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Cover: Stockholm, Sweden (the city leading LEFI 2021).

Published by the Foundation. May of 2021.

www.fundalib.org | contacto@fundalib.org
Printed in Toledo, Spain by Canoprint.
Impreso en España - Imprimé en Espagne

Financial ethics. No taxpayer money has been spent to research or publish this index. The Foundation depends on private donations. If you wish to make a donation in order to support this project and/or the Foundation generally, please scan the QR code, go to fundalib.org/don or visit the Foundation’s Patreon page: www.patreon.com/fundalib where you may also subscribe our monthly magazine AVANCE.

The 2021 edition of the LEFI for European Cities has been fully funded by the Foundation’s own resources, without any grants or sponsorship from any other institutions or companies.

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Content
On behalf of the Foundation for the Advancement of Liberty (Fundalib), I am proud to present the first edition of the Local Economic Freedom Index (LEFI) for European Cities.

As a libertarian foundation, Fundalib is keen on providing the public, the press and academia with tools that show how much freedom there is in various places, in a given field. Comparing the more free places with the ones lagging behind is a powerful tool to promote freedom everywhere.

To this end, the Foundation has developed a meticulous comparative research area on the state of freedom. We produce two domestic indices in Spain: one on regional tax competitiveness for our nineteen tax authorities and one on the economic freedom of our fifty largest cities. We also publish the World Electoral Freedom Index (WEFI) which analyzes 198 countries across 55 electoral freedom indicators; and the World Index of Moral Freedom (WIMF) measuring 160 countries on this important but rather unexplored area of individual liberty. Along the 2016-2020 period we have published thirteen individual indices, and we are now working on the upcoming editions and on new research on other areas and regions. We are proud to rely on our own methodologies, which are always based on consolidated facts and on data obtained from official or highly prestigious, published sources.

Back in 2018, our Index of Economic Freedom for Spain’s Cities (Índice de Libertad Económica de las Ciudades Españolas, ILECE) pioneered an area of research which had been neglected thus far, at least in our country. The Spanish media carried stories on our index and, in the coming years, a growing amount of opinion influencers, media specialists or municipal politicians discussed ILECE. The second edition (2019) enhanced the scope from its thirty initial cities to the current fifty most populated ones, which, have over seventeen million inhabitants combined. Last year, the third edition was the winner of the Europe Liberty Award during the Europe Liberty Forum virtually gathered from Kyiv, Ukraine.

LEFI is therefore a logical next step. It aims at overcoming the vast differences between the type of local governance across European cities, in order to present a general outlook on how free they are in comparison with one another. In the years to come, we expect LEFI to continue its European endeavour by enhancing the amount of cities ranked, but also to expand to further regions of the world. We are always available for joint projects with like-minded pro-Liberty think tanks in other countries, and particularly in the European and Latin American regions.

Showing how economic freedom in a city compares with that of equivalent cities within a country or region is an efficient way to pave the road for more economic freedom in more cities.

Roxana Nicula, Chair, Foundation for the Advancement of Liberty
The first edition of LEFI for European Cities

The amount of economic freedom in a certain place primarily depends on the sovereign level. The decisions taken by the top legislative and executive branches of government still have the largest impact on the economy, even in the more decentralised or federal countries. However, the whole world is developing a process of fast urbanization, with over seventy million people leaving rural areas behind to join a city, every year. At the same time, in many parts of the world, the city is claiming a renewed and more powerful status as a polity. It is indeed the closest one to the citizens and, in an era of economic and cultural globalization, cities are starting to be perceived as a more natural environment for political decision making. In many countries, this phenomenon is particularly strong in large cities which do not exert political power as capitals of a country.

Generally speaking, we may conclude that the city is rising as a political decision maker. Therefore, economic freedom will increasingly become affected by decisions taken at the local, municipal level. Even today, while country-based economic freedom analyses still provide the general trend for the whole of a given sovereign state, the actual amount of economic freedom enjoyed will certainly vary from rural to urban areas, from smaller to larger towns or from the country's capital to other cities. However, little research has been conducted on the differences in economic freedom by cities of a country, and even less benchmarking has taken place to consider similar cities internationally, even in a region of Europe's large cities manages to achieve the upper categories. It is shocking to see that many (if not most) of the larger European cities, across countries and across the ideologies of the ruling parties, share a common preference for opacity. We had already seen this phenomenon when working on the Spanish cities index. It is a curious type of opacity, which in facts provides a cunning way to hide the main facts in hundreds of pages, graphs and tables to hide the main facts in plain sight. Many of the cities' budgets are extremely detailed on particular areas but fail to contain a simple, straightforward table with the overall income and expenditure, and their origin. Another typical feature of European city budgets is their over-politicization: when you reach the budget information, city authorities tend to put the accent on how much they will spend on this or that and how beneficial that increased expenditure will be to specific types of people or services. We have not seen, in this set of thirty cities, even one of them explaining that they will cut taxes and leave more money in the resident's pockets, or that an effort has been made to reduce the city’s indebtedness, or to outsource the main services to professional companies rather than increasing the city payroll and its cost. In fact, across countries and political parties, the me-ta-ideology of social-democracy seems to have taken ground at the municipal level. An interventionist approach to city services, taxes, finance, urban planning and local culture seems to be widespread in our continent. In fact, in the recent years Europe has seen the rise of a new type of urban interventionism by many city councils in the residential rental market. Also, some cities have launched crusades against the sharing economy by limiting or prohibiting platforms allowing individuals to share car rides or temporary apartments, in order to appease the taxi and hotel lobbies.

Therefore, the results of an international index of local economic freedom are obviously more trend-oriented than accurate or city-oriented, when compared with domestic indices like our Index of Economic Freedom for Spain’s Cities (Indice de Libertad Económica de las Ciudades Españolas, ILECE). National benchmarking allows for a more demanding and precise set of requirements, and this explains why large Spanish cities tend to perform better here than at ILECE. Also, our experience in Spain shows that middle cities tend to outperform larger ones by far, thus shaking the scale.

The Local Economic Freedom Index (LEFI) is possibly one of the earliest attempts to actually compare the amount of economic freedom city by city in an international region. The European continent is probably one of the few regions in the world where, albeit limited or scarce, sufficient data is available and published by official sources for the municipal level. When exporting LEFI to further regions, specific methodologies will be necessary for each, or else a broad coordination effort will be needed through local think tanks taking responsibility for the proper figures for each country's cities. In any case, the increase in municipal power affecting local economic freedom makes it necessary to keep thinking on ways to properly compare it across countries. A world primarily organized in cities should be a more free world than the vanishing world of the nation-state.

It is shocking to see that many (if not most) of the larger European cities, across countries and across the ideologies of the ruling parties, share a common preference for opacity. We had already seen this phenomenon when working on the Spanish cities index. It is a curious type of opacity, which in facts provides a cunning way to hide the main facts in hundreds of pages, graphs and tables to hide the main facts in plain sight. Many of the cities' budgets are extremely detailed on particular areas but fail to contain a simple, straightforward table with the overall income and expenditure, and their origin. Another typical feature of European city budgets is their over-politicization: when you reach the budget information, city authorities tend to put the accent on how much they will spend on this or that and how beneficial that increased expenditure will be to specific types of people or services. We have not seen, in this set of thirty cities, even one of them explaining that they will cut taxes and leave more money in the resident’s pockets, or that an effort has been made to reduce the city’s indebtedness, or to outsource the main services to professional companies rather than increasing the city payroll and its cost. In fact, across countries and political parties, the me-ta-ideology of social-democracy seems to have taken ground at the municipal level. An interventionist approach to city services, taxes, finance, urban planning and local culture seems to be widespread in our continent. In fact, in the recent years Europe has seen the rise of a new type of urban interventionism by many city councils in the residential rental market. Also, some cities have launched crusades against the sharing economy by limiting or prohibiting platforms allowing individuals to share car rides or temporary apartments, in order to appease the taxi and hotel lobbies.

Between this and the previous editions of LEFI, we would like to remark. First, it is important to state that the three Scandinavian capitals obtain better results than most other cities. This gives the lie to the still deeply rooted idea that Nordic countries are more social-democratic than Southern Europe. And second, we have the feeling that, under similar circumstances, middle cities are more economically free than the larger ones (a fact that has been repeatedly confirmed for Spain by ILECE). Further editions of LEFI for an enhanced base of cities shall probably show this. Finally, it is sad to note that not even one of Europe's large cities manages to achieve the upper categories and only the top eight are deemed to enjoy a "moderately high" economic freedom, our third best category.

We hope this study will help cities place economic freedom as a top priority in their municipal policy making. We also hope more editions of LEFI will come, both for Europe and other regions, and the Foundation is certainly eager to join forces in this endeavour.

José Antonio Peña-Ramos, Juan Pina and Philipp Bagus
Choice of cities

Towards the first edition of this index, the criteria we have balanced to select the cities are:

1. Geopolitical and economic frame. We have chosen cities in member countries of the European Union or the European Free Trade Association, plus the United Kingdom. In other words, due to obvious economic and political differences we have avoided, for this first edition, large European cities like Moscow or Istanbul which, if data availability and homogeneity allow, may be included in the future.

2. Amount of cities. For this first edition we have limited the scope to thirty top European cities. In future years, the study should be enhanced to cover a larger amount of cities, as long as data availability permits.

3. Data availability. We have chosen cities based on an approximately homogeneous availability of data and deemed sufficient for contrast.

4. Population. Larger cities within the set territory, with a population of around or over 750,000 residents. However, the final basket of thirty cities analyzed has nevertheless included three large cities which are slightly below that informal threshold (Oslo, Copenhagen and Manchester).

Type of index

This is an aggregation index projected onto a single 0-100 absolute scale, resulting from the sum of partial scores for each of the basic indicators, with a maximum score per indicator. An ideal performance would thus produce a top available score per indicator, and a 100 score in the absolute index, while a zero score would be attained if failing to add any points in all of the indicators.

Areas, sub-areas and basic indicators

The Local Economic Freedom Index (LEFI) is built on a 0-100 scale where a higher score indicates a more free local economy. To this end, three areas and four sub-areas are used to group the eighteen basic indicators.

Area A. Context indicators. These indicators aim at reflecting the general, national context for economic freedom in each city, thus taking into account the facts and decisions beyond the city government’s authority. To this end the two largest and most prestigious indices of economic freedom by countries (the Heritage Foundation’s Index of Economic Freedom and the World Bank’s Doing Business index) are taken into account, each providing 12,5 score points. This is a key indicator projecting the actual density of the city’s economic activity. The total amount of companies is divided by the city population, times two and converted into our 0-100 scale.

Area B. City governance indicators. These three basic indicators aim at reflecting a city government’s macroeconomics, financial governance and credibility, and its perception by its own residents. This area provides 37,5 of the overall score. The three basic indicators are:

- **Budget (20 score points).** The city’s total budget per inhabitant. While different countries devolve different amounts of power and functions to the municipal level, thus making the local budgets present significant variances, this figure is still valid as a general projection of the financial burden each city government represents, and of the overall level of economic interventionism. Cities with a high level of economic freedom will tend to have a smaller budget per inhabitant, especially within the same country’s general framework. Inverse allocation by quintiles for progressive intervals of up to 750 euros/resident, 750-1,500, 1,500-3,000, 3,000-6,000 and over 6,000.

- **Rating (14 score points).** The city’s credit rating level. The way a city is perceived by the rating agencies reflects the way its finances are governed. Cities with a healthy level of economic freedom will tend to have a higher credit rating. Allocation by quintiles for the rating intervals present in this set of cities, with a negative outlook lowering ten points on the relevant quintile.

- **Residents’ perception (3,5 score points).** The way a city’s residents perceive its local government projects a general idea on its performance. A highly performant city government will certainly contribute to a general climate of economic freedom, while a burdensome and inefficient local administration will damage that climate. Allocation by quintiles for intervals of the percentage of responders choosing the highest level of satisfaction with their city administration: 0-5%, 5-10%, 10-15%, 15-20% and higher.

Area C. Economy Indicators. These thirteen basic indicators aim at reflecting the conditions for economic freedom in each city. Just like area B, this area provides 37,5% of the overall score. It is divided into four sub-areas:

C1. Economic attraction (12 score points). The city’s actual economic activity and its ability to attract with similar European cities by attracting businesses, commuters and foreigners. This sub-area consists of four basic indicators:

- **Leading indicator: Amount of companies registered (8 score points).** This is a key indicator projecting the actual density of the city’s economic activity. The total amount of companies is divided by the city population, times two and converted into our 0-100 scale.

- **Amount of incoming commuters (2 score points).** This indicator shows how much attraction the city’s economy exerts onto its hinterland. Humans tend to move from less economically free to more economically free places, as commuters or permanently. The total amount of incoming commuters is divided by the local population figure and then converted into our 0-100 scale.
C3. City residents economic power (12 score points). The city's ability to provide jobs and qualified workers shows the existing opportunities in the local economy. This sub-area consists of five basic indicators:

- Leading indicator: Average disposable annual income (7 score points). This key indicator shows the well being and economic power of a city's residents, which is indicative of the economic freedom they enjoy. Allocation is done through quintiles for intervals of ten thousand euros and over forty thousand.

- Percentage of qualified workers (3 score points). Top level educated residents in the 24-65 age segment, allocated directly onto our scale.

- Social perception (1 score point). How easy it is to obtain a good job in the city, based on official polls. We take the percentage of responders who chose the most optimistic answer, and allocate the data directly.

C4. City safety (1,5 score points). The city’s safety as an ingredient of economic freedom. This area is made up of just one basic indicator:

- Amount of murders and violent deaths (1,5 score points). Allocation is inverse (100 minus figure) after converting figures larger than 100 to 100.

Type of data included

All data have been imported (and then converted as applicable or transformed into intervals as explained above) from:

<table>
<thead>
<tr>
<th>INDICATOR AREAS BUILDING UP THE LOCAL ECONOMIC FREEDOM INDEX (LEFI) - EUROPEAN CITIES 2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. CONTEXT INDICATORS (25%)</td>
</tr>
<tr>
<td></td>
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<tr>
<td></td>
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<tr>
<td>B. CITY GOVERNANCE INDICATORS (37.5%)</td>
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<tr>
<td>C. CITY ECONOMY INDICATORS (37.5%)</td>
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</tbody>
</table>
the national context indices, the cities’ 2021 (or latest available) budgets, rating agency records, Eurostats or reputable media sources. The few unavailable data are either inferred or assigned a neutral value as explained in the process notes.

The resulting score produces a ranking and classifies the cities according to our Local Economic Freedom (LEF) categories:

**CLASSIFICATION OF EUROPEAN CITIES BY THEIR LEVEL OF ECONOMIC FREEDOM (0-100 SCORE)**

<table>
<thead>
<tr>
<th>SCORE</th>
<th>CITY LABEL</th>
<th>NUMBER OF CITIES</th>
<th>PASSING / FAILING</th>
</tr>
</thead>
<tbody>
<tr>
<td>80-100</td>
<td>VERY HIGH LOCAL ECONOMIC FREEDOM</td>
<td>0</td>
<td>27</td>
</tr>
<tr>
<td>70-80</td>
<td>HIGH LOCAL ECONOMIC FREEDOM</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>60-70</td>
<td>MODERATELY HIGH LOCAL ECONOMIC FREEDOM</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td>50-60</td>
<td>ACCEPTABLE LOCAL ECONOMIC FREEDOM</td>
<td>19</td>
<td></td>
</tr>
<tr>
<td>40-50</td>
<td>INSUFFICIENT LOCAL ECONOMIC FREEDOM</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>30-40</td>
<td>MODERATELY LOW LOCAL ECONOMIC FREEDOM</td>
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<td></td>
</tr>
<tr>
<td>20-30</td>
<td>LOW LOCAL ECONOMIC FREEDOM</td>
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</tr>
<tr>
<td>0-20</td>
<td>VERY LOW LOCAL ECONOMIC FREEDOM</td>
<td>0</td>
<td></td>
</tr>
</tbody>
</table>

27 out of 30 cities have been found to have an acceptable or higher level of economic freedom.

6 out of 30 cities have been found to have an insufficient or lower level of economic freedom.

General recommendations for all cities

Economic freedom operates as an attractor of business activity, thus generating jobs and opportunities for all residents of a city. Depending on each country’s particular legislative framework, municipal authorities have various amounts of decision making power on matters that affect their local economic freedom. Our first and main recommendation to all city governments is to consider how to use their existing decision making power in favour of a more free local economy, and to push for greater local autonomy from regional or national authorities, so that the city can develop its own strategy to become more competitive and attractive.

Furthermore, we put forward the following three types of recommendations for local economic freedom, which, if adopted, would certainly improve the city’s performance in this and any similar indices:

---

**Reducing local expenditure and debt**

Municipal austerity and healthy accounts generate prosperity for all. It is particularly important to:

- Pay off as much of the existing debt as possible, aiming at zero debt after no more than four years, the ordinary term in office of a local council. Setting up debt control and repayment mechanisms is a smart policy to pursue this end.
- Substantially reduce local expenditure, particularly by containing or, if possible, reducing the city payroll. Outsourcing of services, especially those with a higher cost, is another efficient policy. In many cities, an area of particularly high cost is the local police.
- Reduce or, ideally, eliminate all city subsidies and any services which are also provided by a different level of administration (e.g. regions).

**Reducing the local tax burden on the city residents**

Less taxes means more money in the real economy and in the residents’ pockets. It is necessary to:

- Cut those taxes directly levied by the city.
- Choose citizen payment for services rather than free services paid for with taxes.
- Reduce the amount of sanctions (e.g. parking tickets).
- Push for a larger part of national / regional taxation to be devolved to the cities, with sufficient power to decide how much to levy, and thus compete by lowering taxes.

**Improving services by avoiding interventionism**

Highly professional services are only possible through private sector provision. We suggest:

- Outsourcing the main services and introducing elements of effective competition in their provision.
- Closing or selling out city companies.
- Avoiding licensing, local overregulation of businesses, and any barriers to the sharing economy.
- Avoiding any intervention on the residential rental market.
<table>
<thead>
<tr>
<th>NO.</th>
<th>CITY</th>
<th>COUNTRY</th>
<th>OVERALL SCORE</th>
<th>AREA A</th>
<th>AREA B</th>
<th>AREA C</th>
<th>LOCAL ECONOMIC FREEDOM CLASSIFICATION</th>
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RELEVANT RESOURCES
City ratings for Berlin (Free City), Bucharest, Cologne, Hamburg (Free City), Milan, Turin and Warsaw. Moody’s. Latest available ratings as of March 31st, 2021. https://www.moodys.com/ Moody’s City ratings for Budapest and Vienna (Vienna’s latest available rating is from 2016).
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- Cologne. https://www.stadt-koeln.de/politik-und-verwaltung/Presse/koeter-est-u.dat人民d-fuefu-mllef-frenzen-1
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- Valencia. https://www.valencia.es/-/acapril%C3%B3n-definitiva-pressupuesto-2021

RELEVANT RESOURCES

PROCES NOTES
A. Population: Eurostat latest available data for each city.
B. All currency conversions conducted at xe.com in March, 2021.
C. Regional debt ratings for Germany and Spain, and national ones for Denmark, the Netherlands and the UK.
E. Registered companies for Spanish cities inferred from ILECE. Copenhagen’s inferred.
F. Commuter figures for Bucharest, London, Vienna and Zagreb inferred.
G. Foreign population for Bucharest, Krakow and Warsaw inferred.
H. National unemployment rate used for both Polish cities.
I. Economic power of the city’s residents set to neutral or inferred values when unavailable at Eurostat.
J. Murder and violent death figures exceeding 100 set to 100 prior to scale conversion.

José Antonio Peña-Ramos, Juan Pina & Philipp Bagus

Local Economic Freedom Index (LEFI) - European Cities 2021
The authors and the Academic Committee

José Antonio Peña-Ramos. A Political Science professor at the University of Granada, Spain, he is involved with several comparative research projects at the Foundation, and is the Director of its World Electoral Freedom Index. An Associate Researcher at the Universidad Autónoma de Chile, professor Peña-Ramos has received numerous awards in recognition of his academic and research performance. He has been invited to teach and/or conduct research in British, Italian, Portuguese, Algerian, Mexican and other universities.

Juan Pina. A political scientist and Master in Institutional Communication, Juan Pina is the secretary-general of Spain’s Foundation for the Advancement of Liberty, and leads its comparative research area, which produces five periodical freedom indices, two of them domestic and three international. He directs the Foundation’s monthly magazine, Avance. His most recent book is Adiós al Estado-nación (Good-bye Nation-State). He is a member of the Atlas Network’s Global Influencer Summit cohort.

Philipp Bagus. An Austrian School economist, professor Philipp Bagus of the King Juan Carlos University of Madrid, Spain, is also a member of the Mises Institute. He is the author of several books on economics, including The Euro Tragedy, which has been translated into fifteen languages. Professor Bagus has been awarded several prizes and distinctions in recognition of his academic activity, including the prestigious Templeton Fellowship Award (United States).

Local Economic Freedom Index (LEFI) for European Cities 2021

Academic Committee
Chair: José Antonio Peña-Ramos, co-author, professor at the University of Granada
Juan Pina, co-author, Secretary-General of the Foundation
Philipp Bagus, co-author, professor at King Juan Carlos University, Madrid
Antonio Sánchez-Bayón, professor at King Juan Carlos University, Madrid
Fátima Recuero, professor at the University of Granada
Local Economic Freedom Index (LEFI)  
European Cities 2021

Freedom comparison is an efficient tool in the social and political debate. The Foundation for the Advancement of Liberty, based in Madrid, has developed several domestic and international studies which compare and rank the amount of freedom in the economy and other areas. One of them, the Index of Economic Freedom for Spain's Cities, has been published annually since 2018 and won the 2020 Europe Liberty Award.

The Local Economic Freedom Index (LEFI) is a step forward towards the internationalization of this type of comparative research. It aims at benchmarking local economic freedom across borders, thus meeting the challenge posed by the diversity of functions and powers held by municipal authorities in different countries.

This first LEFI has been applied to a set of thirty large cities in the EU, EFTA and UK, through data provided by official sources. LEFI thus projects a fixed picture of the situation of economic freedom at the local level in our continent.

While economic freedom still depends greatly on national policy making, municipal decisions do have an increasing impact in a world that is becoming much more urban at a very fast pace. The more economic freedom a city enjoys, the more prosperity, jobs and opportunities it will generate for its residents.