

Forbes' Best States for Business

Forbes Magazine publishes an annual ranking intended to show the best states for business. The overall ranking is based on each state's rank on six dimensions; each of the six ranks is constructed from several variables, with 40 metrics in all. Forbes weights the first three factors equally, but does not otherwise explain their weighting scheme.

1. Business Costs: Labor, energy, and tax costs.
2. Labor Supply: Education, migration, presence of millennials, and union density.
3. Regulatory Environment: A hodge-podge of measures including regulatory "freedom", tax incentives, bond ratings, infrastructure quality, and employment discrimination.
4. Economic Climate: Past rates of economic growth and headquarters location.
5. Growth Prospects: Forecasts of economic growth and business startups
6. Quality of Life: Cost of living, school test performance, crime rates, cultural and recreational opportunities, and other measures.

The Forbes rankings are based on many of the factors economists generally consider important in business location decisions: operating costs, labor skill and productivity, and factors important in attracting a workforce (cost of living, safety, amenities, school performance). Factors missing from the list include health insurance costs, transportation costs and access to national markets and suppliers. **It is notably different from the State Business Tax Climate Index and from Rich States, Poor States in its breadth and in its acknowledgement of the positive role played by public services, especially education, and of amenities.**

Here again we encounter an index that combines two kinds of measures: underlying factors that allegedly enhance growth prospects, and measures of economic growth — that is, mixing causal variables with outcomes. However, this index does not claim to be purely a causal index, or a measure of economic competitiveness that should predict growth. Its name is "best states for business" and a charitable interpretation of that could logically include indicators of which states have in fact been the best states for business in the past or are projected to be in the future.

It would be a mistake to try to measure how well the overall index predicts growth, since the index includes actual and projected performance; of course growth will predict growth. Nor should anyone take at face value claims that the particular metrics included in their rankings of business costs, labor supply, regulation, or quality of life are in fact the ones most important in promoting economic growth and broad prosperity, or that the implicit weights (unexplained) reflect their relative importance.

Anatomy of *Best States for Business*

The factors underlying the rankings on each of the six broad categories. [Read more](#)

Forbes' *Best Places for Business and Careers*

Since 1999, Forbes Magazine has also published an annual “Best Places” ranking of metro areas. [Read more](#)