

Business Climate Rankings Contradict Each Other

Most of the rankings reviewed on this website claim to assess states' business climate, yet there is a startling level of disagreement among them as to which states have the most and least favorable business climate.

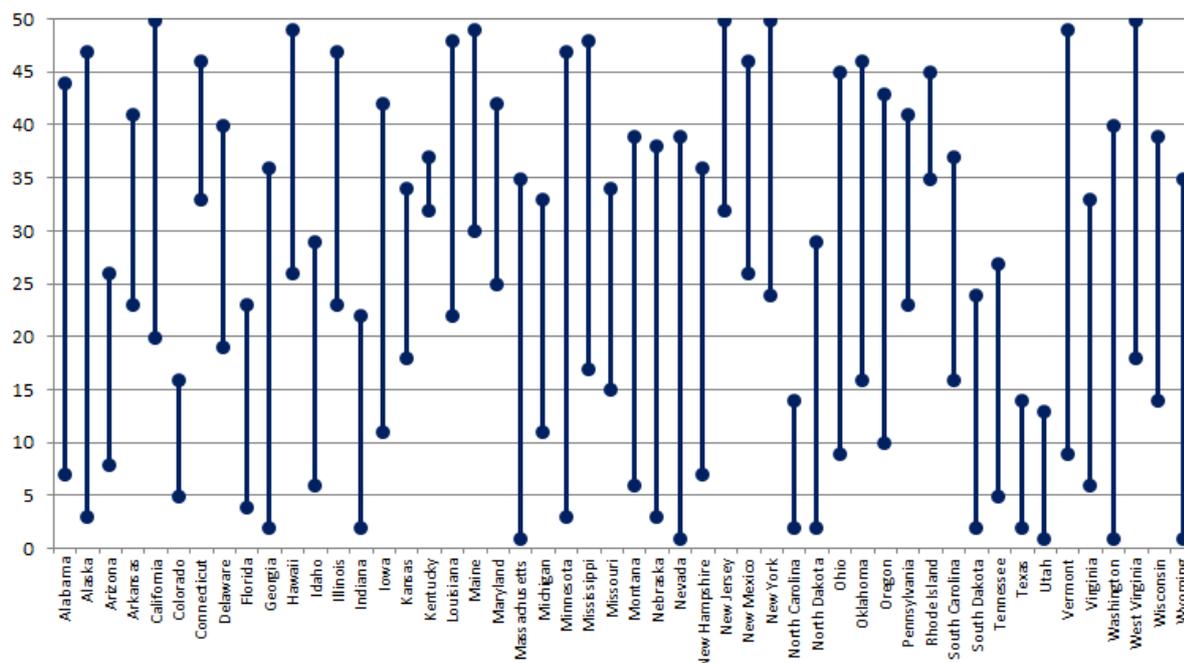
The rankings are based on a composite score derived from many disparate measures. The Small Business Policy Index (SBPI), the Beacon Hill Institute's State Competitiveness Index (SCI), CNBC's America's Top States for Business, and the Tax Foundation's State Business Tax Climate Index (SBTCI) all include over 40 separate measures, while ALEC's Economic Outlook Ranking (EOR) includes 15 and Forbes Best States for Business has 36. Such attempts to combine widely different variables into a single metric are fraught with problems; the weights assigned to different measures to combine them into a single index is arbitrary and yet have profound effects on the final ranking.

But there is a far more fundamental problem too. These **arbitrary weightings are assigned to data that often fails to measure, or measure well, what they claim to measure.** The SBPI is, in fact, almost entirely about taxes on upper income residents rather than about state programs or policies that promote entrepreneurship or small business growth. The SBTCI is a large and complex undertaking but ends up generating a number that has little relation to the actual taxes falling on new business investment in a state. The SCI is a mishmash of causal and performance variables, and the end result is of little use as a predictor of anything. And ALEC's Economic Outlook Ranking ignores the major factors that enhance productivity and a state's ability to generate widely shared prosperity and instead focuses on regressive tax and wage suppression variables that accord with its agenda but actually coincide with negative effects on personal income.

Given the many problems with these index rankings, it is not surprising that they often produce very different rankings of a given state. Alaska is ranked 3rd on the Tax Foundation's State Business Tax Climate Index (SBTCI), but 47th by both CNBC and Forbes. While Minnesota is 3rd on CNBC's Top States for Business and 5th on Beacon Hill's State Competitiveness Index (SCI), it is 47th according to the SBTCI and 45th on ALEC's Economic Opportunity Ranking. Nevada is first on the Small Business Policy Index and 5th on the State Business Tax Climate Index, but ranked 39th by CNBC and 32nd by Forbes.

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Each state's best and worst rank according to six business climate indexes*



*ALEC's EOR 2017, Tax Foundation's SBTCI 2017, Beacon Hill Institute's SCI 2016, SBEC's Small Business Policy Index 2016, Forbes 2016, and CNBC 2017.

GradingStates.org

If a state is looking to advertise its friendly business climate, 30 could find at least one list that puts them in the top 15, and 26 states have at least one top 10 ranking. If state business lobbyists are trying to argue for cutting business taxes, in 33 states they could find a list that ranks their state in the bottom 15, and in 23 states in the bottom 10. Fourteen states have both a top 15 ranking to brag about and a bottom fifteen ranking to bemoan.

None of the three business climate indexes with a heavy emphasis on taxes fare well when compared with four measures of actual business tax levels. None of the 12 possible correlations are even marginally statistically significant, and half are negative. **This confirms that using ideological approaches to measure business taxes produces results that bear little relation to the real world, to the taxes businesses actually pay.**

Correlations Between Business Climate Indexes and Measures of Taxes

	EOR	SBPI	SBTCI
EY cap	(0.02)	0.03	0.11
EY jobs	0.01	(0.02)	0.20
COST	(0.11)	(0.00)	0.03
COST adj	(0.23)	0.07	(0.10)

NOTE: None of the Spearman rank-order correlations are statistically significant at the 10 percent level.

EY refers to the Ernst & Young / COST 2011 report on effective tax rates, weighted by capital or jobs. COST refers to the Ernst and Young / COST report on average business taxes as a percent of state GDP in 2013, with or without the adjustment subtracting state severance taxes. EOR is ALEC's 2015 Economic Opportunity Ranking, the SBPI is the 2014 Small Business Policy Index, and the SBTCI is the 2015 State Business Tax Climate Index.