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CREATIVE CLASS VS. SOCIAL CAPITAL VS. ECONOMIC FREEDOM: U.S. ECONOMIC GROWTH

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Executive Summary. *The need to sustain economic growth has dominated urban policy in the U.S. for decades. Feeling pressure to meet this need, city and state governments have rushed to adapt economic policy concepts that are untested by researchers or need an updated examination. This article explores the effects of social capital, Creative Class Theory, and "Economic Freedom," on U.S. urban economic growth. It tests a 272 metropolitan statistical area (MSA) sample and their scores on Florida's (2002) Creative Class Index, Rupasingha et al.'s (2006) Social Capital Index, and Pacific Research Institute's "Economic Freedom Index." The author measures economic growth using the percent change from 2000 to 2004 in Total Employment and Total Personal Income for each MSA in the sample. The data show a highly significant and positive relationship for economic growth among MSAs with high Creative Class ratings and high Economic Freedom scores. The social capital variable had insignificant and or negative relationships as an explanatory variable for economic growth.*

Researchers have characterized the demand for economic growth as an "arms race," (Grady 1987; Wolman 1988 in Fleischmann, Green, and Kwong 1992), in which many mayors, council members, county commissioners, state legislators, and governors strive to implement innovative economic policy without properly understanding their effects. Innovative policy such as the "Great Places" program in Iowa, the Denver "Task Force on Creative Spaces," and Michigan's "Cool Cities Initiative" are attempting to improve quality of life and attract more people and industries to relocate and add new jobs.

These policies are based on the trendy and sometimes controversial Creative Class Theory (Florida 2002), but there are few studies that test whether this theory actually results in economic growth. The testing of new and traditional theories of E.D. in this article will attempt to solve practical economic policy problems by equipping policy makers with updated analysis.

Explanations of economic growth

Some researchers have claimed that the impact of a certain group of people called the "Creative Class" can make or break E.D. (Florida 2002). Others have argued that "social capital" (Putnam 2000) is a bigger factor in influencingeconomic growth. To what extent do creative people or socially-connected people really matter in the economic growth?

In addition, *laissez faire* approaches to economic policy will also be investigated in this article. "Economic Freedom" was developed by the Pacific Research Institute (PRI), a free-market think tank based in San Francisco, California, which has policy experts in education, business and economics, health care, and the environment. PRI defines economic freedom as "the right of individuals to pursue

interests through voluntary exchange under a rule of law." The index reflects the belief that "state governments should provide a stable legal foundation for legislative or judicial acts that promote economic freedom" (http://www.pacificresearch.org). To what extent does the Economic Freedom Index positively relate to urban economic growth? Do *laissez faire* economic policies contribute to new jobs and higher income in cities?

The purpose of this article, and its main academic contribution, was to test the newer theories of Creative Class and social capital against more traditional *laissez faire* policy approaches to see how each explains economic growth. The results of these tests should help the economic policy practitioner make better strategic choices. These explanations were based on multivariate regression analysis on a 272 Metropolitan Statistical Area (MSA) sample from the 48-contiguous states between 2000 and 2004.

The Creative Class and economic growth

Florida (2002) has focused on the movements of scientists, engineers, artists, and musicians to certain "creative" cities. He noticed that the inequalities of the U.S. economy coincided with the "rise of the creative economy" (Florida 2002, xv) and the emergence of place. "Place is the key economic and social organizing unit of our time" (Florida 2002, xix). Florida has been criticized for being elitist, exclusionary, and left-wing, but also lauded for being a visionary and innovator in urban studies. However, few scholars have empirically tested his theory in E.D.

In perhaps the most systematic and empirical test of the Creative Class Theory, Marlet and van Woerkens (2004) questioned the use of a "Creative Class" Index instead of using the more traditional measure of "human capital" (percent of college graduates in a given area). The authors hypothesized that similar economic growth would come from human capital in the same way as it does from creative capital. Marlet and van Woerkens (2004) performed a regression analysis on a number of Dutch cities with per capita income growth as the dependent variable. They concluded that in theory, human capital is not very different from creative capital, although the authors conceded that Florida's Creative Class Index is a better standard than simply using a person's educationlevel as a measure (Marlet and van Woerkens 2004).

Recent critics include Donegan, Drucker, Goldstein, Lowe, and Malizia (2008) who found that "measures of creativity are not generally associated with differences in metropolitan economic performance" (2008, 180). Donegan et al. (2008) claimed that "traditional strategies" such as investing in education, workforce, and industry are more important (2008, 192). However, McGranahan and Wojan (2007) submitted an opposing view and found a positive connection between the creative class index and county-level job growth.

Rausch and Negrey (2006) had more complex findings when using gross metropolitan product growth over time with U.S. cities as the dependent variable. Rausch and Negrey (2006) "found that the percentage of workers employed in creative occupations was positively correlated with the level of gross metropolitan product for U.S. metropolitan areas, but had a significantlynegative influence on gross metropolitan product growth over time" (Donegan et al. 2008, 183).

Social capital and E.D.

Social capital, according to Putnam (2000), is the "connections among individuals—social networks and the norms of reciprocity and trustworthiness that arise from them" (2000, 19). Putnam believed that individuals benefit from social capital in the networks or connections they make, which can lead to better business or employment prospects.

Putnam discovered that the structures and institutions of the central government mattered less than civic involvement. "Strong traditions of civic engagement—

voter turnout, newspaper readership, membership in choral societies and literary circles, Lions Clubs, and soccer clubs—are the hallmarks of a successful region" (Putnam 1993, 21). Putnam (2000) introduced concepts of social capital, which included "bonding" and "bridging." Bonding refers to social networking, which occurs between people of similarbackgrounds, religions, races, ethnicities, socio-economic class. Bridging refers to social networking, which connects people of diverse backgrounds and different religions, races, ethnicities, and socio-economic classes. This bonding and bridging can lead to job leads and lending connections for E.D.

To what extent do the theories of Creative Class (Florida 2002), social capital (Putnam 2000), and Economic Freedom (Pacific Research Institute 2006) affect economic growth? These questions were analyzed using ordinary least square (OLS) multivariate regression analysis. Two econometric models used two different dependent variables for E.D.: Percent Change in Total Personal Income and Percent Change in Total Employment Growth. The 272- Metropolitan Statistical Areas (MSAs) were taken from 48 contiguous U.S. states originally selected from Florida (2004).

*Model one: total personal income growth.*Percent Change in Total Personal Income = ß0 + ß1 Creative Class1 + ß2 Social Capital2 +% ß3 Defense Benefit Growth3 + ß4 Population4 + ß5 Regional Factors5 + ß6 Economic6 + ß7 Labor7 + β8 Location8+ β10 Military9 + εi

*Model two: total employment growth.*Percent change in total employment = ß0 + ß1 Creative Class1 + ß2 Social Capital2 +% ß3 Defense Benefit Growth3 + ß4 Population4 + ß5 Regional Factors5 + ß6 Economic6 + ß7 Labor7 + β8 Location8+ β9 Military9+ εi

Table 1:Summary of dependent variables

Dependent Variable	Description	Source
Percent Change in Total Personal Income	2000-04 Percent Change in Total Personal Income in city	U.S. Dept. of Commerce Bureau of Economic Analysis
Percent Change in Total Employment	2000-04 Percent Change in Total Employment in city	U.S. Dept of Labor Bureau of Labor Statistics

Table 2: Summary of independent variables

	Independent Variable	Description	Source	Hypothesized Rel.
Kev Explanatorv	Creative Class	Creative Class Index (MSA)	Florida (2002)	Positive
	Social Capital	Social Capital Index (County)	Rupasingha (2006)	Positive
	Economic Freedom Index	Index measures extent to which a state promotes individual economic interests (0=Most Free to 50=Least Free)	Pacific Research Institute	Negative
	Defense Benefit	Defense Benefit Per Capita: % Growth 00-04 (County)	DoD Prime Contract Awards by State and Region and US Census	
Regional	Population Change	2000-2004 Percent City Population Change	U.S. Census	
	SouthWest	Binary Variables controlling for regional population growth	Bingham and Meier (1993)	
	Texas	Binary Variable controlling for over-sampling and disproportionate pop. Growth (cities in Texas)	1=Texas City; 0=Non-Texas City; Bingham and Meier (1993)	
	Florida	Binary Variable controlling for over-sampling and disproportionate pop. Growth (cities in Florida)	1=Florida City; 0=Non-Florida City	

	Climate	Index measuring winter mildness, summer mildness, seasonal effect, and weather severity	Places Rated Almanac	
Economic	Technology Park	Research Park affil. with univ. in county (Dummy)	Drescher (1998); Web Search	
Economic	Percent Manufacturing Jobs Lost	Proportion of Manufacturing Jobs to Total Jobs; Percent Loss in city from 2000-2004	County Business Patterns Economic Census; Wial and Friedhoff (2006); Hersh (2003)	
Labor	Labor Cost	Average Wage Per Job in county 2004	Bureau of Economic Analysis	
Labor	Labor Supply	City Unemployment Rate (NOV 2005)	Bureau of Labor Statistics	
Military	Gunbelt	States in Top 20 of US Defense Prime Contract Awards (Dummy)	Markusen et al. (1991)	
Military	Military Base	Military Installation in County (Dummy)	Dept. of Defense	
Location	Proximity to Major Airport	Distance from city to Nearest major airport	Places Rated Almanac	
Location	City Location and Size of CityProximity to Major	Ordinal number measuring the distance and size of city compared to adjacent metro area (1-6). "1" is Metro area >500,000	Places Rated Almanac Bingham and Meier (1993)	

Dependent variables

Percent change in total personal income. According to the U.S. Department of Commerce's Bureau of Economic Analysis, Total Personal Income (TPI) is the income that is received by all persons from all sources. It is calculated as "the sum of wage and salary disbursements, supplements to wages and salaries, proprietors' income with inventory valuation and capital consumption adjustments, rental income of persons with capital consumption adjustment, personal dividend income, personal interest income, and personal current transfer receipts, less contributions for government social insurance." (http://www.bea.gov). TPI is the standard measurement of income used by current regional development economists. Data was taken from the Bureau of Economic Analysis from the Department of Commerce.

Percent change in total employment. According to the Bureau of Economic Analysis, Total Employment for states and local areas "is made up of estimates of the number of jobs (full-time plus part-time) by place of work. Full-time and part-time jobs are counted as equal weight. Employees, sole proprietors, and active partners are included, but unpaid family workers and volunteers are not included" (http://www.bea.gov). This specific measurement for this variable is a percentage of change in Total Employment in each city from 2000-2004. Data was taken from the Bureau of Economic Analysis from the Department of Commerce.

These variables are standard measurements used by regional economists to estimate E.D. and growth. However, many social scientists use local unemployment rate or per capita income to measure economic growth. The downside of the unemployment rate, according to some regional economists, is that it does not explain the growth of rapidly growing locations due to transitional and seasonal employment in those areas. It is also based on survey data which can be problematic. Using unemployment rate as the measure for economic growth gives some regions a false appearance of prosperity. An area may have low and stable unemployment, but there may be few new jobs created and less economic opportunity in those communities. Therefore, total employment growth is a better measure of economic growth.

Per capita income is also seen as a problematic measurement by economists because there is regional variation in the cost of living among different areas of the US. For example, southern states have lower per capita income because these states have a lower cost of living in the first place. Total Personal Income is thus a better measure of economic growth because it is an equal measure from region to region.

Explanatory variables

The Creative Class Index is an "index calculated on three equal parts: Technology, Talent, and Tolerance (Florida 2002, 353). The hypothesis is that creative communities, those cities with talented, educated, tolerant, and technical people will be better equipped and have the foundation to engage the multiplier effect of greater defense spending. A positive relationship is hypothesized between the creative class index and economic growth.

Rupasingha, Goetz, and Freshwater (2006) have expanded on the work of Putnam (2000) and many others and have created a county-level Social Capital Index for the U.S. The logic behind social capital is that is reduces the transaction costs of doing business by in turn reducing the friction and increasing trust in social relationships (Rupasingha et al. 2006, 84).

The Rupasingha et al. (2006) index is *focused on individual and community-based* associations that are "theoretically important determinants of social capital" (Rupasingha et al. 2006, p. 83. In short, the more people who join clubs and civic groups, the higher

the social capital in a given community. The index is based on the number of organizations, associations, and clubs at the county level (per 10,000 people) such as political, professional, business, labor, and religious. It also factors in census participation and voter turnout. It should be noted that the number of civic organizations and clubs is only one component of social capital.The problem with the Rupashingha et al. (2006) index is its over-sampling of civic associations. This index does not factor in the concepts of "trust" and "reciprocity" which are important tenets of social capital. Rupasingha's (2006) index also does not address Putnam's (2000) concepts of social capital, which include "bonding" and "bridging."

The main social capital hypothesis is that, generally, people in areas with high social capital are comfortable networking, have trustful and reciprocal business relationships, and more likely to give business tips or loans to the people they know. A positive relationship is hypothesized between the Social Capital Index and economic growth in both models.

The main categories of the Economic Freedom Index are Fiscal, Regulatory, Judicial, Government Size, and Welfare Spending. The index ranges from 0-50 with states having the lowest scores ranked as the "most economically free" while states with scores approaching 50 are ranked as the "least economically free." This means the lower the score, the greater the economic freedom. A negative relationship was predicted between US Economic Freedom Index and economic growth. As the economic freedom scores go up, Total Personal Income and Total Employment go down.

Four binary control variables were used to control population migrations from 200-2004. "South" and "West" regional variables were incorporated to control for Sunbelt migrations. Florida was picked because it is the original warm weather destination for migration for people in northern areas. Texas was picked to control for illegal immigration. California was not selected as a control variable for illegal immigration because its border with Mexico is smaller than Texas. Nevada, although a fast-growing state, was not picked as a population control for migration since one city, Las Vegas, was an outlier in terms of its high percentage of population growth.

Table 3. Results of multivariate analysis of U.S. E.D. 2000-2004 (Percent Growth in Total Personal Income and Percent Growth in Total Employment) for 272 MSAs from 2000-2004. Regression results were on Creative Class Index, Social Capital Index, and, Economic Freedom Index controlling for Regional effects, Economic, Labor, Military, and Location

Independent Variables	Model One Percent Growth in MSA Total Personal Income(2000-2004) R2=.6412 Adj. R2=.6029 N=272	Model Two Percent Growth in MSA Total Employment (2000-2004) R2=.5312 Adj. R2=.4812 N=272
Creative Class Index	.0373 (.0150)*** (P>|t|=.010)	.0297 (.0136)** (P>|t|=.03)
Social Capital Index	-.0161 (.0029)*** (P>|t|=.000)	-.0101 (0027)*** (P>|t|=.000)
Economic Freedom Index	-.0030 (.0060)*** (P>|t|=.000)	-.0027 (.0006)*** (P>|t|=.000)

Defense Benefit Change	-7.80x10-6 (6.81x10-6)	-4.28x10-6 (6.21x10-6)
Population Change	.4464 (.0705)*** (P>|t|=.000)	.4280 (.0643)*** (P>|t|=.000)
South	.1277 (.0543)	.0345 (.0634)
West	.0467 (.0583)	.0745 (.0043)
Texas	-.04678 (.0100)	-.0257 (.0091)
Florida	-.0468 (.0134)	-.0099 (.0123)
Climate	-.0001 (.00002) (P>|t|=.000)***	-.00004 (.00002) (P>|t|=.046)**
Technology Park	-.0151 (.0060)	-.0086 (.0055)
Cost of Labor Change	.4496 (.1001)*** (P>|t|=.000)	.0426 (.0516)
Labor Supply Change	-.0600 (.0101)*** (P>|t|=.000)	-.0758 (.0092)*** (P>|t|=.000)
Gunbelt	.0081 (.0055)	.0071 (.0051) (P>|t|=.16)
Military Base in County	-.0022 (.0064)	.0026 (.0058)
Proximity to Major Airport	-.0001 (.0001)	-.0002 (.0001)
Location and Size of City	-.0016 (.0020)	-.0019 (.0019)
	Standard errors in parentheses	
***P<.01 (two-tailed)	**P<.05 (two-tailed)	*P<.10 (two-tailed)

Discussion

Goodness-of-fit for both models is fairly strong; both models have moderately high R^2 ratios at .6029 and .4812 respectively. Therefore, there is a large percentage of economic growth explained by the explanatory and independent variables.

Creative Class showed a highly-significant positive relationship for Total Personal Income growth and Total Employment growth—both in line with original predictions. Its coefficients were quite small at .03733 and .0297, indicating a relatively weak multiplier, but the results still fall in line with original theoretical leanings.

One problem with the Creative Class Index is its near-identical nature to Human Capital variables. To test this phenomenon, the Creative Class Index explanatory variable was replaced with a percentage of college graduates (Human Capital Index). The regression was run again against Total Personal Income Growth. The results were nearly the same: P>|t| = .018 for Human Capital versus P>|t|= .013 for Creative Class. The similarities between the two variables stand to reason since many people holding creative occupations have college degrees.

Florida (2004) says that his Creative Class Index shows economic growth that is driven by location choices, i.e., creative people look for tolerant and diverse places when choosing a new locale. This decision-making calculus identifies the creative class ingredients (tolerance, technology, and talent) as key factors of migration. People do not move to a particular locale simply because the region has high numbers of college graduates (Florida 2004, 222).

When the Human Capital variable (percent college graduates) was regressed along with the Creative Class Index against the Total Personal Income growth dependent variable, multicollinearity and correlation between the two variables was considerably higher. Correlation between Human Capital and Creative Class was .7072, which is quite high. At first glance, it appeared that there is

not much difference between the two; however, Florida's (2004) Index seemed to tease out intangible factors such as race, diversity, tolerance, and other factors in his index, which reflect post-industrial and post-materialist views inherent in works from Inglehart (1997) and others. In this respect, Creative Class could be seen as a modern theory that is beginning to reflect political, social, and cultural attitudes of the 21st Century, although it could certainly stand more investigation by empirical testing.

This discussion then begs the age-old question of what drives migration regarding regional E.D. Do people move to an area because of better paying jobs? Or are better paying jobs a result of an influx of talented people? Florida would say the latter question is apropos, and he would add that people making relocation decisions based on post-materialism factors—tolerance, diversity, and openness—have become more prevalent than people simply taking a new job in a new area based on a higher salary.

The Social Capital Index's (Rupasingha et al 2006) negative relationship with the economic growth dependent variables in both models is enigmatic. Its relationship to economic growth was significant. However, its relationship to Change in Total Personal Income Growth and Change in Total Employment was predicted to be positive, but it turned out to be negative in both models. Thus, social capital had an upside-down relationship with economic growth. In other words, in many regions where social capital is normally strong such as New England and North Central states, economic growth lagged.

Conversely, in regions where social capital is weak—in Southeastern states for instance—economic growth boomed. The models attempted to control for regional changes in E.D. from 2000-2004—aspects such as area population growth, climate, location, manufacturing jobs lost, and others; but the negative sign on social capital remained.

One of the reasons for the negative sign is the changing demographics in the U.S. In short, people seem to be transient. They move to new locations, and they may not join as many clubs and organizations simply because they are new in town. This could explain why migrations to the southern and western cities confound the social capital findings. Fewer people are living in states with high social capital (North Dakota, South Dakota, and New Hampshire) that Putnam identified in 2000. They are moving to states in the South and to the West, but many may not immediately join clubs and organizations in their new homes. This could partially explain the findings in the Social Capital Index.

Other explanations relating to the Social Capital Index from Rupasingha et al. (2006) have to do with measurement. The Social Capital Index could be seen as flawed in that it primarily counts the number of civic associations in each county (with voter turnout data) and does not take into account reciprocity and trust.

A negative relationship was predicted for the Pacific Research Institute's Economic Freedom Index. As the Economic Freedom score grows smaller, total personal income and total employment rises (i.e., the lower the score, the more economically free a state is). The Economic Freedom Index variable showed a highly significant relationship in both models along with the predicted negative sign, although the index had a small coefficient of -.003 and -.0027 for the two models.

In sum, this article investigated *laissez faire* economic policy approaches compared to newer approaches. The Economic Freedom Index showed a highly significant positive relationship with the economic growth dependent variables. Cities in states that are economically free— free from paying higher union wages; free from regulatory red tape; free from paying higher payroll taxes; and free from frivolous lawsuits— seemed to do better economically in this study.

Social capital did not show a significant link to the economic growth dependent variables. The results on social capital may have been affected by flaws in the measurement of the social capital index from Rupasingha et al. (2006). The Rupasingha index (2006) essentially counts the number of civic associations in each county and does not take into account reciprocity and trust.

So, then, what explains U.S. urban economic growth from 2000-2004? The main point of this article is to emphasize the role of people and policy in E.D. More specifically, regardless of the exact outcome of the models, it remains clear that analysts and policy makers should focus on creative people. "Place" is becoming increasingly important in regional E.D. If what Florida (2004) found is true, that people with creative occupations look to relocate to cities with tolerance, openness, and diversity, then it is important for urban planners to keep this in mind. However, Florida (2004) does not call for a "creative brain drain" consisting of cities raiding others for talented people; he argues that each city has plenty of creative people and that the city must create environments in which these people flourish.

Florida (2004) argues that all occupations are filled with creative people and that locations should focus on promoting tolerance and openness for these creative people to thrive. Locations that finish lower on the Creative Class Index should work on quality of life attributes for their city and encourage their existing residents to be more open to outsiders.

Creative Class, social capital, and economic freedom had varying degrees of relationships to American cities and economic growth for this sample of MSAs between 2000 and 2004. Study of these theories is important to applied economics because policy makers base their decisions of these beliefs. This article is a point of departure for further study in this area and it fills a gap in the academic literature. It should give practitioners and policy makers a better foundation for economic decision making in the future.

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