU Cox complex," said Robert Lawson, the Bridwell Institute's director. "We're going to do our best to carry on our research activities and programs from this side of the highway – including the student reading groups. Whatever the hitches and glitches, it will all be worth it when we finally settle into a modernized office suite in Bolin-Bridwell Hall."

As part of a $15 million donation from Tucker Bridwell, a 1974 SMU Cox MBA graduate, and his wife Gina, the 12-year-old O'Neil Center for Global Markets and Freedom became the Bridwell Institute for Economic Freedom in September 2020. Half of the Bridwells' donation goes to Brolin-Bridwell Hall, a new building under construction on the business school's northwest corner, facing Bishop Boulevard.

Real estate aside, the additional resources will allow us to improve our programs and activities, including research on the relationships among economic freedom and economic performance.

The COVID-19 pandemic's restrictions disrupted Bridwell operations from the spring of 2020 through most of academic year 2020-21. We had to limit face-to-face contact in the office, cancel some events, hold others via Zoom, curtail travel for conferences and learn to teach classes remotely.

The pandemic had little impact on academic year 2021-22, allowing the institute to restore normal operations, with in-person events and programs.



The Bridwell Institute now works here ...

... while construction crews work on its new offices.

We invited the public to hear two high-profile speakers – British innovation guru Matt Ridley and North Korean defector Yeonmi Park. The fall Texas Economic Forum featured Bridwell research on economic freedom and ethnicity, the spring event discussed inflation's bite.

Our scholars used their research in dozens of publications for academic and general audiences. More than 130 SMU students enrolled in the semester-long free market reading groups. Our program to improve Texas' teaching of high school economics bounced back from its pandemic lull. Our professors taught economics classes for several hundred SMU Cox students and responded to dozens of media inquiries.

"This past year seemed like old times," Lawson said. "We were able to get back to focusing on research, working with colleagues, teaching students, hosting events… the things we're here to do."

The Bridwell Institute staff had no additions or subtractions in academic year 2021-22, and duties and titles remained the same:

- Lawson, the Jerome M. Fullinwider Centennial Chair in Economic Freedom, completed his seventh year as director of the O'Neil/Bridwell organization while continuing to teach MBA students and research on economic freedom.
- Meg Tuszynski, research associate professor, finished her fifth year as assistant director and led the institute's reading groups and other student programs while continuing her research activities;
- W. Michael Cox, founding director of the O'Neil Center in 2008, co-authored the latest in a series of Annual Report essays dating back to 2009 while focusing on teaching MBA students and leading the institute's Texas research;
- Richard Alm, writer-in-residence, collaborated with Cox on their 11th Annual report essay and research on the Texas economy;
- Dean Stansel, research associate professor, co-authored the *Economic Freedom of North America (EFNA)* report and coordinated the institute's main student reading groups;
- Ryan Murphy, research assistant professor, primarily worked with Lawson on measuring economic freedom and led the institute's advanced student reading groups;
- Mike Davis, senior lecturer, once again shouldered the institute's heaviest teaching load and was a versatile and quotable resource for local TV and other media;
- Ray Hughel, director of educational programs, coordinates our program that delivers lessons on economic topics to high school teachers.
- Program specialist Liz Chow, who earned her MBA in May 2021, assisted in managing and marketing the institute's programs and initiatives;

Bridwell Institute Faculty and Staff, 2021-22

Robert Lawson

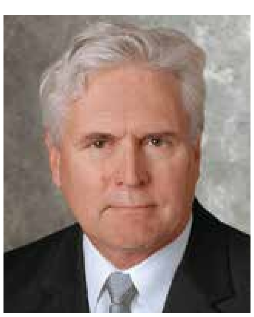
Meg Tuszynski

W. Michael Cox

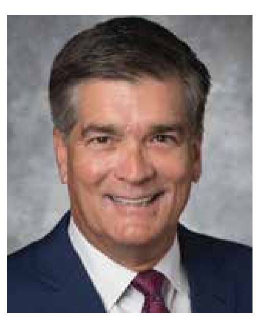
Richard Alm

Dean Stansel

Ryan Murphy



Michael Davis



Ray Hughel

Liz Chow

Albert W. Niemi

• Former SMU Cox Dean Al Niemi, the William J. O'Neil Chair in Global Markets and Freedom, continued his teaching and research.

With an annual budget of approximately $2 million, the Bridwell Institute relies primarily on donors to fund its operations. The institute acknowledges the generous support of Tucker and Gina Bridwell, the William E. Armentrout Foundation, Richard Weekley, Sarah and Ross Perot Jr., the U.S. Justice Charitable Foundation, the Templeton World Charity Foundation, the Legett Foundation, the Karakin Foundation, the Kickapoo Springs Foundation and numerous other individual donors.

■ ■ ■

The Bridwell Institute pursues two major research agendas centered on empirical measures of economic freedom – data-driven assessments of the balance between markets and government control:

• **Global Economic Freedom** concentrates on measuring economic freedom and its impact on key metrics of national performance.

• **State and Local Economic Freedom** takes a similar approach to studying state and metropolitan-area economic freedom, with an emphasis on Texas and its largest cities.

The institute stands alone in academia with expertise in measuring economic freedom at all three levels of analysis – nations, states and metropolitan areas.

These two research agendas shape the Bridwell Institute's other initiatives

• **Student Enrichment** seeks to cultivate economic thinking in the next generation through teaching and mentoring.

• **Public Outreach** includes events, speeches and non-academic writings aimed at the broader community and the media.

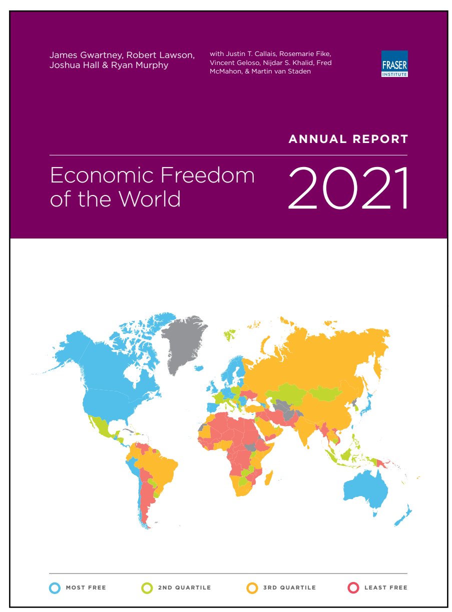
The 2021-22 academic year began on June 1, 2021, and ended on May 31, 2022. Details of the Bridwell Institute's activities and accomplishments are presented on the following pages, sorted by the two research agendas, student enrichment and public outreach.

Global Economic Freedom

EFW Report

Economic Freedom – Albania to Zimbabwe

For decades, Lawson has been a key researcher and co-author on the *Economic Freedom of the World (EFW)* report, the foundation of the Bridwell Institute's work on global economic freedom. The report ranks nations on their support for the private sector and market-based institutions.



EFW is based on five broad concepts fundamental to successful free enterprise economies – size of government, legal system and property rights, sound money, freedom to trade internationally and regulatory burdens. Studies find high *EFW* scores correlate with higher incomes, faster economic growth, lower poverty rates, higher life expectancy and many other positive outcomes.

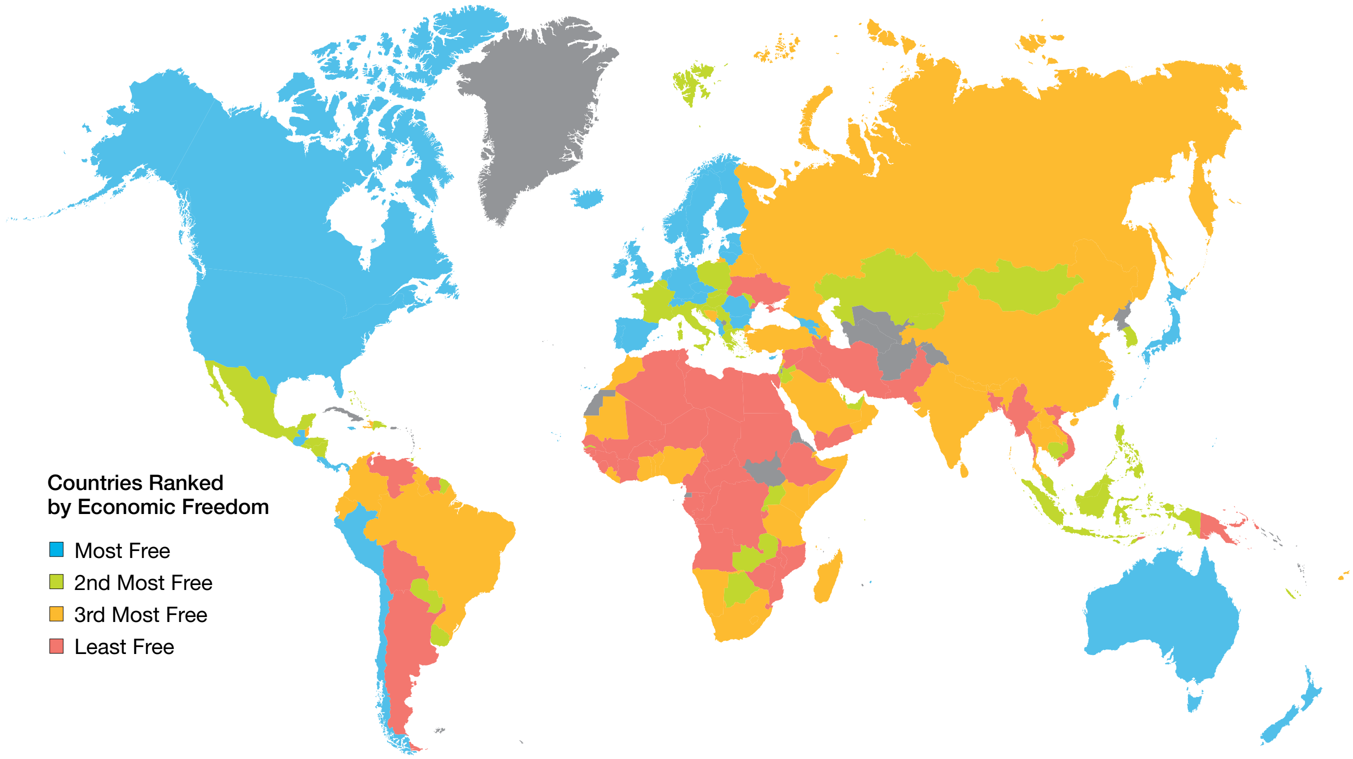
A network of economic researchers around the world supplies the raw *EFW* data. Lawson and Murphy, an *EFW* co-author since 2018, compile it and calculate indexes of economic freedom for 165 countries.

The *EFW* report for 2021, published by Canada's Fraser Institute in September, showed that the most economically free places in 2019 were Hong Kong, Singapore, New Zealand, Switzerland and Georgia (*see facing page*).

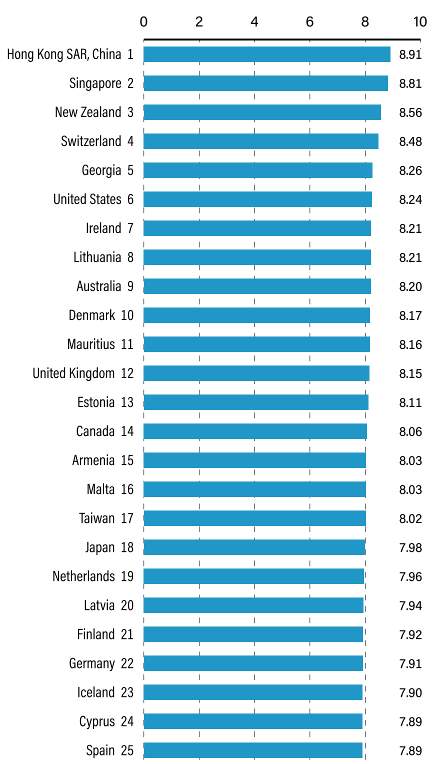
The United States came next. Among five broad areas, the United States ranked highly in sound money and regulation. Freedom to trade internationally and the legal system and property rights are not as strong as they were in the past.

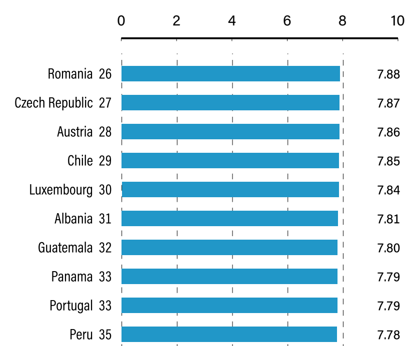
EFW data has been cited in thousands of economic studies, and it was the basis for "Sizing Up the Size of Government," an essay by Murphy that starts on page 2 of this Annual Report.

The Geography of Global Economic Freedom

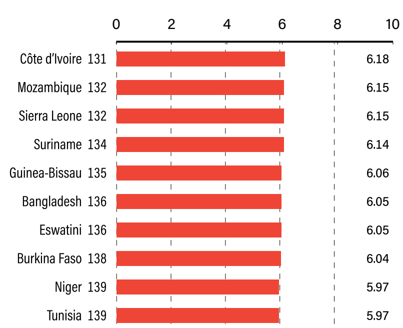


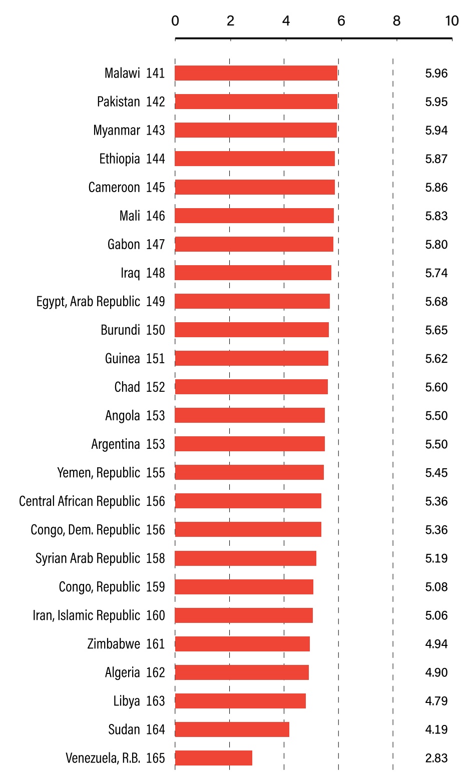
Most-Free Countries





Least-Free Countries





For the full report, go to https://www.fraserinstitute.org/studies/economic-freedom

Promoting Research on Economic Freedom

The Bridwell Institute has become a magnet for research on measuring economic freedom and its consequences. Our conferences and seminars bring together economists from colleges, universities and research centers for discussions on using national, state and metro indexes in their research projects.

In a May seminar at SMU, for example, Vincent Miozzi and Ben Powell of Texas Tech's Free Market Institute presented their research-in-progress on adjusting the *EFW* index to measure the toll of COVID-19-related regulations and lockdowns on economic freedom around the world in 2020.

Publications and Presentations

The *Journal of Private Enterprise* published Murphy's "The Soft Stuff of Institutional Development." In finding no clear patterns among 12 dimensions of culture and economic freedom at the country level, the research suggests that the relationships among migration, culture and institutions aren't as tight as some commentators contend.

Tuszynski published "Thinking Differently About Institutions: The Entangled Political Economy of Richard Wagner" in the Mercatus Center Festschrift for Richard Wagner.

Econ Journal Watch published Murphy's "On Whether the Size of Government Belongs in Economic Freedom Indices," which assessed the validity of incorporating government spending, taxes and regulation in the *EFW* and similar surveys. Murphy's essay in this Annual Report *(see page 2)* grew out of this work.

Murphy became a full co-author of the *Human Freedom Index,* published by the Cato Institute. The annual survey of broad data related to global human freedom includes *EFW* data.

In *The Independent Review,* Murphy gave a lukewarm review of *10% Less Democracy: Why You Should Trust Elites a Little More and the Masses a Little Less,* Garett Jones' book on the effectiveness of non-democratic decision-making.

A two-year research project by Murphy and Colin O'Reilly (Creighton) culminated in "An Index Measuring State Capacity, 1789-2018," a paper accepted by *Economica*. The two economists used a larger data set to create an innovative index that extends the measurement of state capacity – the ability of governments to accomplish policy goals – to more countries over a longer time span.

Economic Affairs will publish Murphy's "The Constitution of Ambiguity: The Effects of Constitutions on Economic Freedom," which presents strong reasons to doubt previous claims that written constitutions have positive effects on economic freedom.

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Lawson gave talks on economic freedom and its implications to students at Angelo State University, Beloit College, Concordia University, Florida Atlantic University, Manhattanville College and Wichita State University. He discussed the topic at the Bridwell Institute's *EFNA* annual conference and at the national meeting of Young Americans for Freedom, an organization for college conservatives.

Murphy contributed "The Constitution of Ambiguity: The Effects of Constitutions on Economic Freedom" to the NYU Colloquium on Market Institutions and Economic Processes via Zoom in October.

Tuszynski delivered a talk on her working paper "Beyond Markets and Governments: Fitting the Third Sector into the Entangled Political Economy Framework" at the Institute for Humane Studies' virtual workshop in March.

In a presentation at the Southern Economic Association meeting, Lawson reported on his research showing a positive correlation between *EFW*-measured economic freedom and one-way rental rates for U-Haul trucks and trailers.

Lawson gave several speeches to college students and civic groups on *Socialism Sucks: Two Economists Drink Their Way Through the Unfree World*, the 2019 book he wrote with Texas Tech's Ben Powell. Events were hosted by Texas A&M, the Sheboygan (Wis.) Economics Club, the Parker County (Tex.) Republican Club and the Dallas area's Public Affairs Council.

At the August meeting of the Bastiat Society's Dallas chapter, Murphy discussed "The Financial *Imprudence* of Do-It-Yourself," using basic economic logic to show the advantages of specialization in home improvement and maintenance.

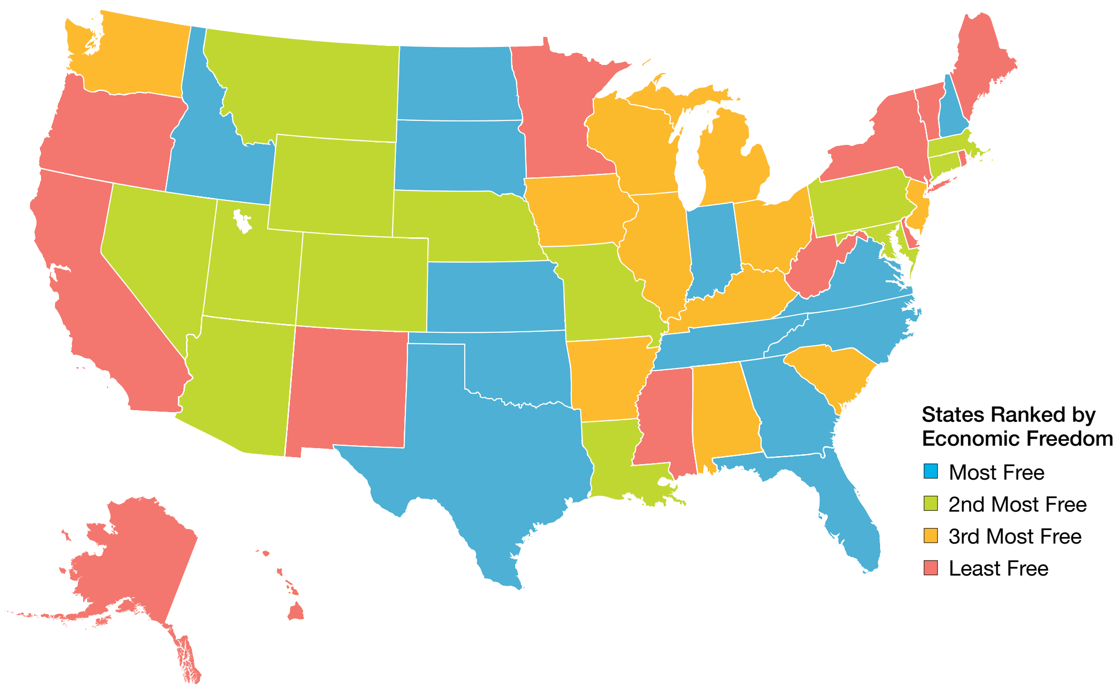
Murphy presented three papers at the Bridwell Institute's June workshop on economic freedom – "Applying Panel Vector Autoregression to Institutions, Human Capital, and Output," "Economic Freedom of North America at State Borders" and "Exogenous Resource Shocks and Economic Freedom."

Lawson served on the boards of directors of two organizations promoting free market ideas and economic research – the Mont Pelerin Society and the Association of Private Enterprise Education.

State and Local Economic Freedom

EFNA Report

Gaps Between the Most- and Least-Free States



Since 2013, Stansel has been the primary author of the *Economic Freedom of North America* (*EFNA*) report. In addition, he created the first index that measures economic freedom for the nation's 380-plus metropolitan statistical areas in 2015.

The *EFNA* 2021 report, published by Canada's Fraser Institute in November, used 2019 data to rank all U.S. and Mexican states and Canadian provinces on economic freedom.

At the top of the U.S. list – the most economically free states – were New Hampshire, Tennessee, Florida, Texas and Virginia, the same Top Five for the third year in a row but in a slightly different order. The quintet at the bottom exhibited the least economic freedom: New York, California, Vermont, West Virginia and New Mexico *(see next page)*.

As with the EFW index, researchers have consistently found positive relationships between economic freedom and favorable outcomes, such as higher incomes and faster growth. In academic year 2021-22, Cox and Alm used the *EFNA* index for research on whether free enterprise pays off across racial and ethnic groups *(see page 23)*.

The Bridwell Institute and the Fraser Institute co-hosted the 7th annual Economic Freedom of North America Network conference in September. It brought together 25 scholars from state think tanks and university research centers to discuss the *EFNA* and best practices in using it to promote good economic policies. Stansel reviewed the *EFNA* report in a presentation on "Economic Freedom of North America: An Overview."

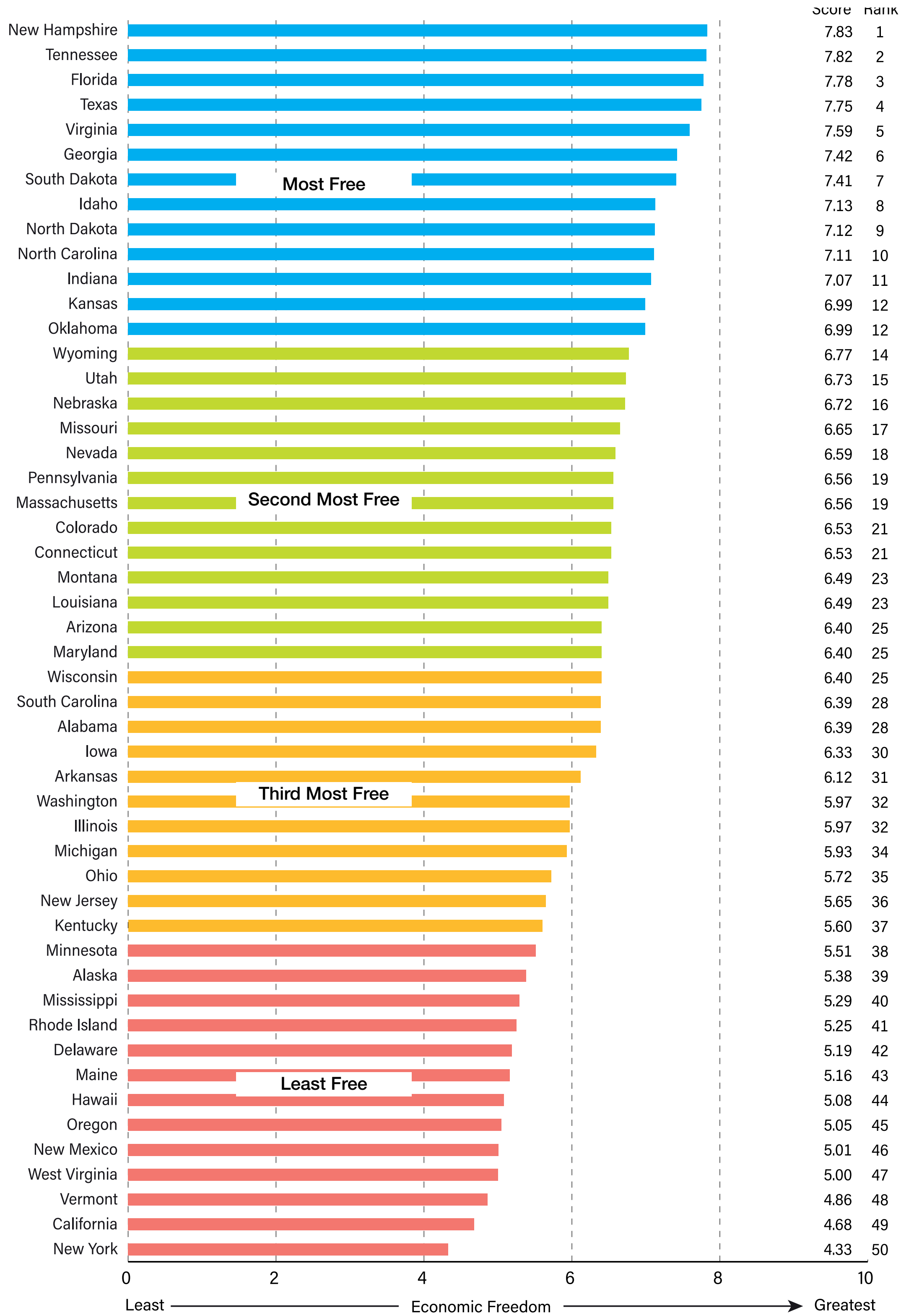
Metro Index Update

Stansel created the first index to measure economic freedom for the nation's metropolitan statistical areas (MSAs), releasing it in 2015. In academic year 2021-22, he updated the metro index to incorporate more recent data.

This Annual Report includes Stansel's essay "Measuring Economic Freedom Closer to Home," which describes the metro index and highlights the results from the updated data *(see page 9)*.

The revised index shows that economic freedom correlates with higher incomes, faster job creation and lower unemployment. The most-free urban areas also had faster population growth.

EFNA Scores for All 50 States – Subnational Index



For the full report, go to https://www.fraserinstitute.org/studies/economic-freedom

Bridwell Annual Report Essay

'The Economic System for All of Us'

Cox and Alm knew about the *EFNA* studies that documented links between economic freedom and higher incomes. They wanted to see whether the results held for different racial and ethnic groups.

They reported on their research in "The Economic System for All of Us," the essay included in the Bridwell Institute's 2020-21Annual Report. In addition to economic freedom, the study used data on earnings by White, Hispanic, Black and Asian-American workers in each state, broken down by education and occupations. To focus on well-being, pay was adjusted to account for differences in taxes and living costs among states.

For five educational levels, real after-tax earnings were always highest in Texas, Florida and other states with greater economic freedom. They were always lowest in New York, California and other states with the least economic freedom. The pattern held across 70 jobs classifications.

"Markets and freedom work better than bigger government in improving households' living standards," Cox and Alm wrote. "Our research shows that no racial or ethnic group is left out – making free enterprise the economic system for all of us."

Publications and Presentations

Cox and Alm wrote two columns about the Texas economy for Dallas-based *D CEO* magazine: "Waiting to Get Back to Work," an assessment of COVID-19's impact on what had been a high-flying economy and "Rising Prices Are Fueling Anxiety," a look at how inflation has darkened the outlook for Texas' economy.

In July, the *Dallas Morning News* featured Stansel's byline on "States Like Texas that Value Economic Freedom Attract a Stampede of Newcomers," an op-ed based on the findings of his recent research on metro economic freedom and population migration.

Shortly after *EFNA*'s December release, Stansel and John Hendrickson (Iowans for Tax Relief) placed "Grow Iowa's Economy Through Economic Freedom" in the Sioux City Journal. It also appeared in several other outlets around the state.

■ ■ ■

Stansel presented research-in-progress at two academic conferences: "Are Minimum Wages Associated with Food Insecurity?" at November's Southern Economic Association annual meeting in Houston and "Economic Freedom in the U.S. States: Incorporating Regulatory Policy" at April's Association of Private Enterprise Education annual meeting in Las Vegas.

In October, Stansel made a virtual presentation of his *EFNA* talk to the Grassroot Institute, a Hawaiian think tank.

At a December Institute for Humane Studies Academic Research Symposium on "The Political Economy of Immigration and Institutions" in Houston, Stansel addressed the topic of "How Does Internal Migration Affect U.S. States' Economic Freedom?" It was based on a research paper with Tuszynski and Alexandre Padilla (University of Denver).

Stansel served on the Georgia Center for Opportunity's advisory panel charged with producing a state-level index of COVID-19 restrictions' severity. In December, he presented his research "Assessing Each State's Response to the Pandemic: Understanding the Impact on Employment and Work."

Student Enrichment

Bridwell-Armentrout Scholars

Discussing the Ideas of Liberty on the SMU Campus

In their sixth year, the Bridwell Institute's reading groups continued to attract a large number of applicants, many of whom heard about the program from other students who already attended and some returning for a second or third dose of discussions about liberty.

In academic year 2021-22, we had seven undergraduate reading groups with a diverse mix of SMU undergraduate students, including majors from economics, finance, public policy, political science, philosophy, psychology, statistics, engineering, English, health and society, human rights and anthropology.

Tuszynski leads her student reading group in the spring semester.

Poverty and Prosperity

In the fall, Stansel led three reading groups. The theme was "Freedom and Human Flourishing: Poverty, Prosperity and Happiness around the World." Students discussed what a variety of economists, political philosophers, and public policy experts contributed to this topic – Daron Acemoglu, George Ayittey, William Easterly, Deirdre McCloskey, James Otteson and Jeffrey Sachs.

Lawson discusses his book Socialism Sucks *at the reading group summit.*

Thirty-six students explored such questions as: Why are some nations prosperous while others remain impoverished? How should we measure socio-economic progress? What role does foreign aid play in helping the poor? How has the quality of life changed over time around the world? How do government policies and markets affect our well-being?

The fall summit meeting, held at SMU, combined our students with those in similar reading groups at Baylor University, Texas Tech University, Angelo State University and the University of Central Arkansas.

About 80 students attended a keynote lecture by Otteson, a Notre Dame professor whose talk focused on his latest book *Seven Deadly Economic Sins: Obstacles to Prosperity and Happiness Every Citizen Should Know* and his forthcoming book *The Ethics of Wealth Redistribution*.

Capitalism and Socialism

In the spring, Stansel led two groups and Lawson and Tuszynski one each. The theme was "Capitalism, Socialism and Human Flourishing." Participants read and discussed works by such authors as Adam Smith, Karl Marx, F.A. Hayek, Milton Friedman and Joseph Stiglitz.

Forty-eight students used the readings as a basis for discussing such questions as: What do "socialism" and "capitalism" mean? What is the best way for societies to organize their economic systems? How do societies ensure scarce resources are channeled to highly valued uses? What can we learn from the experiences of countries with differing systems of government?

For the spring summit meeting on the SMU campus, our students joined their counterparts from a similar group at the University of Central Arkansas.

About 60 students attended Lawson's keynote lecture based on *Socialism Sucks,* a 2019 book he co-authored with Texas Tech's Ben Powell. The SMU and Central Arkansas students read portions of *Socialism Sucks* during the semester.

Stansel served as Bridwell's coordinator for these reading groups.

Advanced Reading Groups

Deeper Dives into Economic Thought

Murphy leads the Bridwell Institute's advanced reading groups. To qualify, students had to complete at least one semester in the Bridwell-Armentrout program and get a recommendation from their reading group's leader.

Murphy had a busy academic year 2021-23. He led five advanced reading groups, with 49 students.

The fall group centered on "Adventures and Misadventures in Science and Data Analytics." Students read three books in their entirety: *The Hot Hand* by Ben Cohen, *Science Fictions* by Stuart Ritchie and *The Data Detective* by Tim Harford. They also read about 100 pages of *The Scout Mindset* by Julia Galef.

The spring group tackled "Capitalism and Comparative Economics," with readings related to areas of economic freedom and three other variables in comparative economics – legal origins, democracy and state capacity.

Students read parts of *Creative Destruction* by Tyler Cowen, *The Mystery of Capital* by Hernando de Soto, *Capitalism and Freedom* by Milton Friedman, *The Clash of Economic Ideas* by Lawrence White, *Escaping Paternalism* by Mario Rizzo and Glenn Whitman, *Political Order and Political Decay* by Francis Fukuyama, *Seeing Like a State* by James C. Scott, *The Future of Freedom* by Fareed Zakaria, *Development as Freedom* by Amartya Sen, *Choosing in Groups* by Michael Munger and Kevin Munger, *10% Less Democracy* by Garett Jones and *Rules and Order* by F.A. Hayek.

They also watched all three parts of the *Commanding Heights* documentary.

Summer and Winter Sessions

Murphy also led summer and winter reading groups – when many students were away from SMU. The format was different. Rather than roundtable discussions, Murphy selected a theme and one book on the topic for all to read. Each student then chose a second book on the topic, making a presentation on it to the group.

The summer theme was "Institutional Economics." Everyone read *Institutions, Institutional Change, and Economic Performance* by Douglass North. Individual students read *Law's Order* by David Friedman, *Political Capitalism* by Randall Holcombe, *Coercion, Capital, and European States* by Charles Tilly, *Calculation and Coordination* by Peter Boettke *Hayek's Modern Family* by Steve Horwitz, *Building State Capacity* by Matt Andrews, Michael Woolcock and Lant Pritchett and *State Building* by Francis Fukuyama.

In the winter, students focused on "Economic Growth, Progress and Technology," with *Inadequate Equilibria* by Eliezer Yudkowsky as their common reading. Individuals read *The Complacent Class* by Tyler Cowen, *Extra Life* by Steven Johnson, *Innovation and Its Enemies* by Calestous Juma, *A Time to Build* by Yuvel Levin, *Moneyball* by Michael Lewis, *Radical Markets* by Eric Posner and Glen Weyl and *From Zero to One* by Peter Thiel and Blake Masters.

Teaching Free Enterprise

Working to Improve Economics Education

The COVID-19 pandemic continued to disrupt Teaching Free Enterprise (TFE), the seven-year-old Bridwell Institute program to improve economics instruction in high schools.

In the summer months, TFE's busiest season before the pandemic, many school districts were still limiting in-person contact and relaxing professional development requirements. Once the school year started, teachers had fewer opportunities to take time away from their classrooms to attend our events.

Despite the slow start, TFE bounced back in academic year 2021-22. Attendance at 49 events totaled 993 teachers, a healthy increase from 381 teachers in pandemic-ravaged 2020-21. Attendance reached 1,500 in the academic year before the pandemic.

"A low energy aura was pervasive in the professional development arena," said Hughel, the program's coordinator. "Things are starting to get back to normal. We're already seeing positive signs for the upcoming academic year."

■ ■ ■

TFE develops classroom-ready lesson plans for teaching dozens of economic topics – trade, economic progress, macroeconomics, taxation and public finance. Lawson, Cox, Stansel, Tuszynski and Alm led TFE sessions in academic year 2021-22, but faculty at a dozen other colleges and universities have also developed units.

Four new units were added in 2021-22. Three stand alone: Environmental Economics by Tuszynski, Economics of Entrepreneurship by Colorado State University's Boris Nikolaev and Constitutional Political Economy by Ben Powell, Alexander Salter and Andrew Young, all at Texas Tech.

In Personal Financial Literacy III, Seton Hall's Danielle Zanzalari extends her two earlier units to complete a package that covers many areas critical to everyday life – budgeting, saving, borrowing, investing, retirement, insurance and real estate.


Ann Marie Tipps

TFE's work continues to get recognition from educational organizations in other states. Tennessee held its first event this year, joining Arkansas, Kansas, Georgia and New Jersey. We are in discussion with groups in four other states.

Finally, TFE added a new face. Ann Marie Tipps joined the Bridwell team as an economic education specialist in April. She's been in the trenches, serving with distinction as a high school economics teacher for more than 30-plus years in the DFW area.

Teaching and Mentoring

SMU Cox relied on Bridwell Institute professors to teach economics classes at the undergraduate, graduate and MBA levels. At SMU, education returned to in-person instruction after two years marked by distance learning due to the COVID-19 pandemic.

Lawson taught 100 students in four sections of Managerial Economics – a core course on micro foundations – in the two-year and executive MBA programs. Cox took on MBA-level Macroeconomics in addition to teaching two undergraduate classes in the summer session.

Davis shouldered a heavy teaching load, teaching Macroeconomics for MBA students and several courses for the new SMU Cox on-line MBA. Niemi continued to teach his popular Evolution of American Capitalism class.

Tuszynski handled five sections of Microeconomics and Macroeconomics for SMU Cox online MBA program.

Stansel, Tuszynski, Lawson and Murphy led student Reading Groups *(see page 23)*. In April, Tuszynski had 10 students for a day-long undergraduate colloquium on the topic of "Public Choice and Government Failure," co-hosted by the Bridwell Institute and the Institute for Humane Studies.

As part of SMU's Robert Mayer Undergraduate Research Fellows Program, Stansel served as a faculty mentor for two students, Oliver Forst and Anthony Farhat. Their project on the "Effects of COVID-19 on the Opioid Crisis: An Economic Perspective" culminated in an on-campus presentation and a poster session at an academic conference in San Antonio.

Alm participated in a Highland Park High School mentoring program, advising junior Ben Keenan on a project to measure Texas' comparative advantage in attracting technology companies.

Public Outreach

Flourishing & a Free Society Series

Economic Freedom Ignites Innovation

Innovation is the main event of the modern age, the big reason the world experiences both dramatic improvements in living standards and unsettling changes. Yet innovation remains a mysterious process, poorly understood by policy makers, corporate leaders and the public.

Matt Ridley, the British author of *How Innovation Works: And Why It Flourishes in Freedom,* gave an hourlong tutorial on innovation at the Bridwell Institute's fall Flourishing & a Free Society event.

Ridley told stories of innovations, past and present – in health care, for example, the long arc from the Colonial-era inoculations against smallpox to today's messenger RNA vaccines that protect people from COVID-19. And he emphasized how the past two centuries' waves of innovation drove progress, including a decline in child mortality, the virtual elimination of mass famine and a decline in the global rate of absolute poverty from 50 percent to 10 percent.

"What does innovation do?" Ridley asked his SMU audience. "It doesn't just give us new toys to play with. It brings down the cost of fulfilling our needs."

Ridley described innovation as a long slog, incremental and gradual, serendipitous and rarely planned, collaborative rather than a matter of lonely genius and democratic in its results. In terms of average wages, an hour of artificial light plunged from six hours in 1800 to 0.3 seconds today. In effect, everyone can afford what was once available only to the rich.

Matt Ridley

Ridley concluded that "innovation requires freedom" – to experiment, to fail, to collaborate with whomever you want, to change direction, to invest, to act fast rather than wait for permission. Economically free societies have been good at it; top-down societies have been bad at it.

The Horrors of Life Under Totalitarian Regime

Yeonmi Park endured years of deprivation and violence in her native North Korea before she escaped the communist country in her teens on a journey toward freedom and security in the United States.

The Bridwell Institute invited Park to tell her story at its spring Flourishing & a Free Society event. She was born in North Korea in 1993. Food was always scarce. School was a farce, teaching obedience above all else. North Korea is a society devoid of trust. "If you don't trust, nothing works," she said.

Medical care, if available, was often brutal. Park suffered a stomach ailment at age 13, and doctors cut her open without anesthesia.

After that, she decided to take a huge risk. With the help of smugglers, she crossed a frozen river into China. Betrayed into a sex-slave racket, she became a man's mistress. He eventually arranged for her to cross the frigid Gobi Desert to Mongolia. From there, missionaries sent her to South Korea. She came to the United States to attend Columbia University.

Yeonmi Park

Park described North Korea as jaw-droppingly absurd. A homogeneous population has been divided into 51 classes based on ancestry, and the descendants of landowners are sent to toil on collective farms. There are no words for friend or romantic love.

"The worst thing you can be in North Korea is individualistic," she said.

Happy endings aren't allowed in North Korea. Parks found hers by defecting – a college graduate, living in New York, married, mother of a son.

Texas Economic Forum

The Texas Model and People of Color

Data from the 2020 census show sharp increases in Texas' minority populations over the past decade. Will the state's successful economic model of low taxes and light regulations still work in an era of increasing diversity?

The Bridwell Institute's fall Texas Economic Forum took up the question. Cox gave a preview of the research that became the basis for the 2020-21 Annual Report essay. Texas ranked among the 10 freest states – the group with the highest real after-tax earnings for Whites, Hispanics, Blacks and Asian Americans *(see page 23)*.

University of Texas at Dallas professor Peter Lewin contributed the insights of economic theory. Reviewing the work of Nobel laureate Gary Becker, his mentor at the University of Chicago, Lewin said competitive markets reduce incentives to discriminate and provide opportunities for minorities.

Frank Martin, a retired professor who taught at Southern University in New Orleans, presented six decades of labor market data that show Blacks' advances under America's free-enterprise system – including higher incomes and a greater share of high-paying occupations.

Inflation's Back! What You Need to Know

With consumer prices rising at rates not seen since the 1980s, the spring Texas Economic Forum looked at how Texas and the rest of the country got into this mess and how they might get out of it.

Cox came to SMU Cox after a career as Federal Reserve Bank of Dallas chief economist – so he knows about inflation. It's not caused by supply chain issues or oil and labor shortages, he told the Forum. These supply and demand adjustments only produce one-time changes in prices.

Inflation involves sustained increases in the overall price level, Cox said, and its roots are in monetary policy. So is its reversal. Cox said the Fed would have to sharply reduce the money supply and raise interest rates. History suggests restoring price stability and growth can take years.

SMU Cox professor Harvey Rosenblum, the former Dallas Fed director of research, said decades of price stability may have left Texans unaware of inflation's potential to harm the economy. Prices have already been rising faster than wages, and growth has begun to falter.

Bruce Bullock, director of SMU Cox's Maguire Energy Institute, said Texas' whipsawed oil and gas sector won't ride to the rescue with new supplies because ramping up production takes time and money – and investors are leery.

Responding to Calls from the Media

Rising inflation put a spotlight on Federal Reserve policy. *Yahoo Finance* called upon Cox, a former Dallas Fed chief economist, four times for in-depth analysis of Fed actions. He also addressed the topic on a Fox News telecast.

Stansel had five local television appearances, seven print interviews and two radio/podcast appearances. His topics included inflation, Dallas' new convention center, labor shortages, minimum wages and restaurant wages and tipping.

As always, Davis was media friendly. His comments on inflation, the infrastructure bill and other newsworthy topics made the local television news shows.

The Urbane Cowboy and Med Faber podcasts interviewed Lawson on his 2019 book *Socialism Sucks.*

In May, Alm won top honors in SMU Cox's "Media Expert of the Year" awards for his contribution to a *Washington Post* story on how typical liberal technology workers might react to Texas' activism on social issues. Shortly afterward, the BBC called upon Alm for a radio interview on the topic.

Lawson, Cox, Stansel and Davis have won the business school's media award in previous years.

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