Why Business Climate Rankings Seldom Make Sense

There are serious problems with the four business climate rankings reviewed here, partly because of problems inherent in the use of composite index numbers, and partly because they are ideologically driven and promote policies of doubtful value in creating growth. While there are ways of ranking states that can serve a useful, if limited, purpose, the four state business climate rankings reviewed here should be ignored.

The Problem with Business Climate Indexes

Is There Such a Thing as a State Business Climate?

The very concept of a business climate or overall measure of competitiveness is suspect. Read more

Rankings Are Poor Predictors of Growth

States that score higher on one index or another do not actually have better economic performance in subsequent years. Read more

Index Numbers: A Black Box Full of Mischief and Mystery

The possibilities for mischief and misdirection in the construction of a business climate index are almost unlimited. Read more

Business Climate Rankings Contradict Each Other

All four of the rankings claim to assess states' business climate, yet there is a startling level of disagreement among them. Read more

Rankings Drive Ideological Agenda

The audience for all four of these indexes is state policy makers, and they are designed to promote a particular ideologically-driven political agenda. Read more

Alternative Measures of Business Taxes

Other approaches to measuring differences in how states tax businesses are more defensible but have their own problems.

Average Tax Levels Can Be Problematic

Business taxes as a percent of state personal income is an example of a useful summary indicator, but it has its problems. Read more

Representative Firm Models of Taxes are Often Defective

The most sophisticated approach to measuring how states tax business is to develop a representative firm model, which measures the taxes paid in each state by a series of hypothetical firms. Two recent models show promise but suffer from significant defects. Read more

The Problem with Tax Cutting as Economic Policy

All of the business climate rankings view tax cuts as a central tool of state economic policy, but there are many problems with this approach. State and local taxes don't have much impact on economic growth, and in fact, tax cuts can undermine growth if they impede the many public investments that actually play large roles in the prosperity of a state.

The Lessons of Kansas

For advocates of income tax cutting, Kansas was to be the poster child. But the Kansas experiment has been a costly one for the children of Kansas and for workers, who have seen sub-par job growth. Read more

State and Local Business Taxes Are Not Significant Determinants of Growth

State and local taxes on business are too small a share of business costs to have a significant effect on business location. Other costs dominate most businesses' location decisions. Read more

Tax Cuts Undermine State Investments in Productivity

Tax cuts do not pay for themselves, and come at a great cost to states. State and local tax cuts cause revenue to drop which cuts into funding of important services. Read more

Personal Income Tax Cuts will Not Boost Small Business and Entrepreneurialism

Individual income tax cuts will not boost employment in small businesses or stimulate entrepreneurial activity. Read more

Taxes Have Little to Do with People's Decisions to Move to or From a State

Serious research consistently finds that taxes have little to do with rates of migration into and out of states. Read more

The Estate Tax Has Nothing to Do with Growth

Despite claims to the contrary, there is no reason to believe that eliminating a state's inheritance or estate tax would help the state's economy. Read more

Resources

Key reports relating to tax cutting as economic policy. Read more.