Rankings Drive Ideological Agenda

It is clear that the audience for all four of these indexes is state policy makers, and none of the organizations is bashful about drawing conclusions for public officials. And the factors that make up the indexes clearly are designed to promote a particular ideologically-driven political agenda: low and more regressive taxes, spending cuts, lower wages, and less regulation.

There is a much broader problem with the notion of state competitiveness rankings. It is the focus on competitiveness itself. Placing the discussion of state economic policy within the frame of competition among the states establishes a fundamental premise for that discussion: economic growth is a zero sum game for a limited amount of business investment. This makes it easy to narrow the set of policies under discussion to those that lower business costs.

An alternative framework for thinking about state economic policy would focus on states as partners with the federal government and with local governments in ensuring continued growth in economic productivity, which is the fundamental basis for rising prosperity. In this framework, everyone shares in the costs of educating young people while also sharing the benefits of rising productivity and incomes. This framework draws attention to a very different set of public policies than the business climate ranking reviewed on this website, ones that are more likely to contribute to increasing prosperity in the long run, instead of a race to the bottom.

One consistent theme among the four rankings is a strong preference for regressive taxation that hits low income people harder than the wealthy —lower corporate income taxes, lower or flat or nonexistent personal income taxes, and no estate or inheritance taxes. Even though state tax systems (including income, property, consumption and other taxes) are already quite regressive (and barely offset by the progressivity of the federal income tax), the business climate authors would have states enact even more inequality into their tax codes.

A second recurring theme is a policy preference for reducing the wages of working people and resisting efforts to improve working conditions. The rankings here typically penalize states with higher minimum wages or paid leave requirements, and reward states that prohibit free bargaining over union dues deductions.[1] The unspoken subtext seems to be that use public policies to keep wages down will attract investment. This is despite the fact that non-managerial wages have stagnated and failed to keep pace with productivity for more than three decades, and consumer spending drives more than two-thirds of the economy.

A third theme is the degradation of government services and employees. They penalize states for having what they view as too many public employees (even if that means smaller school-class size or better public health) and show indifference to the condition of a state's infrastructure (with the exception of the SCI). The rankings are striking in their near total failure to acknowledge the actual sources of rising prosperity and the role of state and local governments in supporting economic development: investments in education, job training, infrastructure, health, and public safety.

A fourth theme is the belief that state and local business taxes are the primary state policy tool for bringing about growth and prosperity. In fact, a review of the extensive academic research in this area reveals that state and local taxes are a very small share of business costs—less than two percent—and that other, non-tax considerations dominate most business location decisions. These factors include the availability of labor with the needed skills, wage rates, proximity to suppliers and markets, access to transportation hubs, and energy costs, as well as factors affecting the ability to hire, attract and retain workers and their families—the quality of public school systems, cultural and recreational amenities, and environmental quality.

The tax-cutting approach can lead to cuts in services that are counterproductive and that hurt companies, particularly in the education and skill levels of the workforce, the efficiency of infrastructure, and the quality of public services generally. These critical roles of states and cities are often neglected in the single-minded pursuit of tax cutting as an economic development policy. **The business tax rankings examined here, particularly the index rankings that ignore any constructive role for the public sector, are worse than meaningless – they distract policy makers from the most important responsibilities of the public sector and help to undermine the long run foundations of state economic growth and prosperity.**

[1] They would refer to such states as “right to work,” though that is a misnomer because there is no such right, nor do free bargaining states require anyone to join a union; rather, so-called right-to-work laws prohibit unions from collecting dues or fees from ono-union members even though they are covered by the union contract and are represented by the union in grievances.