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RESEARCH SUMMARY

Is Economic Freedom Associated with Urban Development? Evidence from US Metropolitan Areas

Since the mid-20th century, many cities have experienced a dramatic decrease in their populations, to the detriment of their local economies. Efforts to generate urban development in America's declining cities take a variety of forms, but nearly all of them focus on building or renovating infrastructure. New parks, new roads, new trains or streetcars, new downtowns, new office parks, and new sports stadiums are some of the most commonly proposed remedies for urban decline.

In "Is Economic Freedom Associated with Urban Development? Evidence from US Metropolitan Areas," Adam A. Millsap offers an alternative to this approach by focusing on policy- and government-related impediments to urban development. Using a sample of 381 metropolitan statistical areas (MSAs) and an MSA-level economic freedom index, Millsap examines the relationship between government policy and growth across MSAs. Local rules and economic policies can facilitate or inhibit urban economic development, and policymakers need a better understanding of this relationship.

METHODOLOGY

The MSA economic freedom index ranks MSAs using three criteria:

- *Size of the government*. How much does the government consume, transfer, provide in subsidies, and pay in social security payments, as a percentage of personal income?
- *Takings and discriminatory taxation*. How much does the government collect in taxes as a percentage of personal income?
- *Labor market freedom*. How high is the minimum wage as a percentage of per capita personal income, what percentage of workers are employed by the government, and what proportion of workers belong to a union?

Controlling for a variety of other factors that are also known to impact urban development, such as industry composition, education, demographics, and climate, allows us to isolate the effect of MSA economic freedom on per capita income growth and population growth.

KEY FINDINGS

The plight of America's declining cities is well known, but policies capable of halting or reversing such decline remain elusive. The traditional remedies of intergovernmental grants and subsidies, subsidized private investment, and tax incentives and abatements have been largely ineffective.

This paper provides a new framework for analyzing city competition, clarifying the different dimensions along which cities can compete with one another for residents and businesses.

- MSAs with greater tax freedom (i.e., lower taxes) experienced more population growth from 2002 to 2011 and from 2002 to 2015.
- MSAs with greater overall economic freedom experienced more per capita income growth in the short run (2002–2005) and longer run (2002–2011). Government size was the primary factor driving this relationship.
- MSAs with greater labor market freedom had higher per capita incomes.